

NEW ISSUE — BOOK-ENTRY-ONLY

RATINGS: Fitch: F1+
 Moody's: MIG 1
 Standard & Poor's: SP-1+

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with tax covenants described herein, (i) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Bond Counsel to the City, under existing statutes, interest on the Notes is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$51,335,000	\$42,690,000	\$69,140,000
CITY OF SAN DIEGO, CALIFORNIA 2010-11 TAX AND REVENUE ANTICIPATION NOTES, SERIES A	CITY OF SAN DIEGO, CALIFORNIA 2010-11 TAX AND REVENUE ANTICIPATION NOTES, SERIES B	CITY OF SAN DIEGO, CALIFORNIA 2010-11 TAX AND REVENUE ANTICIPATION NOTES, SERIES C

Dated: July 1, 2010**Due: As shown below**

The City of San Diego, California 2010-11 Tax and Revenue Anticipation Notes, Series A, Series B and Series C (collectively, the "Notes") are being issued in three series to finance working capital needs of the City of San Diego (the "City") during the fiscal year beginning July 1, 2010 and ending June 30, 2011 ("Fiscal Year 2010-11"). The Notes are being issued in fully registered form only and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Notes. Ownership interests in the Notes may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers of such beneficial interests will not receive physical delivery of the Notes. Principal of and interest on the Notes will be payable by the Paying Agent (as defined herein) to DTC. DTC will in turn remit such principal and interest to the DTC Participants (as hereinafter defined), who will in turn remit such principal and interest to the Beneficial Owners (as hereinafter defined) of the Notes. See APPENDIX E—"BOOK-ENTRY ONLY SYSTEM" hereto.

The Notes are being issued to provide moneys to help meet Fiscal Year 2010-11 City General Fund expenditures. The Notes are being issued pursuant to a resolution adopted by the City Council of the City on May 25, 2010 (the "Resolution") and the Accompanying Document providing for the terms and conditions of the issuance and sale of the Notes (the "Accompanying Document") to be delivered on the date of issuance of the Notes pursuant to the Resolution. In accordance with California law, the Notes are general obligations of the City payable from taxes, income, revenue, cash receipts and other moneys attributable to the City's Fiscal Year 2010-11 and lawfully available for the payment of the 2010-11 TRANs and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose. The Notes and the interest thereon are secured by a pledge of the portion of these amounts comprising Pledged Moneys (as defined in the Resolution). The City is not authorized, however, to levy or collect any tax for the repayment of the Notes. See "THE NOTES—Security for the Notes" herein.

Interest on and principal of the Notes is payable at the maturity thereof for each Series shown in the Maturity Schedule below. The Notes of each Series will bear interest at the respective rates set forth below. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months and will accrue from the date of issuance of the Notes. The Notes are not subject to redemption prior to maturity. See "THE NOTES—General" herein.

MATURITY SCHEDULE
Base CUSIP No. 797236[†]

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Nos.[†]</u>
Series A	January 31, 2011	\$51,335,000	2.00%	0.40%	TD8
Series B	April 29, 2011	\$42,690,000	2.00%	0.46%	TE6
Series C	May 31, 2011	\$69,140,000	2.00%	0.50%	TF3

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Notes are offered when, as and if issued subject to the legal opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by Hawkins Delafield & Wood LLP, Los Angeles, California, as Disclosure Counsel, and by Jan I. Goldsmith, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the Notes will be available for delivery through the facilities of DTC in New York, New York on or about July 1, 2010.

Dated: June 23, 2010

J.P. Morgan**De La Rosa & Co.**

[†] Copyright 2010, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. The City and the Underwriters take no responsibility for the accuracy of such data.

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 Notes 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. 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 Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be a contract with the purchasers or owners of the Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

The information in APPENDIX E — “BOOK-ENTRY ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company and no representation has been made by the City or the Underwriters as to the accuracy or completeness of such information.

The information set forth herein other than that provided by the City, although obtained from sources which are believed by the City to be reliable, is not guaranteed by the City as to accuracy or completeness. The information and expression of opinion herein are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described herein since the date hereof. All summaries of the Notes, the Resolution or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

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

MAYOR
Jerry Sanders

City Council

Sherri S. Lightner (District 1)
Kevin Faulconer (District 2)
Todd Gloria (District 3)
Tony Young (District 4)

Carl DeMaio (District 5)
Donna Frye (District 6)
Marti Emerald (District 7)
Ben Hueso, Council President (District 8)

CITY ATTORNEY

Jan I. Goldsmith

CITY OFFICIALS

Jay M. Goldstone, *Chief Operating Officer*
Mary Lewis, *Chief Financial Officer*
Gail R. Granewich, *City Treasurer*
Eduardo Luna, *City Auditor*
Kenton C. Whitfield, *City Comptroller*
Andrea Tevlin, *Independent Budget Analyst*
Elizabeth Maland, *City Clerk*

BOND COUNSEL/DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

FINANCIAL ADVISOR

PUBLIC RESOURCES ADVISORY GROUP
Los Angeles, California

PAYING AGENT

DEUTSCHE BANK NATIONAL TRUST COMPANY
Los Angeles, California

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OFFICIAL STATEMENT

\$51,335,000	\$42,690,000	\$69,140,000
CITY OF SAN DIEGO, CALIFORNIA	CITY OF SAN DIEGO, CALIFORNIA	CITY OF SAN DIEGO, CALIFORNIA
2010-11 TAX AND REVENUE ANTICIPATION NOTES, SERIES A	2010-11 TAX AND REVENUE ANTICIPATION NOTES, SERIES B	2010-11 TAX AND REVENUE ANTICIPATION NOTES, SERIES C

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Notes being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement, including the Appendices. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

General

The purpose of this Official Statement (the "Official Statement"), which includes the cover page and attached Appendices, is to provide certain information concerning the sale and delivery of \$163,165,000 aggregate principal amount of City of San Diego, California 2010-11 Tax and Revenue Anticipation Notes in three series corresponding to different maturity dates and interest rates, designated as "Series A Notes," "Series B Notes" and "Series C Notes" herein (each a "Series" and, collectively, the "Notes") issued by the City of San Diego (the "City").

The Notes are issued under the authority of Section 92 of the City Charter of the City, Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code (collectively, the "Authorizing Law") and a resolution adopted by the City Council of the City on May 25, 2010, including the completed Accompanying Document thereto (collectively, the "Resolution"). The Notes are being issued to finance the seasonal cash flow deficits in the City's General Fund (the "General Fund") during Fiscal Year 2010-11.

Security and Sources for Payment of the Notes

The Notes, in accordance with California law, are general obligations of the City, payable from the taxes, income, revenue, cash receipts and other moneys of the City attributable to the City's Fiscal Year 2010-11 and lawfully available for the payment of the 2010-11 TRANs and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose ("Unrestricted Revenues"). The City agrees to deposit in a Repayment Fund (as defined herein) from the first Unrestricted Revenues received on and after January 1, 2011, April 1, 2011 and May 1, 2011 (such amounts herein referred to as the "Pledged Moneys") an amount equal to the principal of and interest due on the Series A Notes, the Series B Notes and the Series C Notes, respectively, as specified in the Resolution. See "THE NOTES—Security for the Notes." The City is not authorized, however, to levy or collect any tax for the repayment of the Notes.

The City was incorporated in 1850. The City is a charter city located in the southwestern portion of the State of California (the "State"). The City is comprised of 342 square miles and, as of January 1, 2010, the California Department of Finance estimates the population to be 1,376,173. The City, with approximately 10,000 current budgeted employees, provides a full range of governmental services which include police and fire protection, sanitation and health services, the construction and maintenance of streets and infrastructure, recreational activities and cultural events, and the maintenance and operation of the water and sewer utilities. Certain information regarding City government and finances, including property taxes and other sources of repayment of the Notes, is included in APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION" and economic and demographic data regarding the City and surrounding area is included in APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY".

Cautionary Statement Regarding Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "projected" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when expectations, or events, conditions or circumstances on which such statements are based do or do not occur.

The presentation of information in APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION," including tables of receipt of revenues, is intended to show recent historical information except for the budget for Fiscal Years 2009-10 and 2010-11, and the City disclaims any representations that any of such information may indicate future or continuing trends in the financial condition, results of operations or any other affairs of the City. No representation is made that past experience, results of operations or financial condition, as it might be shown by such financial and other information, will continue or be repeated in the future.

Continuing Disclosure

The City has agreed to provide, or cause to be provided, in accordance with Rule 15c2-12(b)(5), promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. Beginning in March 2004, the City failed to comply with various filing deadlines for a number of undertakings due to the unavailability of audited financial statements for the City. Each required annual report and audited financial statement was subsequently filed. As of April 2009, the City is current with its filings and is in compliance with its continuing disclosure obligations. See "CONTINUING DISCLOSURE" herein.

City of San Diego Short-Term Borrowing Program

The City has issued tax and revenue anticipation notes every year since the mid-1960's (except for Fiscal Year 1978-79) to meet its cash flow requirements. In Fiscal Year 2009-10, the City sold an aggregate principal amount of \$124,070,000 of tax and revenue anticipation notes in three series. The tax and revenue anticipation notes for Fiscal Year 2009-10 have been fully paid.

2006 SEC Order and Related Matters

SEC Order

On November 14, 2006, the City entered into a cease-and-desist order (the "Order") with the Securities and Exchange Commission (the "Commission") relating to violations of the antifraud provisions of the federal securities laws in connection with the offer and sale of municipal securities in calendar years 2002 and 2003, and other related public financial disclosures concerning its pension and retiree health care liabilities. The Commission concluded that the "City, through its officials, acted with scienter," because "City officials acted recklessly in failing to disclose material information regarding [pension and retiree health care] liabilities." The Order imposed certain remedial sanctions, including the retention of an independent consultant to review and assess the City's policies, procedures and internal controls with respect to bond offerings, including disclosures made in its financial statements. The Order settled all claims between the City and the Commission with respect to the alleged violations of the federal securities laws in 2002 and 2003. On January 16, 2007, the City retained Stanley Keller of the law firm of Edwards Angell Palmer & Dodge, LLP to serve as independent consultant (the "Independent Consultant"). The Independent Consultant was required to conduct annual reviews of the City's policies, procedures and internal controls for a three year period, and provide copies of such reports to the Commission. The Independent Consultant's final report was presented to the City Council on March 8, 2010.

Audited Financial Reports

As a result of various investigations into the City regarding, principally, the events that were the subject of the SEC Order, the completion and release of the City's audited financial statements were substantially delayed. The City issued its Comprehensive Annual Financial Reports (each a "CAFR") with unqualified opinions for Fiscal Years 2003 through 2008 during the period from June 2007 through March 2009. The City received an unqualified opinion from its outside auditor on December 21, 2009, with respect to the Fiscal Year 2009 CAFR, which was received and filed with the City Council on February 1, 2010. The City is now current with respect to all financial reporting.

City Ratings

Beginning in 2004, as a further result of the investigations into the City and the related delays in the completion and release of the City's CAFRs, Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch") downgraded the credit ratings on the City's obligations and changed the outlook on those ratings to negative. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), placed the City's credit rating on negative outlook and subsequently suspended its credit ratings on all City obligations. The City's credit ratings were

reinstated in May 2008 by S&P in connection with the release of its CAFRs for Fiscal Years 2003 through 2006. The City currently maintains ratings with stable outlooks on its bonds and other City debt obligations from all three rating agencies to the extent that such bonds and debt obligations were rated at issuance or were subsequently rated. See "RATINGS" herein for a description of the ratings assigned to the Notes.

Tax Matters

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Notes, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code. The provisions of the American Recovery and Reinvestment Act of 2009 relating to the treatment of interest on certain tax-exempt bonds apply to the Notes. In addition, in the opinion of Bond Counsel to the City, under existing statutes, interest on the Notes is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

Miscellaneous

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Except as otherwise defined herein, capitalized terms used in this Official Statement without definition have the respective meanings set forth in the Resolution.

Copies of the Resolution may be obtained upon request from the Paying Agent (as defined herein) at 1761 East St. Andrew Place, Santa Ana, CA 92705.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Notes and their expected uses are set forth below:

SOURCES:

Principal Amount of the Notes	\$163,165,000.00
Original Issuance Premium	<u>1,965,500.15</u>
Total Sources	<u>\$165,130,500.15</u>

USES:

Cash Proceeds for Deposit to General Fund	\$165,003,066.98
Underwriter's Discount	<u>127,433.17</u>
Total Uses	<u>\$165,130,500.15</u>

THE NOTES

General

The Notes will be issued in three Series in the aggregate principal amount of \$163,165,000. The Notes will be issued in book-entry only form and, when delivered, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Notes. Purchasers of the Notes will not receive certificates representing their ownership interest in the Notes purchased. See APPENDIX E—"BOOK-ENTRY ONLY SYSTEM." Beneficial ownership interests in the Notes may be transferred only in accordance with the rules and procedures of DTC.

The Notes will be dated July 1, 2010, will mature on the respective date for each Series set forth on the cover page hereof and will be issued in fully registered form. The Notes are not subject to redemption prior to maturity.

The Notes will be issued in denominations of \$5,000 and any integral multiple thereof ("Authorized Denominations") and the Notes of each Series will bear interest at the respective rates set forth on the cover page hereof. Interest on the Notes will be payable at maturity and will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Authority for Issuance

The Notes are being issued under the authority of the Authorizing Law and pursuant to the Resolution and are subject to the terms and conditions of the Resolution (including the Accompanying Document).

Purpose of Issue

Issuance of the Notes will provide moneys to help meet Fiscal Year 2010-11 City General Fund expenditures, including current expenses, and the discharge of other obligations or indebtedness of the City. Substantially all of the proceeds of the Notes are expected to be fully expended on or about July 1, 2010.

Security for the Notes

The Notes will be issued under and pursuant to the Resolution (including the Accompanying Document). As provided in the Authorizing Law, the Notes are general obligations of the City and shall be payable from the taxes, income, revenue, cash receipts and other moneys of the City attributable to the City's Fiscal Year 2010-11 and lawfully available for the payment of the Notes and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose ("Unrestricted Revenues" herein). Under the Resolution, the Comptroller shall deposit in a 2010-11 TRANs Repayment Fund (the "Repayment Fund") (subject to the provisions set forth in the second succeeding paragraph below) (the "2010-11 TRANs Repayment Fund") the following amounts described in (a) through (c) below, inclusive (the "Pledged Moneys"): (a) from the first Unrestricted Revenues chargeable to the City's General Fund to be received by the City on and after January 1, 2011, the amount of \$51,933,908.33, representing the principal and interest due on the Series A Notes on January 31, 2011; (b) from the first Unrestricted Revenues chargeable to the City's General Fund to be received by the City on and after April 1, 2011, the amount of \$43,396,756.67, representing the principal and interest due on the Series B Notes on April 29, 2011; and (c) from the first Unrestricted Revenues chargeable to the City's General Fund to be received by the City on and after May 1, 2011, the amount of \$70,407,566.67, representing the principal and interest due on the Series C Notes on May 31, 2011. To the extent that any amounts received as provided in the previous sentence are less than the total dollar amount designated for such deposit, the Comptroller shall deposit into the Repayment Fund additional amounts from any other moneys of the City lawfully available therefor. To the extent any Notes are not paid from the Pledged Moneys, such Notes shall be paid with the interest thereon from any other moneys of the City lawfully available therefor. As provided in the Authorizing Law, the Notes and the interest thereon are a valid lien and charge against and are payable from the first moneys received by the City comprising such Pledged Moneys.

On each Maturity Date of each Series, the City shall transfer the Pledged Moneys in amounts sufficient to pay the principal and interest due on the Notes maturing on such Maturity Date to the Paying Agent for payment to the Holders in accordance with the Resolution, and such Pledged Moneys shall be used to pay the Notes, and the interest thereon when the same shall become due and payable and may not be used for any other purpose; provided, the amounts in the Repayment Fund may be invested in Permitted Investments (as defined herein) so as to be available for disbursement, and earnings on amounts in the Repayment Fund shall be deposited as and when received into the General Fund of the City. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE ACCOMPANYING DOCUMENT—Permitted Investments." Any amounts remaining in the Repayment Fund after repayment of all the Notes and the interest thereon shall be the sole and exclusive property of the City, shall not be subject to any claims by or on behalf

of any holder of the Notes and shall be transferred to any account in the General Fund of the City as the Chief Financial Officer or any of his or her respective designees may direct.

Pursuant to Section 53856 of California Government Code, the Notes and the interest thereon will be a lien and charge against and will be payable from such Pledged Moneys. In addition to Pledged Moneys, pursuant to Section 53857 of California Government Code, the Notes will be general obligations of the City, and to the extent not payable from Pledged Moneys, shall be paid, with interest thereon, only from any other moneys of the City lawfully available therefor. The City is not authorized to levy or collect any tax for the repayment of the Notes.

Available Sources of Payment

Pursuant to Section 53858 of California Government Code, no obligations, including the Notes, may be issued thereunder if the principal of and interest on such obligations is in excess of eighty-five percent of the estimated amount of the then uncollected taxes, income, revenue, cash receipts and other moneys which will be available for the payment of such principal and interest, and pursuant to City Charter Section 92, the amount of the obligations may not exceed twenty-five percent of the City's budgeted general fund appropriations for the Fiscal Year. See "THE NOTES—Security for Issue." The City estimates as of June 1, 2010 that the total moneys to be available for payment of the principal of and interest on the Notes, including the Pledged Moneys, will be in excess of \$1.095 billion; however, the Notes mature prior to the end of the Fiscal Year and Pledged Moneys will be derived from amounts received by the City prior to the respective maturity dates. See "Cash Flows" herein. Except for Pledged Moneys, these moneys will be expended during the course of the Fiscal Year, and no assurance can be given that any moneys, other than the Pledged Moneys (to the extent received), will be available to pay the Notes and the interest thereon.

The sources of funds available to the City for the repayment of the Notes, including sales taxes, transient occupancy taxes and property taxes are limited by Constitutional and other legal limitations applicable to the City. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Limitations on Taxes and Appropriations.

Certain information regarding City government and finances, including property taxes, sales taxes and other sources of repayment of the Notes, is included in APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION" and APPENDIX C—"CITY OF SAN DIEGO COMPREHENSIVE ANNUAL FINANCIAL REPORT" and economic and demographic data regarding the City and its surrounding area is included in APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY". Each contains important information concerning the City and should be read in its entirety. Among other factors, the City experienced revenue shortfalls in Fiscal Year 2009-10 as a result of adverse economic conditions which resulted in midyear budget adjustments and expects revenues to continue to be constrained in Fiscal Year 2010-11, as reflected in the proposed budget for Fiscal Year 2010-11. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION".

Moreover, potential cuts in tax revenues payable by the State to the City, as a result of the forecasted State Budget deficit for Fiscal Year 2010-11, may necessitate significant changes to the City's Fiscal Year 2010-11 budget for the General Fund. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—State Budget Deficit".

Subordinated Notes

The City agrees in the Resolution and Accompanying Document that it will not issue any obligations under the Authorizing Law payable on a parity with the Notes, however, the City reserves the right to issue notes secured by a pledge of and lien on Pledged Moneys subordinate to the Notes (such notes, the "Subordinated Notes"). Any Subordinated Notes shall have a lien on all amounts legally available for payment thereof on a basis junior and subordinate in all respects to the lien of the Notes. Subordinated Notes may be subject to redemption by the City at any time; provided, that no payment or redemption on any Subordinated Note shall be made by the City on any date until all deposits scheduled to be made by the City up to and including such date with respect to the Repayment Fund for the Notes have been so deposited. The Accompanying Document also provides that if in any month the City fails to make a scheduled deposit into the Repayment Fund with respect to the Notes required pursuant to the Accompanying Document, the Paying Agent shall transfer from any account established for any Subordinated Notes to the Repayment Fund such moneys as are necessary to effect the required deposit therein. The City presently expects it will not issue any Subordinated Notes for cash flow borrowing purposes in Fiscal Year 2010-11.

Cash Flows

The City has prepared the following cash flow statements for the General Fund showing actual Fiscal Year 2009-10 amounts through April 30, 2010, and projected amounts for each month thereafter including amounts for Fiscal Year 2010-11 based on the Fiscal Year 2010-11 Proposed Budget. Such cash flow projections could change based on the final form of the City's 2010-11 Final Budget and the City disclaims any obligation to update any of the cash flow projections herein as the result of any future circumstances or events. The aggregate amount needed to repay the Notes of all Series is \$165,738,232. The City expects to receive in Fiscal Year 2010-11 an estimated \$1,235,445,000 in unrestricted revenues for the General Fund on a cash basis, including proceeds from the sale of the Notes and excluding carryover balances.

The City has relied on internal cash resources (including intrafund borrowing of reserves in accordance with the City Charter), budget control and annual tax and revenue anticipation note borrowings to manage timing differences between the receipt of revenue and the expenditure of general funds. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Reserves." The City currently anticipates that sufficient Pledged Moneys will be available for required Repayment Fund deposits during Fiscal Year 2010-11. In the event of any cash flow shortfalls the City would expect to make budget adjustments or internal or other borrowings.

The projected Fiscal Year 2010-11 cash flow statement reflects that, without the issuance of the Notes the City will experience an estimated cash flow deficit of \$161,508,705 on or about November 30, 2010. The sources of Pledged Moneys for the repayment of the Notes are described in APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION." The statements in this Official Statement relating the cash flow projections constitute "forward-looking" statements. The cash flow statements do not represent revenues and expenditures in a form matching the proposed budget as set forth in Table A-3-1 and Table A-3-2.

The cash flow schedules for each Fiscal Year shown include amounts for certain policy funds (“Policy Funds”). These amounts represent City Funds (such as the Public Liability Fund and the Special Promotions Fund), which are separated from the General Fund for administrative purposes but which generally are not restricted by statute, City Charter or other applicable restriction and are available to pay for General Fund expenses and the payment of principal of and interest on the Notes.

GENERAL FUND CASH FLOW SCHEDULE
CITY OF SAN DIEGO
FISCAL YEAR 2009-10
GENERAL FUND CASH FLOW SUMMARY - ESTIMATED AFTER APRIL 30, 2010
(In Thousands)

MONTH	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTALS
General Fund Beginning Balance	\$ 84,728	\$ 48,404	\$ 20,730	\$ 883	\$ (74,398)	\$ (86,941)	\$ (33,334)	\$ (68,900)	\$ (92,005)	\$ (64,124)	\$ (74,934)	\$ 29,501	XXXXXX
RECEIPTS:													
Property Tax	3,071	2,300	5,959	6,497	10,307	93,176	85,132	6,402	12,544	63,974	93,873	7,395	390,630
Triple Flip	-	-	-	-	-	-	21,959	-	-	-	21,959	-	43,918
Sales Tax	9,883	12,942	12,685	10,283	11,654	14,689	10,190	13,587	12,152	8,724	13,133	11,203	141,125
Safety Sales Tax	462	585	475	488	484	558	471	520	680	521	606	553	6,403
Transient Occupancy Tax	1,911	8,494	6,680	8,139	3,972	6,158	4,141	3,180	6,018	5,514	4,701	6,546	65,454
Property Transfer Tax	453	-	456	459	371	445	385	552	335	281	546	441	4,724
Licenses and Permits	2,035	2,042	1,979	1,988	1,785	2,020	2,089	3,675	3,757	2,082	2,064	2,579	28,095
Fines, Forfeiture and Penalties	556	479	506	3,413	1,264	8,574	4,936	2,819	1,363	(1,018)	1,325	3,502	27,719
Revenue from Use of Money and Property	885	604	780	-	-	732	335	-	-	9	144	606	4,095
Franchise Fees	1,822	3,844	1	13,399	11,810	1,987	2,784	12,709	-	3,278	14,086	394	66,114
Rents and Concessions	1,640	4,738	5,203	5,007	1,408	4,187	2,321	2,341	2,319	(22)	2,674	6,602	38,418
Motor Vehicle License Fees	1,032	238	529	138	-	-	-	189	387	641	255	521	3,930
Revenue from Other Agencies	315	146	274	230	173	697	533	461	714	(430)	230	2,143	5,486
Charges for Current Services	7,528	7,853	7,634	10,717	3,682	12,218	8,092	7,327	24,764	4,785	21,672	32,884	149,156
Other Financing Sources	2,689	257	2,007	430	5,520	504	1,367	1,254	12,118	4,059	10,100	49,617	89,922
Other Revenue	172	129	70	180	281	1,228	(156)	29	231	920	483	1,256	4,823
TRAN Note	125,000	-	-	-	-	-	-	-	-	-	-	-	125,000
TOTAL RECEIPTS	159,454	44,651	45,238	61,368	52,711	147,173	144,579	55,045	77,382	93,318	187,851	126,242	\$ 1,195,012
DISBURSEMENTS:													
Salaries/Wages	48,712	39,104	37,406	58,361	37,460	40,825	63,855	37,121	40,988	29,444	36,544	26,866	496,686
Retirement Advance	130,867	-	-	-	-	-	-	-	-	-	-	-	130,867
Fringe Benefits	4,689	9,767	9,825	30,138	(206)	10,650	32,442	21,329	(11,640)	(1,207)	12,099	10,551	128,437
Services/Supplies	4,623	13,024	15,867	42,749	18,176	19,393	22,601	17,651	16,758	21,514	29,848	34,541	256,745
Data Processing	5,969	8,141	619	2,425	1,468	1,598	2,535	883	1,297	1,302	1,535	4,076	31,848
Energy	852	2,287	1,361	2,931	8,317	1,817	2,241	991	1,956	2,586	2,746	4,065	32,150
Capital Outlay	66	2	7	45	39	487	1	175	142	29	644	1,461	3,098
Note Principal	-	-	-	-	-	18,610	55,825	-	-	49,635	-	-	124,070
Note Interest	-	-	-	-	-	186	645	-	-	825	-	-	1,656
TOTAL DISBURSEMENTS	195,778	72,325	65,085	136,649	65,254	93,566	180,145	78,150	49,501	104,128	83,416	81,560	\$ 1,205,557
General Fund Ending Balance	\$ 48,404	\$ 20,730	\$ 883	\$ (74,398)	\$ (86,941)	\$ (33,334)	\$ (68,900)	\$ (92,005)	\$ (64,124)	\$ (74,934)	\$ 29,501	\$ 74,183	
Policy Fund Beginning Balance	89,435	85,859	87,906	93,912	111,571	94,587	98,121	101,135	113,807	120,329	114,754	102,563	
Policy Fund Net Transactions	(3,576)	2,047	6,006	17,659	(16,984)	3,534	3,014	12,672	6,522	(5,575)	(12,191)	(18,130)	
Policy Fund Ending Balance	85,859	87,906	93,912	111,571	94,587	98,121	101,135	113,807	120,329	114,754	102,563	84,433	
ENDING BALANCE	\$ 134,263	\$ 108,636	\$ 94,795	\$ 37,173	\$ 7,646	\$ 64,787	\$ 32,235	\$ 21,802	\$ 56,205	\$ 39,820	\$ 132,064	\$ 158,616	
SET-ASIDE FUND													
Receipts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,796	\$ 56,470	\$ -	\$ -	\$ 50,460	\$ -	\$ -	125,726
Disbursements	-	-	-	-	-	18,796	56,470	-	-	50,460	-	-	125,726
Set-Aside Fund Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

¹ Due to the timing of proceeds received pursuant to the California Statewide Communities Development Authority Proposition 1A Securitization Program, \$17.9 million that would have been received in April was received in May.

² Note Borrowing: Principal amount of \$124,070,000; multiple maturities (series), with final maturity of April 30, 2010. TRAN Note Receipts (\$125,000,000) include original issue premium and is net of underwriter's discount and cost of issuance.

³ Prior to the implementation of the Human Capital Management (HCM) module in SAP, the City's cash flow reconciliation recognized payroll expenditures two weeks after they were incurred. However, upon implementation of the new HCM module, the City is able to report payroll expenditures when they are incurred. Therefore, the month of transition (January 2010) includes payroll expenditures related to both December 2009 and January 2010.

⁴ General Fund portion of the Fiscal Year 2010 ARC payment to SDCERS. This advance includes amounts advanced on behalf of other funds which are refunded to the General Fund throughout the fiscal year, and therefore, are not fully expended in the General Fund.

⁵ Includes for each month that amount paid by the General Fund for its share of Citywide OPEB expenditures. The aggregate of such amounts for Fiscal Year 2010 was \$17.5 million.

⁶ A portion of the TRAN Note interest expense was funded from original issue premium relating to the issuance of the TRAN Note.

⁷ Beginning Policy Funds Balance is comprised of Policy Fund cash available to the General Fund as determined by a tax analysis for the purpose of TRAN.

⁸ Policy Fund Transactions shown as a net amount (receipts minus disbursements).

GENERAL FUND CASH FLOW SCHEDULE
CITY OF SAN DIEGO
FISCAL YEAR 2010-11
GENERAL FUND CASH FLOW SUMMARY - PROJECTED
(In Thousands)

Month	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	Totals
General Fund Beginning Balance	\$ 74,183	\$ (2,853)	\$ (25,624)	\$ (41,219)	\$ (67,018)	\$ (91,741)	\$ 3,212	\$ 33,733	\$ 28,470	\$ 26,299	\$ 28,189	\$ 45,730	XXXXXXXX
RECEIPTS:													
Property Tax	3,071	2,300	5,960	6,498	10,308	93,186	90,297	7,527	735	87,226	76,592	6,360	390,060
Triple Flip	-	-	-	-	-	-	23,171	-	-	-	23,171	-	46,342
Sales Tax	11,773	12,063	10,819	14,439	6,910	15,951	12,798	11,602	11,229	12,938	10,304	10,304	141,130
Safety Sales Tax	466	590	479	493	488	563	586	544	-	684	611	784	6,288
Transient Occupancy Tax	1,930	8,579	6,747	8,221	4,012	6,220	4,183	3,212	6,078	5,570	4,749	6,612	66,113
Property Transfer Tax	476	-	480	482	390	468	326	422	292	236	575	539	4,686
Licenses and Permits	2,362	2,370	2,298	2,308	2,072	2,345	2,425	4,265	4,362	2,417	2,396	2,993	32,613
Fines, Forfeiture and Penalties	1,635	547	578	3,901	1,445	6,801	5,643	1,522	1,558	536	1,515	6,046	31,727
Revenue from Use of Money	392	267	346	-	-	324	148	-	-	4	64	269	1,814
Franchise Fees	1,852	3,907	1	13,616	12,001	2,019	2,829	12,915	-	3,331	14,315	401	67,187
Rents and Concessions	1,922	5,555	6,100	5,870	1,651	4,909	2,722	2,744	2,718	(26)	3,135	7,741	45,041
Motor Vehicle License Fees	603	262	583	152	-	-	340	587	221	363	281	1	3,393
Revenue from Other Agencies	12	24	24	24	24	24	24	24	24	24	24	1,697	1,949
Charges for Current Services	5,870	6,166	6,966	7,530	3,360	11,149	7,384	6,686	22,599	4,367	24,027	30,008	136,112
Other Financing Sources	2,500	1,500	6,028	1,500	1,500	15,528	3,679	1,500	7,079	12,100	16,303	18,980	88,197
Other Revenue	278	209	112	291	454	1,983	-	46	374	1,234	781	2,028	7,790
TRAN Note	1 165,003	-	-	-	-	-	-	-	-	-	-	-	165,003
TOTAL RECEIPTS	200,145	44,339	47,521	65,325	44,615	161,470	156,555	53,596	57,269	131,004	178,843	94,763	\$ 1,235,445
DISBURSEMENTS:													
Salaries/Wages	50,760	36,537	35,907	56,057	35,960	36,193	35,302	35,634	39,346	52,264	37,035	25,790	476,785
Retirement Advance	2 181,063	-	-	-	-	-	-	-	-	-	-	3,476	184,539
OPEB Advance	3 -	-	-	-	-	-	8,656	-	-	-	-	-	8,656
Fringe Benefits	4 8,586	10,477	10,477	15,716	10,477	10,477	10,478	8,904	8,904	13,355	8,904	4,860	121,615
Services/Supplies	32,270	13,482	15,629	16,213	15,239	17,378	12,803	12,866	8,633	18,257	42,027	38,675	243,472
Data Processing	4,010	5,470	416	1,629	3,470	1,073	5,740	343	1,437	963	910	124	25,585
Energy	426	1,142	680	1,463	4,153	907	1,120	937	977	849	1,371	2,030	16,055
Capital Outlay	66	2	7	46	39	489	1	175	143	29	648	1,469	3,114
TRAN Note Principal	1 -	-	-	-	-	-	51,335	-	-	42,690	69,140	-	163,165
TRAN Note Interest	5 -	-	-	-	-	-	599	-	-	707	1,267	-	2,573
TOTAL DISBURSEMENTS	277,181	67,110	63,116	91,124	69,338	66,517	126,034	58,859	59,440	129,114	161,302	76,424	\$ 1,245,559
General Fund Ending Balance	\$ (2,853)	\$ (25,624)	\$ (41,219)	\$ (67,018)	\$ (91,741)	\$ 3,212	\$ 33,733	\$ 28,470	\$ 26,299	\$ 28,189	\$ 45,730	\$ 64,069	
Policy Fund Beginning Balance	6 \$ 84,433	\$ 81,135	\$ 104,937	\$ 104,361	\$ 102,527	\$ 95,231	\$ 100,162	\$ 98,498	\$ 101,290	\$ 108,170	\$ 90,639	\$ 93,031	
Policy Fund Transactions	7 (3,298)	23,802	(576)	(1,834)	(7,296)	(576)	(1,664)	2,792	6,880	(17,531)	2,392	(11,032)	
Policy Fund Ending Balance	81,135	104,937	104,361	102,527	95,231	100,162	98,498	101,290	108,170	90,639	93,031	81,999	
Ending Balance	\$ 78,282	\$ 79,313	\$ 63,142	\$ 35,509	\$ 3,490	\$ 103,374	\$ 132,231	\$ 129,760	\$ 134,469	\$ 118,828	\$ 138,761	\$ 146,068	
SET ASIDE FUND													
Receipts	-	-	-	-	-	-	51,934	-	-	43,397	70,407	-	165,738
Disbursements	-	-	-	-	-	-	51,934	-	-	43,397	70,407	-	165,738
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Debt Service Coverage with Policy Fund Cash

3.55

3.74

2.97

¹ Note Borrowing Assumptions: Principal amount of \$163,165,000; multiple maturities (series), with final maturity of May 31, 2011. TRAN Note receipts (\$165,003,067) include original issue premium and is net of underwriters' discount.
² General Fund portion of the Fiscal Year 2011 ARC payment to SDCERS. This includes amounts advanced on behalf of other funds which are refunded to the General Fund throughout the fiscal year, and therefore, are not fully expended in the General Fund.
³ OPEB advance on January 31, 2011.
⁴ Includes for each month, from July through December 2010, that amount paid by the General Fund for its share of Citywide OPEB expenditures. In light of the amount advanced on behalf of the General Fund towards such purpose in January 2011 (\$8.6 million), no further amounts were included for such purposes for the remainder of Fiscal Year 2011. The aggregate contribution for Fiscal Year 2011 for the General Fund share of Citywide OPEB expenditures was \$17.3 million.
⁵ A portion of the TRAN Note Interest expense will be funded from original issue premium relating to the issuance of the TRAN Note.
⁶ Policy Fund beginning balances are comprised of Policy Fund cash available to the General Fund as determined by a tax analysis for the purpose of TRAN.
⁷ Policy Fund Transactions shown as a net amount (receipts minus disbursements).

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE ACCOMPANYING DOCUMENT

The following is a summary of certain provisions of the Resolution, including the Accompanying Document. This summary is not to be considered a full statement of the terms of the Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof.

Resolution to Constitute Contract

In consideration of the purchase and acceptance of any and all of the Notes authorized to be issued under the Resolution by those who will own the Notes from time to time, the Resolution constitutes a contract between the City and the Holders of the Notes; and the pledge made in the Resolution and the Accompanying Document and the covenants and agreements contained in the Resolution including the Accompanying Document to be performed by and on behalf of the City will be for the equal benefit, protection and security of the Holders of any and all of the Notes, all of which will be of equal rank without preference, priority, privilege or distinction of any of the Notes of any Series or otherwise over any other thereof, except as expressly provided in or permitted by the Accompanying Document.

Covenants of the City

The City covenants under the Accompanying Document that it will not issue any notes, or otherwise incur any indebtedness, pursuant to the Authorizing Law with respect to its Fiscal Year 2010-11 in an amount which, when added to the interest payable thereon, shall exceed either (i) 25 percent of the City's budgeted general fund appropriations for Fiscal Year 2010-11 within the meaning of City Charter Section 92, or (ii) 85 percent of the estimated amount of the then-uncollected taxes, income, revenue, cash receipts, and other moneys of the City which will be available for the payment of said notes or other indebtedness and the interest thereon; provided, however, that to the extent that any principal of or interest on such notes or other indebtedness is secured by a pledge of the amount in any inactive or term deposit of the City, the term of which will terminate during said fiscal year, such principal and interest may be disregarded in computing said limit.

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Notes, the City covenants to comply with each applicable requirement of the Code, necessary to maintain the exclusion of interest on the Notes from gross income for federal income tax purposes. To this end, the City agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax Certificate prepared for the City by Bond Counsel, as such Tax Certificate may be amended from time to time. The City further covenants that it will make all calculations relating to any rebate of excess investment earnings on the Note proceeds due to the United States Department of the Treasury in a reasonable and prudent fashion and will segregate and set aside the amounts such calculations indicate may be required to be paid to the United States Department of the Treasury.

Notwithstanding any other provision of the Accompanying Document to the contrary, upon the City's material failure to observe, or refusal to comply with, the foregoing tax covenants, the

Holders of the Notes, and any adversely affected former Holders of the Notes, will be entitled to exercise any right or remedy provided to the Holders under the Accompanying Document.

Paying Agent and Note Registrar

Deutsche Bank National Trust Company will act as Paying Agent for purposes of paying the amount due on the Notes at maturity to the Holders of the Notes and as Note Registrar for the Notes. The Paying Agent may at any time resign and be discharged of the duties and obligations created by the Accompanying Document by giving at least 60 days' written notice to the City. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and signed by the City. In the event of the resignation or removal of a Paying Agent, the City may appoint a successor Paying Agent in accordance with the terms of the Accompanying Document. A successor Paying Agent will be a commercial bank with trust powers or a trust company organized under the laws of any state of the United States or a national banking association, having capital and surplus aggregating at least \$100,000,000. Resignation or removal of a Paying Agent will be effective upon appointment and acceptance of a successor Paying Agent. In no event shall the resignation or removal of the Paying Agent become effective prior to the assumption of such resigning or removed Paying Agent's duties and obligations by a successor Paying Agent.

Negotiability, Transfer and Exchange of the Notes

The Holders of the Notes evidenced by registered certificates may transfer or exchange such Notes upon the books maintained by the Note Registrar, in accordance with the Accompanying Document.

The City and any Paying Agent may deem and treat the Holder of any Note as the absolute owner of such Note, regardless of whether such Note is overdue, for the purpose of receiving payment thereof and for all other purposes, and all such payments so made to any such Holder or upon his or her order will satisfy and discharge the liability upon such Note to the extent of the sum or sums so paid, and neither the City nor any Paying Agent will be affected by any notice to the contrary. Cede & Co., as nominee of DTC, or such other nominee of DTC or any successor securities depository or the nominee thereof, will be the Holder of the Notes as long as the beneficial ownership of the Notes is held in book-entry form in the records of such securities depository. See APPENDIX E—“BOOK-ENTRY ONLY SYSTEM.”

Permitted Investments

Moneys on deposit in the Repayment Fund will be retained therein until applied to the payment of the principal of and interest on the Notes. Such amounts may not be used for any other purpose, although they may be invested in Permitted Investments (“Permitted Investments”). The Accompanying Document specifically designates the following investments as Permitted Investments, subject to certain limitations more fully described in the Accompanying Document:

- (i) Federal Securities;
- (ii) Commercial Paper having original maturities of not more than the final maturity of the TRANs note, payable in the United States of America and issued by corporations

that are organized and operating in the United States with total assets in excess of \$500 million and having an “A” or better rating for the issuer’s long-term debt as provided by Fitch, Moody’s or S&P and “F1”, “P-1”, “A-1” or better rating for the issuer’s short-term debt as provided by Fitch, Moody’s or S&P, respectively;

(iii) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which have short-term obligations outstanding which are rated by two Rating Agencies in their respective highest short-term rating categories, a long-term debt rating of not less than “A” by a Rating Agency, and a maturity no later than the final maturity of the Notes;

(iv) Negotiable or non-negotiable certificates of deposit issued by a nationally- or state-chartered bank or a state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank, in each case which has, or which is a subsidiary of a parent company which has, obligations outstanding having a rating in the “A” category or better from Fitch, Moody’s, or S&P;

(v) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association, or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars (\$100,000,000) and with short-term debt rated by two Rating Agencies in their respective three highest short-term rating categories or any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clause (i) of this definition and having maturities equal to or less than 5 years from the date of delivery, which shall have a market value (valued at least monthly) not less than 102% of the principal amount of such investment;

(vi) Shares of beneficial interest issued by diversified management companies, known as money market funds which invest in securities in (i) through (v) above, registered with the U.S. Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) and whose fund has received the highest possible rating from S&P and at least one other Rating Agency;

(vii) Investment agreements and guaranteed investment contracts with issuers having a long-term debt rating of at least “AA” or “Aa2” by S&P or Moody’s, respectively;

(viii) The City’s Pooled Investment Fund; and

(ix) The Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code of the State.

“Federal Securities” shall mean the following securities:

(i) United States Treasury Bills, bonds, and notes for which the full faith and credit of the United States are pledged for payment of principal and interest;

(ii) Direct obligations issued by the following agencies of the United States Government: the Federal Farm Credit Bank System, the Federal Home Loan Bank System, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Tennessee Valley Authority;

(iii) Mortgage Backed Securities (except stripped mortgage securities) issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association;

(iv) United States Treasury Obligations, State and Local Government Series; and

(v) Issues guaranteed as to timely payment of principal and interest by the full faith and credit of the Federal Deposit Insurance Corporation.

“Structured securities” (including flip notes, range notes, inverse floaters and step-ups) will not be considered Federal Securities. However, floaters (based on single, interest rate based indices) and callable securities of the above-enumerated agencies may be treated as Federal Securities.

Supplemental Resolutions and Supplemental Accompanying Documents

The Accompanying Document and certain of the rights and obligations of the City and of the Holders of the Notes may be amended or supplemented pursuant to a supplemental Accompanying Document executed by the Chief Financial Officer in accordance with the provisions of the Accompanying Document (a “Supplemental Accompanying Document”), with the written consent of the Holders of at least a majority in principal amount of the Notes outstanding at the time such consent is given; provided, however, that if such supplement or amendment will, by its terms, not take effect so long as any Notes of any particular Series remain outstanding, the consent of the Holders of such Series will not be required. No such supplement or amendment may (i) permit a change in the terms of maturity of the principal of any Notes or of the interest rate thereon or a reduction in the principal amount thereof without the consent of the Holders of such Notes, or (ii) change the dates or amounts of the pledge set forth in the Resolution or the Accompanying Document, or (iii) reduce the percentage of the Holders of the Notes required to approve such Supplemental Accompanying Document without the consent of all of the Holders of the affected Notes, or (iv) change or modify any of the rights or obligations of the Paying Agent without its written consent thereto.

Additionally, a resolution amending the Resolution (a “Supplemental Resolution”) may be adopted or a Supplemental Accompanying Document may be executed, without the consent of the Holders, (i) to add covenants and agreements to be observed by the City that are not contrary to or inconsistent with the Resolution or the Accompanying Document, (ii) to add limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Resolution or the Accompanying Document, (iii) to confirm as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by the Resolution or the Accompanying Document, of any moneys, securities or funds or to establish any additional funds or accounts to be held under the Resolution or the Accompanying Document, (iv) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution or the

Accompanying Document, (v) to supplement or amend the Resolution or the Accompanying Document as required to maintain a rating for the Notes from any rating agency, provided that the City obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Accompanying Document does not adversely affect the interests of the Holders, or (vi) to supplement or amend the Resolution or Accompanying Document in any other respect, provided that the City obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Accompanying Document does not adversely affect the interests of the Holders.

Events of Default

Any one or more of the following will constitute an “Event of Default” under the Resolution and the Accompanying Document:

- (1) default in the due and punctual payment of the principal of or interest on any Notes when and as the same become due and payable;
- (2) default in the performance or observance by the City of any other of the material covenants, agreements or conditions required to be performed or observed by the City pursuant to the Accompanying Document, the Resolution or any of the Notes and the continuation of such default for a period of 60 days after written notice thereof to the City by the Holders of not less than 10 percent in aggregate principal amount of the outstanding Notes; or
- (3) filing by the City of a petition for relief under the federal bankruptcy laws.

Whenever any Event of Default shall have happened and be continuing, the Holders of the Notes and any adversely affected former Holders of the Notes and their legal representatives, will be entitled to take any and all actions available at law or in equity to enforce the performance of the covenants in the Accompanying Document and in the Authorizing Law. Nothing in the Accompanying Document will preclude an individual Holder from enforcing such Holder’s rights to payment of principal of and interest on such Holder’s Notes.

Payment of Unclaimed Moneys to City

Anything in the Accompanying Document to the contrary notwithstanding, any moneys held in trust for the payment and discharge of any series of the Notes that remain unclaimed for a period of one year after the date when such Notes have become due and payable, if such moneys were so held at such date, or for one year after the date of deposit of such moneys if deposited after the date when such Notes became due and payable, will be repaid to the City, as its absolute property and free from trust, and the Holders may thereafter look only to the City for the payment of such Notes from legally available funds; provided, however, that before any such payment is made to the City, the City will create (and thereafter maintain until payment of all of the Notes) a record of the amount so repaid, and the City will cause to be published at least twice, at any interval of not less than seven days between publications, in The Bond Buyer and two other newspapers customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language and of general circulation, in San Diego, California

and in the Borough of Manhattan, City and State of New York, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date may be not less than thirty days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the City.

BOOK-ENTRY ONLY SYSTEM

The Notes will be available in book-entry form only in the denomination of \$5,000 and any integral multiple thereof. Purchasers of beneficial ownership interests in the Notes (“Beneficial Owners”) will not receive Notes representing their interests in the Notes purchased. The Underwriters will confirm original issuance purchases with statements containing certain terms of the Notes purchased. See APPENDIX E—“BOOK-ENTRY ONLY SYSTEM” hereto.

The information concerning DTC and DTC’s book-entry system has been obtained from sources the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

LIMITATIONS ON REMEDIES

The rights of the owners of the Notes are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Notes, and the obligations incurred by the City, may become subject to the following: The Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose; and the limitations on remedies against cities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Notes to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a County investment pool upon bankruptcy of the county, but was not required to directly address the state statute that provides for the lien in favor of holders of tax and revenue anticipation notes. The City will be in possession of the taxes and other revenues that will be set aside and pledged to repay the Notes and, prior to payment of these funds to the Paying Agent, these funds will be held and invested in the Repayment Fund, which may be invested in the City Investment Pool. In the

event of a petition for the adjustment of City debts under Chapter 9 of the Bankruptcy Code, a court might hold that the Holders of the Notes do not have a valid or prior lien on the Pledged Amounts where such amounts are deposited in the City Investment Pool and may not provide the Note owners with a priority interest in such amounts. In that circumstance, unless the Holders could “trace” the funds from the Repayment Fund that have been deposited in the City Investment Pool, the Holders would be unsecured (rather than secured) creditors of the City. There can be no assurance that the Holders could successfully so “trace” the pledged taxes and other revenues.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Notes, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code. The provisions of the American Recovery and Reinvestment Act of 2009 relating to the treatment of interest on certain tax-exempt bonds apply to the Notes.

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

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Notes. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Notes, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such

requirements may cause interest on the Notes to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

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

The Notes are not taken into account (subject to certain limitations) in determining the portion of a financial institution's interest expense subject to the pro rata interest disallowance rule of Section 265(b) of the Code for costs of indebtedness incurred or continued to purchase or carry certain tax-exempt obligations. The Notes, however, are taken into account in the calculation of the amount of a financial institution's preference items under Section 291 of the Code.

Prospective owners of the Notes should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Premium

In general, if an owner acquires a Note for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Note after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Note (a "Premium Note"). In general, under Section 171 of the Code, an owner of a Premium Note must amortize the bond premium over the remaining term of the Premium Note, based on the owner's yield over the remaining term of the Premium Note determined based on constant yield principles (in certain cases involving a Premium Note callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Note must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Note, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible

loss. Under certain circumstances, the owner of a Premium Note may realize a taxable gain upon disposition of the Premium Note even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Notes should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Notes.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Notes. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Note through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Notes from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Notes under federal or state law and could affect the market price or marketability of the Notes.

Prospective purchasers of the Notes should consult their own tax advisors regarding the foregoing matters.

CERTAIN LEGAL MATTERS

The authorization and validity of the Notes and certain other matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in APPENDIX D attached hereto. Certain legal matters will be passed upon for the City by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and by Jan I. Goldsmith, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California.

LITIGATION

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

There is no controversy now pending against the City or, to the knowledge of its respective executive officers, threatened, which challenges the corporate existence of the City or the title of its officers to their respective offices.

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. The City does not expect the aggregate amount of the uninsured liabilities of the City which may result from an adverse ruling in any or all of such claims to have a material adverse effect on its ability to pay principal and interest on the Notes when due. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Risk Management and Litigation."

RATINGS

Fitch, Moody's, and S&P have assigned the Notes the rating of F1+, MIG 1 and SP-1+, respectively. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes. The City undertakes no obligation to oppose any downward revision, suspension or withdrawal.

FINANCIAL ADVISOR

Public Resources Advisory Group, Los Angeles, California, served as the Financial Advisor to the City in connection with the execution and delivery of the Notes. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

UNDERWRITING

The Notes are being sold to J.P. Morgan Securities, Inc. on behalf of itself and as representative E. J. De La Rosa & Co., Inc. (the "Underwriters") at an aggregate purchase price of \$165,003,066.98 (representing the principal amount of such Notes of \$163,165,000.00, plus an original issue premium of \$1,965,500.15, less underwriters' discount including expenses of \$127,433.17). The Underwriters report the Notes were initially offered to the public at a price resulting in the reoffering yields set forth on the cover of this Official Statement. The public offering price may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Notes to certain dealers and others at prices lower or higher than the offering prices indicated herein.

J.P. Morgan Securities Inc. ("JPMSI"), one of the Underwriters of the Notes, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Notes from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Notes that such firm sells.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the City (the "Disclosure Certificate"), the City has agreed to provide, or cause to be provided, notice of certain Listed Events (as described in the Continuing Disclosure Certificate) to the Municipal Securities Rulemaking Board in the manner prescribed by the Securities Exchange Commission (the "SEC"). The form of the Disclosure Certificate is attached hereto as APPENDIX F. The City's covenants in the Continuing Disclosure Certificate have been made in order to assist the Underwriters in complying with the Rule. A failure by the City to comply with any of the covenants therein is not an event of default under the Resolution.

Beginning in March 2004, the City failed to comply with continuing disclosure undertakings related to 21 bond issues for each of fiscal years 2003 through 2007 due to the unavailability of the City's audited financial statements. The circumstances regarding the unavailability of the City's audited financial statements are described under the caption entitled "INTRODUCTION – 2006 SEC Order and Related Actions." Each required annual report and audited financial statement was subsequently filed. Prior to March 2004, the City had never failed to comply with its undertakings under the Rule.

The City has timely filed the annual reports and financial statements for Fiscal Year 2008 with respect to securities secured by the City's General Fund, the Sewer Revenue Fund and the Water Utility Fund. The City Council received and filed the Fiscal Year 2009 audited financial statements on February 1, 2010, and corresponding continuing disclosure filings have been prepared and filed in a timely manner.

FINANCIAL STATEMENTS FOR FISCAL YEAR 2008-09

Included herein in APPENDIX C is the City's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2009, which includes the City's audited basic financial statements as of and for the year ended June 30, 2009. The City's basic financial statements as of June 30, 2009 and for the year then ended, included in APPENDIX C, have been audited by Macias Gini & O'Connell LLP ("Independent Auditor") as stated in its report appearing in APPENDIX C. Macias Gini & O'Connell LLP as the independent auditors did not review this Official Statement. The City did not request the consent of the independent auditors to append the City's financial statements to this Official Statement. Accordingly, the independent auditors did not perform any procedures relating to any of the information in this Official Statement.

CHANGES FROM THE PRELIMINARY OFFICIAL STATEMENT

The Preliminary Official Statement dated June 11, 2010, as supplemented by the Supplement to the Preliminary Official Statement dated June 17, 2010, has been updated to reflect the result of pricing. In addition, the following changes have been made:

- The information set forth in Appendix A under the caption "City Government and Financial Information – Fiscal Year 2010 Year-End Budget Monitoring Report" has been updated to reflect budgetary actions taken by the City Council to address net revenue shortfalls projected in the Fiscal Year 2010 Year-End Budget Monitoring Report.
- The information set forth in Appendix A under the caption "City Government and Financial Information – Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" has been updated to reflect adoption of the Fiscal Year 2011 General Fund Budget by the City Council and modifications from the Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision).
- The information set forth in Appendix A under the caption "LABOR RELATIONS; SDCERS; OTHER POSTEMPLOYMENT BENEFITS – Labor Relations General" has been updated to reflect the current number of employees represented by labor organizations.
- The information set forth in Appendix A under the caption "City Government and Financial Information – Litigation Potentially Adversely Affecting the General Fund and Other Operating Funds of the City – Litigation and Regulatory Actions" has been updated to reflect the relationship between the plaintiffs in the *Border Business Park, Inc.* and related cases.
- The information set forth in Appendix B has been updated to reflect March 2009 benchmark and preliminary May 2010 employment, wage and salary data.

MISCELLANEOUS

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

There are appended to this Official Statement the City's CAFR, including therein the audited financial statements for Fiscal Year 2008-09, the proposed form of Continuing Disclosure Certificate, opinion of Bond Counsel, a general description of the City and financial and operating data with respect to the City, and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Notes. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition, results of operations or any other affairs in the City since the date hereof.

CITY OF SAN DIEGO

By: /s/ Mary Lewis
Mary Lewis, Chief Financial Officer

APPENDIX A

CITY GOVERNMENT AND FINANCIAL INFORMATION

This Appendix A to the Official Statement of the City of San Diego (the "City") covers general information about the City's governance structure, budget processes, property taxation system and other tax and revenue sources, City expenditures, including labor relations, employment benefits and retirement costs, and investments, bonds and other long-term obligations. The information and data within this Appendix A is the latest data available to the City; however, the current state of the economy at City, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available. This information is provided as general background. As set forth under "THE NOTES—Security for the Notes" in the forepart of this Official Statement, the City of San Diego, California 2010-11 Tax and Revenue Anticipation Notes (the "Notes") are secured by Pledged Moneys (as defined in the forepart of this Official Statement), which are comprised of a portion of the taxes, income, revenue, cash receipts and other moneys of the City attributable to Fiscal Year 2011 and lawfully available for the payment of the Notes and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose.

Profile of the City of San Diego

The City of San Diego (the "City") was incorporated in 1850. The City is comprised of 342 square miles and, as of January 1, 2010, the California Department of Finance estimates the population to be 1,376,173. The City, with approximately 10,000 current budgeted employees, provides a full range of governmental services which include police and fire protection, sanitation and health services, the construction and maintenance of streets and infrastructure, recreational activities and cultural events, and the maintenance and operation of the water and sewer utilities.

The General Fund is the principal operating fund of the City. Departments within the General Fund provide core community services, such as public safety (including police and fire protection), parks and recreation, library services, and refuse collection, as well as vital support functions such as finance, legal and human resources. These core services are primarily supported by major revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees. The City's total Fiscal Year 2010 Original Adopted Budget as of July 1, 2009 was \$2.95 billion. This included \$1.13 billion for General Fund operations (described in greater detail herein) and \$1.34 billion for operations of the City's Enterprise Funds and other fund activities. Another \$478.4 million was budgeted for capital improvement projects across the City. On December 9, 2009 the City's Fiscal Year 2010 Original Adopted Budget was amended (as amended, the "Fiscal Year 2010 Revised Adopted Budget") to reflect increases in revenues and decreases in expenditures resulting in a net savings of \$26.3 million, of which \$24.6 million was attributable to the General Fund operations. The Fiscal Year 2010 Revised Adopted Budget was adopted in response to the Fiscal Year 2011-2015 Five-Year Financial Outlook ("Fiscal Year 2011-15 Five-Year Financial Outlook") released October 1, 2009 by the City, which projected a Fiscal Year 2011 General Fund deficit of \$179.1 million. On December 9, 2009, the City Council also adopted the Fiscal Year 2011 Proposed General Fund Budget ("the Fiscal Year 2011 Proposed General Fund Budget") in an attempt to mitigate the projected budget deficit through a variety of both one-time and on-going adjustments. The Fiscal Year 2011 Proposed General Fund Budget reflected revenues and expenditures of \$1.11 billion. On April 15, 2010, the Mayor presented the Revised Fiscal Year 2011

Proposed Budget (the “Revised Fiscal Year 2011 Proposed Budget”) for City Council’s consideration. The Mayor’s Revised Fiscal Year 2011 Proposed Budget reflects expenditures of \$2.85 billion. This includes \$1.09 billion for General Fund operations (the “Revised Fiscal Year 2011 Proposed General Fund Budget”) and \$1.42 billion for operations of the City’s Enterprise Funds and other fund activities. Another \$332.2 million is budgeted for capital improvement projects across the City. The Revised Fiscal Year 2011-2015 Five-Year Financial Outlook (the “Revised Fiscal Year 2011-2015 Five-Year Financial Outlook”), dated April 19, 2010, incorporated the results of the Revised Fiscal Year 2011 Proposed Budget, which updated the projections of revenues and expenditures in the General Fund for Fiscal Years 2011 – 2015. See “Development of the Revised Fiscal Year 2011 Proposed Budget” for a description of the Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision) (herein defined).

The City has committed Pledged Moneys, which are comprised of a portion of the taxes, income, revenue, cash receipts and other moneys of the City attributable to Fiscal Year 2011 and lawfully available for the payment of the Notes and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose.

Governing Structure

The City operates under and is governed by the laws of the State of California and the City Charter, as periodically amended since its adoption by the electorate in 1931. The City has been operating under a “Strong Mayor” form of government since January 1, 2006, the effective date of a voter-approved proposition calling for a five year Strong Mayor trial period. The Strong Mayor form of government is a departure from the City’s previous Council-Manager form of government. On June 8, 2010, voters approved Proposition D (“Proposition D”), making the Strong Mayor provisions in the City Charter permanent. No further action is required to effect these changes.

Under the Strong Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst, Ethics Commission, City Attorney and City Auditor’s departments. During the five year trial period, the City Council was composed of eight members and presided over in open meetings by the City Council President, who is selected by a majority vote of the City Council. As part of Proposition D, voters approved the creation of a ninth City Council district. The district will be formed after a redistricting effort based upon the 2010 census and a new councilmember representing this district will be elected in the 2012 elections. The Mayor presides over City Council in closed session meetings of the City Council. The City Council retains its legislative authority; however, all City Council resolutions and ordinances are subject to a veto of the Mayor except for certain ordinances, including emergency declarations and the City’s annual Salary and Appropriation Ordinances. Currently, the City Council may override a Mayoral veto with five votes, however, veto override will require six votes when the City Council expands in 2012. The City Attorney, who is elected for a four-year term, serves as the chief legal advisor of and attorney for the City and all departments.

Accounting Practices

The City's accounting policies conform to generally accepted accounting principles applicable to governmental entities. The City's Governmental Funds, including the General Fund, 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 described in the City's Comprehensive Annual Financial Report ("CAFR") 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. See the section of the Official Statement entitled "INTRODUCTION—2006 SEC Order and Related Matters" in the front part of this Official Statement. The City's most recent financial statements for the Fiscal Year ended June 30, 2009, were audited by Macias Gini & O'Connell LLP, CPAs. (For ease of reference, references in this APPENDIX A to any particular Fiscal Year (e.g., Fiscal Year 2010) shall mean the Fiscal Year ending June 30 of the referenced year.)

The City is implementing and updating an internal controls over financial reporting ("ICOFR") process pursuant to recommendations from the Independent Consultant. See "INTRODUCTION — 2006 SEC Order and Related Matters" in the front part of this Official Statement. The City has begun implementing a two year plan to improve internal controls over financial reporting. It has identified approximately 350 separate process narratives to be written and expects to complete the documentation in Fiscal Year 2011. Controls testing will be implemented in stages in Fiscal Year 2011 and Fiscal Year 2012. The City plans to engage in an independent external review of its internal controls structure and its effectiveness no later than Fiscal Year 2012.

Budgetary Process

Pursuant to the City Charter, an annual budget for the ensuing Fiscal Year is presented by the Mayor to the City Council by April 15th of each year for consideration. Set forth in this budget are the anticipated revenues and expenditures of the General Fund, certain special revenue funds, enterprise funds, and certain debt service funds for the ensuing Fiscal Year. Additionally, project-length financial plans are presented to and adopted by the City Council for the capital projects funds. Budgets are prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. The City budget is prepared excluding unrealized gains or losses resulting from the change in fair value of investments, proceeds from capital leases and net income from joint ventures. All amendments to the adopted budget require City Council approval

except as delegated in the annual Appropriation Ordinance (the “Appropriation Ordinance”). In addition, salaries cannot be used for any other purposes in accordance with the City Charter.

As required by the City Charter, the City Council adopts the annual budget in June of each Fiscal Year. The Appropriation Ordinance that enacts the budget into law is presented to the Budget and Finance Committee of the City Council for review. Thereafter, it is presented to the City Council for review and adoption in July following two noticed public hearings as required by the City Charter.

The City’s Financial Management Department and Comptroller’s Office monitor fund balances, as well as revenue and expenditure projections, throughout the Fiscal Year. Variations from budget are generally addressed in a number of ways, including expenditure reductions. If revenues decline and/or expenditures increase, various alternatives are expected to be reviewed, including alternative funding sources, budget reductions or reallocations of funds between departments to support the ongoing activities of the City. If the City is not able to use other alternatives to offset the deficit, contingency plans that utilize the City’s reserves (subject to City Council approval) may be implemented to maintain the funding levels which the City believes are necessary for department operations in accordance with the City’s Reserve Policy.

Fiscal Year 2010 Budget Development

The City’s budget is developed by the Mayor in conjunction with City departments, with public input, and a proposed budget is delivered by the Mayor to the City Council for approval on or before April 15th of each year. The incremental budget process considers the fiscal and policy goals for the upcoming Fiscal Year, while following a timeline for budget publication codified within the City Charter.

The Fiscal Year 2010 budget development process began with the development of the Five-Year Financial Outlook for Fiscal Years 2010-2014, dated November 2008 (“Fiscal Year 2010-14 Five-Year Financial Outlook”). The Fiscal Year 2010-14 Five-Year Financial Outlook served as the framework for the development of the Fiscal Year 2010 Original Adopted Budget (the “Fiscal Year 2010 Original Adopted Budget”) by incorporating economic assumptions and expenditure requirements into the budget. The Mayor released the Fiscal Year 2010 Proposed Budget on April 13, 2009. According to standard practice, the Mayor presented a May Revision to the Fiscal Year 2010 Proposed Budget on May 18, 2009 that updated revenue and expenditure projections for Fiscal Year 2010 and these changes were incorporated into the Fiscal Year 2010 Original Adopted Budget adopted by the City Council in June 2009.

The City Council approved the Fiscal Year 2010 Original Adopted Budget on June 8, 2009 and the Mayor approved the budget on June 17, 2009 without exercising his line item veto. The Appropriation Ordinance that enacted the Fiscal Year 2010 budget into law was adopted by the City Council on July 27, 2009, as required by the City Charter.

Development of the Fiscal Year 2010 Revised Adopted Budget and Fiscal Year 2011 Proposed General Fund Budget

On October 1, 2009, the City released the Fiscal Year 2011-15 Five-Year Financial Outlook, which identified current and future revenue and expenditure trends and projected deficits for the next five years, primarily as a result of declining revenues, slow economic recovery and increased annual payments for the City's annual pension contribution. The Fiscal Year 2011-15 Five-Year Financial Outlook projected a General Fund revenue shortfall of \$179.1 million in Fiscal Year 2011.

On November 24, 2009, the Mayor presented the Fiscal Year 2010 Budget Amendment Report and Fiscal Year 2011 Proposed General Fund Budget followed by an addendum released on December 4, 2009, which together recommended an increase in revenues and decrease in expenditures resulting in a net savings of \$24.6 million to the General Fund and resulted in the net elimination of 452 General Fund full time equivalent ("FTE") positions in Fiscal Year 2010. The Fiscal Year 2011 Proposed General Fund Budget incorporated the adjustments from the Fiscal Year 2010 Revised Adopted Budget, and included additional adjustments for implementation in Fiscal Year 2011. This resulted in an additional net reduction of 34 FTE General Fund positions in Fiscal Year 2011 in order to mitigate the projected Fiscal Year 2011 deficit of \$179.1 million identified in the Fiscal Year 2011-15 Five-Year Financial Outlook. On December 4, 2009 the Office of the Independent Budget Analyst issued a report supporting the Fiscal Year 2011 Proposed General Fund Budget.

A group of citizens issued a report on the Fiscal Outlook of the City of San Diego on December 11, 2009 (the "Citizen's Task Force Report"), which outlined a course of action to address the projected shortfalls in the City's revenues disclosed in the Fiscal Year 2011-15 Five-Year Financial Outlook and was critical of one-time measures to address chronic revenue-expenditure imbalances.

On December 9, 2009, the City Council adopted the Fiscal Year 2010 Revised Adopted Budget and made minor modifications to the Mayor's Fiscal Year 2011 Proposed General Fund Budget, which the City Council then also adopted. The Fiscal Year 2011 Proposed General Fund Budget was revised and incorporated into the City's Revised Fiscal Year 2011 Proposed Budget presented on April 15, 2010 (see "Development of the Revised Fiscal Year 2011 Proposed Budget" below). The Mayor signed the City Council resolution to amend the Fiscal Year 2010 Original Adopted Budget on December 10, 2009 without exercising his line item veto and also signed the resolution to adopt the Fiscal Year 2011 General Fund Budget. An amendment to the Fiscal Year 2010 Appropriation Ordinance that enacted the amendment to the Fiscal Year 2010 budget into law was adopted by the City Council on December 14, 2009.

Subsequent to the City Council adopting the Fiscal Year 2011 Proposed General Fund Budget, the June 30, 2009 Annual Actuarial Valuation of the San Diego City Employees' Retirement System ("SDCERS"), dated as of January 8, 2010, was released, which included an Annual Required Contribution ("ARC") approximately \$19.0 million higher citywide or \$9.8 million higher for the General Fund than the ARC projected in the Fiscal Year 2011 Proposed General Fund Budget adopted by City Council in December 2009. (See "LABOR RELATIONS; SDCERS; OTHER POSTEMPLOYMENT BENEFITS — *San Diego City Employees' Retirement System*" herein.) In addition, realized revenue in Fiscal Year 2010, primarily sales tax, tourism tax and departmental revenues across the City were lower than expected in the first six months of Fiscal Year 2010,

creating a lower baseline for revenue projections in Fiscal Year 2011. As a result, a new budget gap of approximately \$28 million was identified for Fiscal Year 2011. As a result, the Mayor presented a newly balanced Fiscal Year 2011 budget (the "Revised Fiscal Year 2011 Proposed Budget") on April 15 for City Council's consideration. Additionally, as in prior years, any necessary amendments to the Revised Fiscal Year 2011 Proposed Budget will be presented to the City Council in advance of the scheduled budget approval date for the Fiscal Year 2011 Budget. See "Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" for a description of the Fiscal Year 2011 Budget, as adopted.

Development of the Revised Fiscal Year 2011 Proposed Budget

On April 15, 2010, the Mayor presented the Revised Fiscal Year 2011 Proposed Budget for City Council's consideration. The Revised Fiscal Year 2011 Proposed General Fund Budget mitigates the approximate \$28 million additional budget shortfall identified for Fiscal Year 2011, which amount is in excess of the \$179.1 million deficit originally forecasted in the Fiscal Year 2011-2015 Five-Year Financial Outlook. (See "Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" herein.) The Revised Fiscal Year 2011 Proposed General Fund Budget reflects revenues and expenditures of \$1.09 billion, a decrease of \$37.4 million or a 3.3% decline from the Fiscal Year 2010 Original Adopted Budget for the General Fund. The Revised Fiscal Year 2011 Proposed General Fund Budget also includes 7,060 FTE positions, which is a decrease of 336 FTE positions from the General Fund Fiscal Year 2010 Original Adopted Budget.

In accordance with standard practice, the Mayor released the May Revision to the Revised Fiscal Year 2011 Proposed General Fund Budget on May 14, 2010 (the "Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision)") that updated revenue and expenditure projections for Fiscal Year 2011 and included necessary amendments to the Revised Fiscal Year 2011 Proposed General Fund Budget. The Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision) included revisions to the Revised Fiscal Year 2011 Proposed General Fund Budget, resulting in a \$3.3 million increase to the General Fund Budget. The May Revision includes budget adjustments to various departments that have arisen since the Fiscal Year 2011 Proposed Budget was released and corrects certain omissions or errors in the Proposed Budget. The budget adjustments to revenues and expenditures in the May Revision maintain a balanced budget.

The Revised Fiscal Year 2011-2015 Five-Year Financial Outlook incorporated the results of the Revised Fiscal Year 2011 Proposed Budget. The Revised Fiscal Year 2011-2015 Five-Year Financial Outlook reflects revenue adjustments mainly from property tax, sales tax and transient occupancy tax based on recent economic updates, actual receipts and revised projections for Fiscal Years 2011 to 2015. These major revenue sources are expected to improve, but still lag the overall economic recovery. Ongoing expenditure reductions that were included in the Revised Fiscal Year 2011 Proposed Budget were carried forward in the expenditure projections for Fiscal Years 2012-2015 in the Revised Fiscal Year 2011-2015 Five Year Financial Outlook. As a result, and in combination with modest revenue growth, the deficits for Fiscal Years 2012-2015 are projected to be less than were projected in the Fiscal Year 2011-2015 Five-Year Financial Outlook released in October 2009. The Revised Fiscal Year 2011-2015 Five Year Financial Outlook projects significantly reduced deficits for Fiscal Years 2012-2015 and no deficit for Fiscal Year 2011. The Revised Fiscal Year 2011-2015 Five-Year Financial Outlook reflects projected deficits of \$72.5 million, \$68.4 million,

\$69.9 million and \$48.1 million, respectively, for Fiscal Years 2012-2015. Pursuant to the City Charter, a balanced budget must be submitted annually to the City Council by April 15th and adopted in June.

Five Year Summary of Financial Results

Tables A-1 and A-2 present the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance of the City's General Fund for Fiscal Years ended 2005 through 2009 in the format presented in the City's CAFR for the respective Fiscal Years.

TABLE A-1
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years 2005 through 2009
(in thousands)
(audited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
ASSETS					
Cash or Equity in Pooled Cash & Investments ⁽¹⁾	\$32,966	\$23,281	\$97,347	\$91,439	\$86,667
Receivables:					
Taxes – Net	65,056	68,568	73,296	76,527	69,438
Accounts – Net	14,823	11,239	11,103	11,195	13,891
Claims – Net	31	38	88	78	130
Accrued Interest	891	1,434	3,466	2,395	906
From Other Funds ⁽²⁾	16,275	6,060	1,475	1,600	1,500
Investment in Joint Venture	1,542	2,063	2,097	1,981	1,824
Advances to Other Funds	300	300	300	--	--
Advances to Other Agencies	--	9	9	9	--
Prepaid Items ⁽³⁾	778	220	81	82	886
Cash and Investments for TRANS Repayment ⁽⁴⁾	--	--	142,000	116,383	--
Total Assets	132,662	113,212	331,262	301,689	175,242
LIABILITIES					
Accounts Payable ⁽³⁾⁽⁵⁾	5,054	5,642	9,112	8,005	3,789
Accrued Wages and Benefits	40,960	22,332	23,881	22,265	27,642
Due to Other Funds ⁽⁵⁾	--	--	--	2,479	2,095
Unearned Revenue	1,151	1,032	903	784	663
Deferred Revenue	23,464	21,580	23,318	27,375	26,661
Advances from Other Funds	985	985	--	--	--
Contracts and Notes Payable ⁽⁴⁾	--	--	142,000	116,000	--
Total Liabilities	71,614	51,571	199,214	176,908	60,850
FUND EQUITY					
Reserves:					
Reserved for Encumbrances ⁽⁶⁾	15,659	18,916	33,452	43,853	32,071
Reserved for Advances & Deposits	300	309	309	9	--
Reserved for Investment in Joint Venture	1,542	2,063	2,097	1,981	1,824
Unreserved:					
Designated for Unrealized Gains ⁽⁷⁾	--	--	--	2,737	1,943
Designated for Subsequent Years' Expenditures	1,954	469	1,159	862	207
Undesignated	41,593	39,884	95,031	75,339	78,347
Total Fund Equity	61,048	61,641	132,048	124,781	114,392
Total Liabilities & Fund Equity	\$132,662	\$113,212	\$331,262	\$301,689	\$175,242

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- (1) Continued expenditure savings due to vacancies and management imposed reductions in discretionary spending have resulted in the City maintaining a relatively stable cash position in the General Fund.
 - (2) Advances from the General Fund to Grant Funds to cover negative year end balances decreased in Fiscal Year 2007 due to improvements in the timing of grant invoicing.
 - (3) Fiscal Year 2009 year end Prepaid Items increased and Accounts Payable decreased due to prepayment of July rents and an early close of the Accounts Payable System to facilitate the transition to a new accounting system on July 1, 2009.
 - (4) Fiscal Year 2005, 2006 and 2009 TRANs were issued and repaid within the same Fiscal Year, while Fiscal Year 2007 and 2008 TRANs were 13 month notes.
 - (5) In Fiscal Year 2008, Accounts Payable decreased while Due to Other Funds increased due to a change in the treatment of San Diego Data Processing Corporation ("SDDPC") accruals. Because SDDPC is a blended component unit of the City, the City began booking accruals between the City and SDDPC as Due To/Due From rather than as receivables/payables.
 - (6) During Fiscal Year 2007, the Streets Division became part of the General Fund, resulting in an increase in ending encumbrances. In Fiscal Year 2009, encumbrances decreased as a result of revised procedures for releasing encumbrances in the General Fund, as well as the transfer of slurry seal costs and related encumbrances from the Streets Division to Grant Funds.
 - (7) Beginning in Fiscal Year 2008, a decrease in interest rates led to an increase in the price of fixed income securities, which resulted in unrealized gains. In Fiscal Year 2009, a significant amount of the City's unrealized gains were realized through the City Pool's normal rebalancing process, resulting in an overall decrease in Designated for Unrealized Gains at year end.

Source: Fiscal Year 2005 - 2009 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego

TABLE A-2
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years 2005 through 2009
(in thousands)
(audited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
REVENUES:					
Property Taxes ⁽¹⁾	\$223,500	\$322,087	\$361,062	\$384,273	\$398,743
Sales Taxes ⁽²⁾⁽³⁾⁽⁴⁾	95,376	110,556	233,385	235,579	212,918
In-Lieu Sales Taxes ⁽³⁾⁽⁵⁾	48,220	45,433	--	--	--
Transient Occupancy Taxes ⁽⁶⁾	63,910	72,126	80,703	83,730	73,765
Other Local Taxes	73,456	72,102	74,069	71,594	72,432
Licenses and Permits	28,459	31,913	31,475	33,815	31,249
Fines, Forfeitures and Penalties	31,857	32,346	40,346	31,083	32,467
Revenues from Use of Money and Property	33,015	35,872	42,157	44,577	41,461
Revenues from Federal Agencies	6,888	3,755	5,066	4,086	4,268
Revenues from Other Agencies ⁽¹⁾⁽⁷⁾	74,571	12,594	16,644	14,236	8,915
Charges for Current Services ⁽⁸⁾	105,293	91,514	85,026	87,263	133,117
Other Revenue	<u>2,778</u>	<u>2,864</u>	<u>2,730</u>	<u>3,297</u>	<u>5,296</u>
Total Revenues	<u>787,323</u>	<u>833,162</u>	<u>972,663</u>	<u>993,533</u>	<u>1,014,631</u>
EXPENDITURES:					
Current:					
General Government and Other Support Services ⁽⁹⁾	164,892	183,143	189,203	225,570	243,057
Neighborhood Services	25,137	19,702	18,339	18,563	17,255
Public Safety	478,299	509,264	517,522	562,975	584,986
Parks, Recreation and Culture	106,274	108,153	112,967	119,125	116,391
Transportation ⁽¹⁰⁾	21,448	23,032	59,516	66,162	72,635
Sanitation and Health ⁽¹¹⁾	41,024	41,720	39,391	48,995	67,867
Debt Service:					
Principal Retirement ⁽¹²⁾	2,381	2,504	2,604	2,204	818
Interest ⁽¹³⁾	<u>1,811</u>	<u>3,416</u>	<u>6,519</u>	<u>5,720</u>	<u>3,106</u>
Total Expenditures	<u>841,266</u>	<u>890,934</u>	<u>946,061</u>	<u>1,049,314</u>	<u>1,106,115</u>
EXCESS (DEFICIENCY) OF REVENUES (UNDER) OVER EXPENDITURES	<u>(53,943)</u>	<u>(57,772)</u>	<u>26,602</u>	<u>(55,781)</u>	<u>(91,484)</u>
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	7,039	2,989	4,181	5,896	6,267
Transfers from Other Funds ⁽¹⁴⁾	58,913	71,672	86,980	94,562	105,059
Transfers to Proprietary Funds	(1,185)	(246)	(1,373)	(5,358)	(4,043)
Transfers to Other Funds ⁽¹⁵⁾	(14,276)	(21,946)	(46,018)	(46,470)	(26,031)
Net Income (Loss) from Joint Venture	20	522	35	(116)	(157)
Proceeds from Capital Leases ⁽¹⁶⁾	<u>3,258</u>	<u>5,374</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>53,769</u>	<u>58,365</u>	<u>43,805</u>	<u>48,514</u>	<u>81,095</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(174)</u>	<u>593</u>	<u>70,407</u>	<u>(7,267)</u>	<u>(10,389)</u>
FUND BALANCE AT JULY 1	<u>61,222</u>	<u>61,048</u>	<u>61,641</u>	<u>132,048</u>	<u>124,781</u>
FUND BALANCE AT FOLLOWING JUNE 30	<u>\$61,048</u>	<u>\$61,641</u>	<u>\$132,048</u>	<u>\$124,781</u>	<u>\$114,392</u>

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- (1) Beginning in Fiscal Year 2006 , the Educational Revenue Augmentation Funds (“ERAF”) III monies received from the State (\$70,550,958) intended to replace the Motor Vehicle License Fees backfill were classified as Property Tax revenue. This revenue was previously classified as Motor Vehicle License Fees, under “Revenues from Other Agencies”.
 - (2) Includes Proposition 172 Safety Sales Tax and “triple flip amounts”. See “Major Revenue Sources-Sales Tax/Triple Flip” herein. Beginning with Fiscal Year 2007, Sales Tax revenue is recorded entirely in the General Fund and then transferred out, as an expense, to the Sales Tax supported funds. Prior to Fiscal Year 2007, Sales Tax was allocated to the Sales Tax supported funds as Sales Tax revenue.
 - (3) Beginning in Fiscal Year 2007, “In-Lieu Sales Tax” is reported with Sales Tax revenue. In prior years, it was received with the Property Tax apportionments and reported separately from Sales Tax.
 - (4) Sales Tax revenue decreased by \$22.7 million in Fiscal Year 2009 due to the economic downturn.
 - (5) In Lieu Sales Tax is the property tax reimbursement that the City receives as a result of the triple-flip (triple-flip is the shift enacted by the State in Fiscal Year 2005 whereby local governments shift ¼-cent of their Sales and Use Tax to the State in exchange for an equivalent amount of property tax).
 - (6) Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy); the balance (5.0% of the 10.5% levy) is allocated to Special Promotional Programs. Of this 5% balance, approximately 1% may be budgeted in the General Fund as discretionary revenue and for Special Promotional Programs in the General Fund. Transient Occupancy Tax decreased by \$10.0 million in Fiscal Year 2009 due to the economic downturn.
 - (7) Revenue from Other Agencies decreased in Fiscal Year 2009 due to a decrease in revenue from California State Grants. In Fiscal Year 2008, the City received a large reimbursement of \$5.4 million for debris removal related to the 2007 October Wildfires.
 - (8) Charges for Current Services increased by \$45.9 million in Fiscal Year 2009 due to the consolidation of the Engineering and Capital Projects Department into the General Fund. This creates revenue through personnel charges against capital projects, and the corresponding return of revenue to the General Fund.
 - (9) General Government and Other Support Services increased in Fiscal Year 2009 due to the consolidation of the Engineering and Capital Projects Department into the General Fund. There were also decreases in this category due to the reclassification of Storm Water Department into Sanitation and Health.
 - (10) Transportation increased in Fiscal Year 2009 due to the consolidation of the Engineering and Capital Projects Department into the General Fund.
 - (11) Sanitation and Health increased due to the addition of the Storm Water Department, previously reported within General Government and Other Support Services.
 - (12) Principal Retirement decreased in Fiscal Year 2009 due to Police and Fire Master Leases being funded from the Seized Asset Fund instead of the General Fund.
 - (13) The majority of the decrease in Interest expense in Fiscal Year 2009 is due to the Fiscal Year 2009 TRANs being held for a shorter time; it was issued and repaid within Fiscal Year 2009, while the Fiscal Year 2007 and 2008 TRANs were 13 month notes. (TRANs for Fiscal Years 2005 and 2006 were issued and repaid within the same Fiscal Year) A second reason for the decrease in Interest is due to Police and Fire Master Leases being moved from the General Fund and funded from the Seized Asset Fund.
 - (14) Increase in Transfers from Other Funds is primarily due to the State of California delaying \$4.5 million in Fiscal Year 2008 Gas Tax payments until Fiscal Year 2009.
 - (15) The majority of the variance between Fiscal Year 2009 and Fiscal Year 2008 in Transfers to Other Funds is due to the transfers in Fiscal Year 2008 to Capital Improvement Funds from the Storm Water Department and Streets Division. These transfers did not recur in Fiscal Year 2009.
 - (16) The General Fund had no new Capital Leases to report in Fiscal Years 2007 through 2009.

Source: Fiscal Year 2005 - 2009 Comprehensive Annual Financial Reports, Comptroller’s Office, City of San Diego

Operating Budget Summary

The City's General Fund Fiscal Year 2010 Original Adopted Budget, together with actual results on a budgetary basis for Fiscal Year 2009, is set forth in the following Table A-3-1. The Fiscal Year 2010 Revised Adopted Budget and Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision) dated May 14, 2010 are set forth in the following Table A-3-2. See "Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" for a description of the Fiscal Year 2011 Budget, as adopted.

TABLE A-3-1
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY
Fiscal Years 2009-2010
(in thousands)

	<u>Fiscal Year 2009</u> <i>Actuals on a Budgetary Basis⁽⁸⁾</i>	<u>Fiscal Year 2010</u> <i>Original Adopted Budget (July 1, 2009)</i>
REVENUE SOURCES		
Property Tax	\$398,743	\$382,628
Sales Tax ⁽¹⁾	212,918	217,199
Property Transfer Tax	4,592	4,511
Transient Occupancy Tax ⁽²⁾	73,765	75,907
Licenses and Permits	31,249	32,374
Fines, Forfeitures, and Penalties	32,467	32,294
Interest Earnings ⁽³⁾	384	4,092
Franchises	67,840	73,717
Other Rents and Concessions	41,868	45,990
Motor Vehicle License Fees	4,650	3,900
Revenue from Other Agencies	8,533	8,472
Charges for Current Services	133,117	138,571
Transfers from Other Funds	111,326	108,493
Other Revenue	5,296	1,558
Net Income (Loss) from Joint Venture	(157)	0
Total General Fund Revenues and Transfers⁽⁴⁾	<u>\$1,126,591</u>	<u>\$1,129,706</u>
EXPENDITURES		
Public Safety	\$588,103	\$574,794
Parks, Recreation, Culture and Leisure	120,573	122,104
Sanitation and Health	81,462	37,346
Transportation	75,562	41,153
Neighborhood Services	19,416	19,317
General Government and Support	249,134	264,563
Debt Service ⁽⁵⁾	3,924	9,751
Transfers	30,074	60,679
Total General Fund Expenditures and Transfers	<u>\$1,168,248⁽⁶⁾⁽⁷⁾</u>	<u>\$1,129,706</u>

(1) Includes Proposition 172 Safety Sales Tax and “triple flip” amounts. See “Major Revenue Sources – Sales Tax/Triple Flip” herein.

(2) Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy); the balance (5.0% of the 10.5% levy) is allocated to Special Promotional Programs. Of this 5% balance, approximately 1% may be budgeted in the General Fund as discretionary revenue and for Special Promotional Programs in the General Fund.

(3) Fiscal Year 2010 Original Adopted Budget does not include interest earnings from the Tax and Revenue Anticipation Notes Fund, which relates to the Fiscal Year 2009 TRAN borrowing which matured on July 1, 2009.

(4) Line items may not add to totals due to independent rounding.

(5) Fiscal Year 2010 Original Adopted Budget includes only the General Fund portion of debt service interest expenses transferred to the Tax and Revenue Anticipation Notes Fund.

(6) Fiscal Year 2009 Actuals on a Budgetary Basis does not include \$10.0 million General Fund Appropriated Reserve. An Appropriated Reserve may be maintained for the purpose of paying for unanticipated operational needs that arise during the Fiscal Year, but which were not anticipated during the budget process. The Appropriation Ordinance authorized and directed that the expenditure appropriations of the General Fund Appropriated Reserve be increased by \$10.0 million from the General Fund Unappropriated Reserve.

(7) The excess of budgetary expenditures over revenues is primarily the result of outstanding encumbrances as of June 30, 2009. In addition, the General Fund experienced an approximate \$10.4 million reduction of fund equity in Fiscal Year 2009.

(8) Including certain funds that were excluded from the Fiscal Year 2009 General Fund adopted budget for administrative purposes.

Source: Fiscal Year 2009: Comprehensive Annual Financial Reports, Comptroller’s Office, City of San Diego
Fiscal Year 2010 Original Adopted Budget, Financial Management, City of San Diego

TABLE A-3-2
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY
Fiscal Years 2010-2011
(in thousands)

	<i>Fiscal Year 2010⁽¹⁾</i>	<i>Fiscal Year 2011⁽¹⁾</i>
	<u>Revised Adopted Budget (December 9, 2009)</u>	<u>Revised Proposed Budget (May 14, 2010)⁽²⁾</u>
REVENUE SOURCES		
Property Tax ⁽³⁾	\$ 358,048	\$ 390,061
Sales Tax ⁽⁴⁾	217,199	193,758
Property Transfer Tax	4,511	4,686
Transient Occupancy Tax ⁽⁵⁾	75,907	66,115
Franchises	73,717	67,185
Motor Vehicle License Fees	3,900	3,143
Interest Earnings	4,091	1,656
Licenses & Permits	32,436	31,596
Fines, Forfeitures, and Penalties	32,377	32,796
Revenue from Money & Property	41,727	43,612
Revenue from Federal Agencies	2,244	1,872
Revenue from Other Agencies	1,031	330
Charges for Current Services	153,548	144,960
Other Financial Sources & Uses	107,197	111,248
Other Revenue	<u>4,062</u>	<u>2,518</u>
Total General Fund Revenues and Transfers	<u>\$1,111,995</u>	<u>\$1,095,534</u>
EXPENDITURES		
Public Safety	\$561,622	\$556,371
Parks & Recreation	118,992	117,153
Sanitation and Health	36,936	32,470
Transportation	45,577	43,511
Neighborhood Services	18,901	17,414
Operations Support	260,192	266,473
Debt Service	9,751	10,569
Transfers	<u>60,024</u>	<u>51,573</u>
Total General Fund Expenditures	<u>\$1,111,995</u>	<u>\$1,095,534</u>

- ⁽¹⁾ Actual figures for prior years cannot be shown in same categorization as budgeted figures due to budget software change.
- ⁽²⁾ See "Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" for a description of the Fiscal Year 2011 Budget, as adopted.
- ⁽³⁾ Fiscal Year 2010 Revised Adopted Budget reflects a \$24.6 million reduction to property tax due to the placement of certain revenues in a special set-aside fund for Fiscal Year 2011 deficit mitigation efforts. Full property tax projection for Fiscal Year 2010 is \$382.6 million. See "Fiscal Year 2010 Year-End Budget Monitoring Report" herein.
- ⁽⁴⁾ Includes Proposition 172 (safety sales tax) revenue and "Triple Flip" amounts. See "Major Revenue Sources - Sales Tax/Triple Flip" herein.
- ⁽⁵⁾ Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy); the balance (5.0% of the 10.5% levy) is allocated to Special Promotional Programs. Of this 5% balance, approximately 1% may be budgeted in the General Fund as discretionary revenue and for Special Promotional Programs in the General Fund.

Source: Financial Management, City of San Diego.

Fiscal Year 2009 (Actuals on a Budgetary Basis)

The actual total General Fund revenues and transfers on a budgetary basis, as shown in Table A-3-1, for Fiscal Year 2009 equaled \$1.127 billion, which represents an increase of \$35 million or 3.2% more than the actual results for Fiscal Year 2008 and a decrease of \$67 million or 5.6% less than the original General Fund budget for Fiscal Year 2009, and includes certain funds that were excluded from the Fiscal Year 2009 General Fund Adopted Budget for administrative purposes.

Property tax, sales tax (including Proposition 172 safety sales tax), transient occupancy tax and franchise fees comprise a significant proportion of General Fund revenues of the City, accounting for approximately 66.8% of such revenues in Fiscal Year 2009 (declining to an estimated 66.3% in the Fiscal Year 2010 Annual Budget and projected 65.7% in the Fiscal Year 2011 Proposed Budget). See “Major Revenue Sources” below for a further discussion of these revenue sources. The following table shows the change in actual major revenue sources for Fiscal Year 2009 compared with Fiscal Year 2008.

Change in General Fund Major Revenue Sources Actual Results Fiscal Year 2009 Compared With Fiscal Year 2008⁽¹⁾

Property Tax	3.8%
Sales Tax ⁽²⁾	(9.6)%
Transient Occupancy Tax	(11.9)%
Franchise Fees	5.0%

⁽¹⁾ The above percentages reflect General Fund year over year percent changes in these revenue sources

⁽²⁾ Includes Proposition 172 Safety Sales Tax and “triple flip” amounts. See “Major Revenue Sources—Sales Tax/Triple Flip” herein.

Source: City of San Diego, Comptroller’s Office.

Actual total General Fund expenditures and transfers, presented in a budget format equivalent on Table A-3-1, for Fiscal Year 2009 equaled \$1.168 billion, an increase of \$23 million or 2.0% more than the actual results for Fiscal Year 2008 and a decrease of \$70 million or 5.7% less than the original General Fund budget for Fiscal Year 2009, including certain funds that were excluded from the Fiscal Year 2009 General Fund adopted budget for administrative purposes.

Fiscal Year 2010 Original Adopted Budget

As shown on Table A-3-1, under the Fiscal Year 2010 Original Adopted Budget of \$2.95 billion, General Fund budgeted revenues totaled \$1.13 billion, a decrease of \$62.90 million or 5.3% from the Fiscal Year 2009 Original Adopted Budget. The Fiscal Year 2010 Original Adopted General Fund budget included 7,397 FTE positions, a decrease of 148 FTE positions from the General Fund Fiscal Year 2009 Original Adopted Budget. The Fiscal Year 2010 Original Adopted General Fund budget added staff positions for new facilities and for existing facilities that were only partially staffed during the prior Fiscal Year, as well as adding certain other priority staff positions.

Fiscal Year 2010 Revised Adopted Budget

On November 10, 2009, there was a revenue and expenditure adjustment related to slurry seal projects that increased the General Fund budget by approximately \$5.0 million. In addition, on December 9, 2009, the City's Fiscal Year 2010 Original Adopted Budget was amended. Such amendment included a revenue increase of \$1.9 million and an expenditure decrease of \$22.7 million, resulting in a projected net savings of \$24.6 million to the General Fund. The Fiscal Year 2010 Revised Adopted Budget (with the savings of \$24.6 million) was approved early in Fiscal Year 2010 to address a projected Fiscal Year 2011 General Fund deficit of \$179.1 million outlined in the City's Fiscal Year 2011-15 Five-Year Financial Outlook. This projected budget deficit was mitigated in the December 2009 budget action through a variety of one-time and on-going adjustments. As described under "Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" below, the City's approach to addressing the projected Fiscal Year 2011 deficit included amending the Fiscal Year 2010 Original Adopted Budget to increase revenues and reduce expenditures, as described earlier. The resulting savings in Fiscal Year 2010, estimated at \$24.6 million, will be set aside in a special reserve and are included as revenue in the Revised Fiscal Year 2011 Proposed General Fund Budget. See "Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" below.

Fiscal Year 2010 Year-End Budget Monitoring Report

On May 20, 2010, the City issued its Fiscal Year 2010 Year-End Budget Monitoring Report (the "Fiscal Year 2010 Year-End Monitoring Report"), which projects the estimated year-end revenues and expenditures for Fiscal Year 2010 based on actual expenditure and revenue information through March 31, 2010. The Fiscal Year 2010 Year-End Monitoring Report states that the \$11.2 million year-end budget deficit projected in the Fiscal Year 2010 Mid-Year Monitoring Report, dated February 25, 2010 (the "Fiscal Year 2010 Mid-Year Monitoring Report"), has been addressed through \$14.2 million of budget solutions, such as selective filling of vacant positions, controlling travel and contractual service expenses, improved efficiencies and the identification of additional General Fund revenues. However, such cost savings were exceeded by decreased franchise fees and department revenues in the third quarter, resulting in a projected Fiscal Year 2010 General Fund year-end balance of \$7.8 million of expenditures in excess of revenue.

Fiscal Year 2010 year-end revenues are projected to be \$66.8 million below the Fiscal Year 2010 Revised Adopted Budget of \$1.11 billion, which represents a 5% decrease from the Fiscal Year 2010 Revised Adopted Budget. Year-end expenditures are projected to be \$27.5 million, or 2%, below the Fiscal Year 2010 Revised Adopted Budget, which partially offsets the projected revenue shortfall. The \$27.5 million of expenditure savings, combined with the release of the \$31.5 million carry forward of prior year appropriations described below, offset the projected revenue shortfall of \$66.8 million, resulting in the \$7.8 million net shortfall.

The City encumbrance policy changed during Fiscal Year 2010 with the implementation of a new accounting system. As a result, in this transition year, all prior year encumbrances are being expensed against the current year budget. The City has \$31.5 million of prior year appropriations that will be released to offset the expenditures from prior year encumbrances that are affecting the current year budget. The release of \$31.5 million of carry-forward appropriations from Fiscal Year

2009 will offset, in part, the projected revenue deficit, resulting in the approximately \$7.8 million net shortfall of revenues from expenditures in Fiscal Year 2010 indicated in the Fiscal Year 2010 Year-End Monitoring Report.

On June 9, 2010, the City issued the Fiscal Year 2010 Year-End General Fund Solution and Appropriation Adjustments Report. This report provided an updated projected net shortfall of \$5.2 million for the General Fund based on additional revenues and expenditure savings identified since the release of the Fiscal Year 2010 Year-End Monitoring Report. On June 22, 2010, City Council approved Fiscal Year 2010 year-end actions, including the de-appropriation of \$5.2 million of General Fund Contributions to the CIP Fund budget from capital improvement projects in order to transfer the associated cash back to the General Fund to address the updated projected shortfall. Also, in connection with the adoption of the Fiscal Year 2011 budget on June 14, 2010, the City Council allocated to the General Fund Appropriated Reserve the majority of the \$3.8 million Fiscal Year 2011 savings identified in the Fiscal Year 2010 Year-End General Fund Solution and Appropriation Adjustments Report.

As of June 23, 2010, the estimated General Fund reserve balance is \$77.1 million, consisting of an unallocated reserve of \$22.1 million and an emergency reserve of \$55.0 million. The General Fund reserve balance is over 7% of projected General Fund revenue (including the \$24.6 million of property tax revenue set-aside for Fiscal Year 2011) and satisfies the City's reserve goal for Fiscal Year 2010.

Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget

On December 9, 2009, the City Council adopted the Fiscal Year 2011 Proposed General Fund Budget. The Fiscal Year 2011 Proposed General Fund Budget reflects revenues and expenditures totaling \$1.11 billion, representing a decrease of \$21.4 million or a 1.9% decline from the Fiscal Year 2010 Original Adopted Budget. The Fiscal Year 2011 General Fund Budget was adopted early to mitigate a projected deficit of \$179 million in Fiscal Year 2011 identified in the Fiscal Year 2011-15 Five Year Financial Outlook issued in October 2009. The projected deficit in Fiscal Year 2011 is primarily due to the combination of a projected decline in some major revenue sources, and a projected increase in expenditures resulting from the ARC to the City's pension system (the "Pension System"), and the remaining balance for the McGuigan Settlement (herein defined). (See "LABOR RELATIONS; SDCERS; OTHER POST EMPLOYMENT BENEFITS – City Contributions to SDCERS" herein.) The Fiscal Year 2011 Proposed General Fund Budget included one-time budget adjustments totaling \$96.6 million, such as: a Fiscal Year 2011 suspension of reserve contributions to the General Fund, Public Liability, and Workers' Compensation reserves; a transfer to the General Fund of undesignated fund balances that were set aside for purposes that are no longer relevant; a restructuring of the McGuigan Settlement payment over several years; and \$24.6 million in savings set aside from Fiscal Year 2010, as described under the "Fiscal Year 2010 Revised Adopted Budget." The Fiscal Year 2011 on-going budget adjustments of approximately \$82.6 million include a reduction of personnel expenditures from the elimination of 486 General Fund FTE positions and non-personnel expenditures.

In response to additional information received subsequent to the adoption of the Fiscal Year 2011 Proposed General Fund Budget by the City Council on December 9, 2009, on April 15, 2010, the

Mayor presented the Revised Fiscal Year 2011 Proposed Budget for City Council’s consideration. The Revised Fiscal Year 2011 Proposed General Fund Budget reflects revenues and expenditures totaling \$1.09 billion, representing a decrease of \$37.4 million or a 3.3% decline from the Fiscal Year 2010 Original Adopted Budget. The Fiscal Year 2011 Revised Proposed Budget addresses an additional \$28 million shortfall caused by the slow economic recovery, certain revenue losses and adjustments to the ARC payment. The shortfall is addressed through departmental savings in Fleet costs (\$11.0 million), departmental reductions in supplies and services (\$7.5 million), savings in annual retiree health care costs (\$3.0 million), and restructuring of the McGuigan Settlement agreement (\$6.7 million). On June 4, 2010, the court approved the modification of the McGuigan judgment, which will allow for the judgment to be sold to Bank of America. The City expects to complete the sale on or before June 30, 2010. Under the terms of the sale, the bank will pay the remaining portion of the amount due to SDCERS under the McGuigan Settlement and the City will repay the bank over a four year term beginning in Fiscal Year 2012. The General Fund portion of equal annual payments over four years is expected to be approximately \$8 million per year.

In accordance with standard practice, the Mayor released the Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision) that updated revenue and expenditure projections for Fiscal Year 2011 and included necessary amendments to the Revised Fiscal Year 2011 Proposed General Fund Budget. The Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision) included revisions to the Revised Fiscal Year 2011 Proposed General Fund Budget, resulting in a \$3.3 million increase to the General Fund Budget. See “Development of the Revised Fiscal Year 2011 Proposed Budget” herein.

Presented below are budgeted growth (or decline) rates in the Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision) for the major revenues based on the Fiscal Year 2010 Year-End Monitoring Report.

**Projected Changes in General Fund Major Revenue Sources
Revised Fiscal Year 2011 Proposed Budget (May Revision) Compared With Fiscal
Year 2010 Year-End Monitoring Report Projections⁽¹⁾**

Property Tax	(0.1)%
Sales Tax ⁽²⁾	1.2%
Transient Occupancy Tax	0.2%
Franchise Fees	1.4%

⁽¹⁾ The above percentages reflect General Fund percent changes in these revenue sources

⁽²⁾ Includes Proposition 172 Safety Sales Tax and “triple flip” amounts. See “Major Revenue Sources—Sales Tax/Triple Flip” herein.

Source: City of San Diego, Financial Management Department.

On June 14, 2010, City Council voted to adopt the Fiscal Year 2011 Budget, which included the following modifications to the Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision): (i) decrease of \$2.6 million to the ARC amount in connection with the SDCERS Board of Administration action on May 28, 2010 (see Table A-8, footnotes 2 and 4), (ii) addition of a \$3.7 million appropriated reserve for unanticipated, non-emergency needs identified during Fiscal Year

2011, (iii) decrease in expense by approximately \$1.2 million, which resulted from the refunding of previously outstanding debt obligations with proceeds of the City's Lease Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds"). The foregoing modifications, together with other budgetary actions taken by City Council, resulted in a net increase to the Revised Fiscal Year 2011 Proposed General Fund Budget (May Revision) by approximately \$700,000. The City's aggregate Fiscal Year 2011 Budget, as adopted, is \$1.096 billion.

Fiscal Year 2010 and 2011 State Budget Impacts. While the City's Fiscal Year 2010 Revised Adopted Budget assumes the City will not receive its share of certain State bond proceeds for discretionary street improvement projects, it does assume that sales tax and property tax revenues and other receipts including certain gas tax transfers will not be disrupted by the State's fiscal crisis. It is unknown whether the State will issue registered warrants, as it did in Fiscal Year 2009, and how such issuance, if any, may impact the City's budget.

As with other local governments in the State, the City's fiscal challenges have been exacerbated by the State's ongoing budget crisis. The State legislature suspended the requirements of Proposition 1A (2004) in an effort to balance the State's Fiscal Year 2010 budget. Proposition 1A is intended to prevent local revenues from being taken by the State; however, Proposition 1A can be suspended with the declaration of a fiscal emergency by the Governor and a vote of two-thirds of the Legislature. In Fiscal Year 2010, the State borrowed approximately \$1.9 billion in property tax revenue from local jurisdictions to help balance the State budget; the City's share of this was approximately \$35.8 million. However, the City recovered this property tax revenue during Fiscal Year 2010 through a securitization program established by the California Statewide Communities Development Authority. See "LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 1A," herein.

The City has reviewed the State's Proposed 2011 Budget, which stated that the State faced a budget deficit of \$19.9 billion in Fiscal Year 2011 absent corrective action. Fiscal measures taken by the State are being monitored by the City for their potential effects on revenues and expected cash flows, including the State's potential appropriation of local gas tax revenues.

While not budgeted in the General Fund, the City anticipates that \$13.3 million in Proposition 42 'replacement revenue' (*i.e.*, revenues resulting from the elimination of the 6% tax on each gallon of gasoline in favor of a flat tax of 17.3 cents per gallon, adjusted annually for inflation) will be received in Fiscal Year 2011 and transferred to the General Fund for reimbursement of transportation projects. For Fiscal Year 2011, the City budgeted \$21.6 million in Highway User's Tax Account ("HUTA") revenues; of the \$21.6 million, the General Fund is expected to receive \$20.1 million and the balance of \$1.5 million to other funds of the City. If the City does not receive the HUTA revenues from the State, the General Fund would be responsible for funding the \$1.5 million expected to go to the other funds. On May 14, 2010, the Governor released the May Revision to the State's Proposed 2011 Budget (the "State May Revision"). The State May Revision includes many proposals that are included in the State's Proposed 2011 Budget. The State May Revision makes no change in the expected revenues to be received by the City from Proposition 42 replacement revenues and HUTA revenues. However, such amounts are subject to redirection to the State's General Fund with the majority approval of the State legislature. If such budgetary measures are taken by the State legislature, the City could receive a repayment obligation from the State for lost

revenue amounts. The State is not obligated to pay interest on such borrowed funds and the State could borrow funds from cities every fiscal year.

The City also expects to receive in Fiscal Year 2011 a disbursement of \$19.6 million in Proposition 1B (known as the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act) funding, \$3.3 million of which is budgeted in General Fund and \$16.3 million of which will be spent for capital improvement projects. In addition, the City expects to receive in Fiscal Year 2011 State money restricted for specific purposes. The expected annual payment for the Citizen's Options for Public Safety included in the budget is \$1.6 million and will be used for funding law enforcement.

Given the current state of the State's economy and the projected imbalance in the State's budget, the City cannot fully anticipate the final resolution of the State's budget challenges and its impacts on the revenues or expenditures of the City. The City cannot predict the extent of any additional fiscal problems that will be encountered in this or in any future fiscal years, and, it is not clear what measures will be taken by the State or federal government to address the continuing economic downturn. Future State budgets could be affected by national economic conditions and the factors over which the City will have no control. Also, the City cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current and future budget deficits or the impact that such actions will have on the City's finances and operations. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its budget. See "State Budget" herein.

Major Revenue Sources

Property Taxes. Property tax revenue is the City's largest revenue source, representing 32.2% of the total General Fund revenue estimated for the Fiscal Year 2010 Revised Adopted Budget. The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. 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, periodically and typically pursuant to a published schedule. 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, the City believes that General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits as discussed under the section "LIMITATIONS ON TAXES AND APPROPRIATIONS."

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

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

Property taxes on the unsecured roll are due following the January 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) commencing 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) seizing and selling 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 or decrease 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 ("SDG&E"). 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.

Property taxes allocated to the City include an amount to compensate cities for the loss of motor vehicle license fees. Motor Vehicle License Fees ("MVLFF" or "VLF") are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles at the time of registration. The fees are then forwarded to the State Controller's Office, which allocates the funds to local governments per capita on a monthly basis.

Beginning in 1999, the MVLFF underwent a series of offsets, first initiated by the State legislature as part of the 1998-1999 Budget agreement. These offsets ultimately resulted in a 67.0% reduction in the effective MVLFF rate, from 2.0% of a vehicle's value to 0.65%. To compensate cities and counties for the tax offset, the State began providing State General Fund revenue to cities and counties on a dollar-for-dollar basis, otherwise known as the MVLFF backfill. As part of the Fiscal Year 2005 State Budget agreement, the MVLFF rate was statutorily reduced to 0.65%, thereby eliminating the MVLFF backfill. Cities were compensated for the loss in MVLFF revenue with increased property tax revenues. Although the MVLFF rate has subsequently increased, the City does not share in this increase.

Fiscal Year 2010 Property Tax Budget. The Fiscal Year 2010 Revised Adopted Budget includes \$358.0 million in property tax revenues, consisting of \$253.0 million of 1% property tax levy and \$105.0 million of “in-lieu of VLF” property tax revenue. The annual projection for property tax revenue in the Fiscal Year 2010 Year-End Monitoring Report is \$366.1 million (including “in-lieu of VLF” property tax revenue) which is \$8.0 million above the amount set forth in the Fiscal Year 2010 Revised Adopted Budget. Total projection for property tax revenue in the Revised Fiscal Year 2010 Adopted Budget is \$382.6 million; however, \$24.6 million in property tax revenue is to be placed in a set aside fund as a part of the deficit mitigation efforts for Fiscal Year 2011. The Fiscal Year 2010 projection of annual property tax revenue in the Fiscal Year 2010 Year-End Monitoring Report, including this set aside amount, is \$390.6 million. The increased property tax revenue projection is based on updated assessed valuation information (“AV”) provided by the County of San Diego Assessor’s Office (the “County Assessor’s Office”) after the City’s Fiscal Year 2010 Original Adopted Budget was adopted. The preliminary estimate of the change in AV in Fiscal Year 2010 (including redevelopment areas) was a negative 3.4%; this was later revised by the San Diego County Assessor’s Office to a negative 0.8%. A number of factors contributed to the decline in AV, such as falling residential real estate prices and increased foreclosures. In addition, the increased number of reassessment applications to the Assessor’s Office has contributed to increased refunds to homeowners and less revenue to the City. As of February 2010, these refunds have totaled \$2.5 million, compared to \$950,000 for a similar time period in Fiscal Year 2009 and \$614,000 in Fiscal Year 2008. The 1.0% property tax levy is placed on the total AV of all commercial, residential, and industrial properties in the City. Due to the downturn on the real estate market, the average home price dropped nearly 25 percent since December 2007 through February of 2010. According to the County Assessor’s Office, the total AV in Fiscal Year 2010 has dropped by \$1.4 billion or 0.8 percent from the previous Fiscal Year. As described under the subheading “Fiscal Year 2010 Revised Adopted Budget,” \$24.6 million will be set aside in a special reserve fund to support Fiscal Year 2011 expenditures. This set aside amount is reflected in the Fiscal Year 2010 Year-End Budget Monitoring Report as a reduction in the General Fund property tax budgeted amount.

Following the suspension of Proposition 1A (2004), in Fiscal Year 2010, the State borrowed \$1.9 billion in property tax revenue from local jurisdictions to help balance the State budget; the City’s share of this is approximately \$35.8 million. However, the City fully recovered this property tax revenue during Fiscal Year 2010 through a securitization program conducted by the California Statewide Communities Development Authority. (See “LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 1A,” herein.)

Table A-4 presents the assessed valuation within the City for each of the last ten Fiscal Years.

TABLE A-4
ASSESSED VALUATION⁽¹⁾⁽²⁾⁽³⁾
Fiscal Years 2001 through 2010
(in thousands except for percentages)
(unaudited)

<i>Fiscal Year</i>	<i>Secured Property</i>	<i>Unsecured Property</i>	<i>Gross Total</i>	<i>Less Exemptions⁽⁴⁾</i>	<i>Net Assessed Valuations⁽⁵⁾</i>	<i>Annual Assessed Valuation % Change</i>
2001	\$ 82,311,127	\$6,120,888	\$ 88,432,015	\$4,364,856	\$ 84,067,159	--
2002	89,480,011	6,747,650	96,227,660	4,712,944	91,514,716	8.86
2003	96,751,483	6,838,410	103,589,893	4,336,637	99,253,256	8.46
2004	105,730,848	7,167,011	112,897,859	5,171,957	107,725,902	8.54
2005	115,305,637	6,724,787	122,030,424	4,872,423	117,158,002	8.76
2006	128,935,155	7,067,580	136,002,735	5,684,279	130,318,456	11.23
2007	142,036,802	7,629,006	149,665,808	5,867,546	143,798,261	10.34
2008	154,653,913	7,410,589	162,064,502	6,329,714	155,734,787	8.30
2009	162,580,727	7,880,341	170,461,068	6,795,274	163,665,794	5.09
2010	161,637,831	8,164,394	169,802,225	7,157,357	162,644,869	-0.62

⁽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, 2009 is the official assessment date for property taxes due during Fiscal Year 2010.

⁽²⁾ Does not include State assessed utility property.

⁽³⁾ The table differs from what is presented in the unaudited statistical section of the Fiscal Year 2009 CAFR to reflect uniform reporting methodology and to accurately allocate Redevelopment base year values.

⁽⁴⁾ Inclusive of homeowners' exemptions.

⁽⁵⁾ Net assessed valuation for tax purposes.

Source: MuniServices, LLC.

Table A-5 shows the City's secured tax collections for each of the ten Fiscal Years shown.

TABLE A-5
SECURED TAX LEVIES AND COLLECTIONS⁽¹⁾
Fiscal Years 2000 through 2009
(in thousands except for percentages)
(unaudited)

<u>Fiscal Year</u>	<u>Tax Levy</u>	<u>Current Year Collections</u>	<u>Current Year Collections as Percentage of Current Tax Levy</u>	<u>Total Tax Collections⁽²⁾</u>	<u>Total Collections as Percentage of Current Tax Levy</u>
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
2003	181,687	175,943	96.84	178,341	98.16
2004	199,630	191,224	95.79	194,399	97.38
2005	227,422	213,173	93.73	216,325	95.12
2006	255,211	240,895	94.39	245,458	96.18
2007	272,983	257,034	94.16	262,899	96.31
2008	289,235	271,657	93.92	279,759	96.72
2009	299,935	284,212	94.76	296,135	98.73

⁽¹⁾ Property Tax Levies and Collections for the General Fund and Zoological Exhibits Fund.

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

Source: Fiscal Year 2009 Comprehensive Annual Financial Report Statistical Section (unaudited), Comptroller's Office, City of San Diego.

Table A-6 indicates the ten largest secured and unsecured property taxpayers in the City.

TABLE A-6
PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO ⁽¹⁾⁽²⁾⁽³⁾
Tax Roll for Fiscal Year 2010
(in thousands, except for percentages)

<i>Taxpayers</i>	<i>Type of Business</i>	<i>Assessed Valuation</i> ⁽⁴⁾	<i>Percentage of Net Assessed Valuation</i> ⁽⁵⁾	<i>Amount of Tax</i>
Irvine Co. ⁽⁶⁾	Real Estate	\$ 1,719,809	0.96%	\$ 18,951
Kilroy Realty, LP ⁽⁷⁾	Real Estate	1,424,156	0.79	15,688
Qualcomm, Inc ⁽⁸⁾	Electronics	1,349,687	0.75	14,146
Arden Realty Ltd. Partnership ⁽⁹⁾	Real Estate	789,658	0.44	8,701
San Diego Family Housing, LLC ⁽¹⁰⁾	Real Estate	686,255	0.38	7,562
One Park Boulevard LLC ⁽¹¹⁾	Hotel Management	532,398	0.30	5,867
Pfizer, Inc	Pharmaceuticals	487,054	0.27	5,367
Fashion Valley Mall, LLC ⁽¹²⁾	Developer	455,175	0.25	5,016
OCSD Holdings	Real Estate	439,169	0.24	4,839
Sea World, Inc.	Entertainment	<u>421,064</u>	<u>0.23</u>	<u>4,640</u>
TOTAL		<u>\$ 8,304,425</u>	<u>4.61%</u>	<u>\$ 90,777</u>

⁽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, 2009 is the official assessment date for property taxes due during Fiscal Year 2010.

⁽²⁾ Utility Companies excluded.

⁽³⁾ Includes redevelopment areas (base plus incremental value).

⁽⁴⁾ Total assessed valuation includes both secured and unsecured property; does not include supplemental assessments.

⁽⁵⁾ Using total Net Assessed Valuation of \$179,621,903,704 (in whole dollars) for Fiscal Year 2010.

⁽⁶⁾ Based on information provided by MuniServices LLC, this assessee has filed applications for assessment appeals for tax roll of 2009 (July 2008-June 2009) and tax roll of 2010 (July 2009-June 2010). These claims are still pending. Applicant is appealing assessed value to be lowered by \$248,958,281 (in whole dollars) for the tax roll 2009 and \$55,973,297 (in whole dollars) for the tax roll 2010. No assurance can be given of the outcome of the appeal.

⁽⁷⁾ Based on information provided by MuniServices LLC, this assessee has filed an application for assessment appeal for tax roll of 2009 (July 2008-June 2009) and tax roll of 2010 (July 2009-June 2010). The claims are still pending. Applicant is appealing assessed value to be lowered by \$58,872,696 (in whole dollars) for 2009 and \$128,691,494 (in whole dollars) for 2010. No assurance can be given of the outcome of the appeal.

⁽⁸⁾ Based on information provided by MuniServices LLC, this assessee has filed applications for assessment appeals for tax roll of 2008 (July 2007-June 2008) and tax roll 2009 (July 2008-June 2009). These claims are still pending. Applicant is appealing assessed value to be lowered by \$423,601,931 (in whole dollars) for the tax roll of 2008, and \$187,513,211 (in whole dollars) for the tax roll of 2009. No assurance can be given of the outcome of the appeal.

⁽⁹⁾ Based on information provided by MuniServices LLC, this assessee has filed applications for assessment appeals for tax roll of 2009 (July 2008-June 2009) and tax roll of 2010 (July 2009-June 2010). These claims are still pending. Applicant is appealing assessed value to be lowered by \$150,422,710 (in whole dollars) for the tax roll of 2009, and \$282,602,882 (in whole dollars) for tax roll of 2010. No assurance can be given of the outcome of the appeal.

- ⁽¹⁰⁾ Based on information provided by MuniServices LLC, this assessee has filed an application for assessment appeal for tax roll of 2010 (July 2009-June 2010). This claim is still pending. Applicant is appealing assessed value to be lowered by \$183,000,888 (in whole dollars). No assurance can be given of the outcome of the appeal.
- ⁽¹¹⁾ Based on information provided by MuniServices LLC, this assessee has filed an application for assessment appeal for tax roll of 2010 (July 2009-June 2010). This claim is still pending. Applicant is appealing assessed value to be lowered by \$556,579,327 (in whole dollars). No assurance can be given of the outcome of the appeal.
- ⁽¹²⁾ Based on information provided by MuniServices LLC, this assessee has filed an application for assessment appeal for tax roll of 2010 (July 2009-June 2010). This claim is still pending. Applicant is appealing assessed value to be lowered by \$2,099,540 (in whole dollars). No assurance can be given of the outcome of the appeal.

Source: MuniServices, LLC.

Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. Fiscal Year 2009 commercial new construction permits valuation decreased by 38.1% (\$354.8 million reduction) from 2008, while residential permits decreased by 53.8% (\$235.7 million reduction) from the same time period. These negative economic trends are reflected in the decline in some budgeted revenues in the Fiscal Year 2010 Original Adopted Budget and Fiscal Year 2010 Revised Adopted Budget. Tables B-11 and B-12 in APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY" set forth certain historic permit and residential foreclosure data, respectively.

Sales Tax/Triple Flip. Sales tax is collected and distributed by the State Board of Equalization. The sales tax rate is established by the State Legislature. Sales tax is the City's second largest revenue source, representing 19.5% of the total projected General Fund revenue in the Fiscal Year 2010 Revised Adopted Budget (including Proposition 172, safety sales tax revenue). The City's sales tax revenues shown in Tables A-3-1 and A-3-2 include a reimbursement from property taxes that the City will receive as a result of the "triple flip". Triple flip is the shift enacted by the State in Fiscal Year 2005 whereby local governments shift one-quarter of a cent of their Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax.

Collected at the point of sale, sales tax receipts are remitted to the State Board of Equalization, which allocates tax revenue owed to the City in the form of monthly payments. According to the Bradley-Burns Sales and Use Tax law, cities are to receive one cent of the total 8.25 cent statewide sales tax levied on each dollar of taxable sales. In addition to the Bradley-Burns sales tax, San Diego County voters approved a half-cent supplemental sales tax in 1987 to fund the San Diego Transportation Improvement Program ("TransNet"), resulting in a total countywide sales tax of 8.75%. The TransNet sales tax was renewed in 2008 for an additional 40-year term. Sales tax also includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the Proposition 172 safety sales tax, is discussed below.

The sales tax revenue for the Fiscal Year 2010 Revised Adopted Budget is \$210.1 million, an increase of \$4.2 million or 2.0% more than Fiscal Year 2009 actual receipts. Actual sales tax receipts for the first two quarters of Fiscal Year 2010 dropped by 18.2% and 13.4% compared to receipts in the same quarters in Fiscal Year 2009. Declines of 8.0% in the third quarter and 3.0% in the fourth quarter of the current Fiscal Year, compared to the same quarters in Fiscal Year 2009, are projected for the remaining two quarters. The annual projection of sales tax revenues in the Fiscal Year 2010 Year-End Monitoring Report is \$185.0 million, which represents a decrease of 12.0% from the Fiscal

Year 2010 Revised Adopted Budget. The City can provide no assurance that actual sales tax receipts will not be materially less than projected.

Once the State's Economic Recovery Bonds are repaid in full (estimated in Fiscal Year 2011 – 2012 by the California Department of Finance at the time the City's Revised Fiscal Year 2011 Proposed Budget was prepared), local governments will no longer receive the property tax reimbursement, but will instead regain the one-quarter-cent sales tax that was diverted to the State by the triple-flip. This shift is different from the MVLF property tax swap which is considered to be a permanent shift of revenues from MVLF to property tax. The State may elect to repay its Economic Recovery Bonds prior to their expected payment date if sales tax revenues are sufficient to support such repayment. The timing of such repayment and the associated cessation of the property tax reimbursement and one-quarter-cent sales tax diversion will not affect the amount of Pledged Moneys available to pay the Notes.

The Fiscal Year 2010 Revised Adopted Budget assumes receipt of \$159.2 million in sales tax revenue and \$50.9 million in triple flip reimbursements. Such amounts are in addition to \$7.1 million in Proposition 172 safety sales tax revenue derived from a half-cent sales tax resulting from the passage statewide of Proposition 172 in November 1993, which must be used solely for local public safety purposes. The Fiscal Year 2010 Safety Sales Tax projection of annual revenue in the Fiscal Year 2010 Year-End Monitoring Report is \$6.4 million, which is 9% or approximately \$654,000 lower than in the Fiscal Year 2010 Revised Adopted Budget. The revised annual projection shown in the Fiscal Year 2010 Year-End Monitoring Report for safety sales tax revenue reflects updated growth rates in taxable sales. A weak performance of taxable sales in the local retail sector has affected this revenue source. Safety sales tax receipts follow the same economic trends as sales tax receipts. However, it should be noted that the distribution of safety sales tax revenues to cities is based on a different allocation formula than the distribution of sales tax; therefore, the projections for this revenue do not entirely mirror sales tax revenue. See Official Statement, APPENDIX B— "DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY—Table B-4-1" and "—Table B-4-2" for historic taxable transactions in the City.

Transient Occupancy Tax. The City's transient occupancy tax ("TOT") is levied at 10.5 cents per dollar of the daily room price in hotels and motels used by visitors staying in San Diego for less than 30 consecutive days. The TOT is allocated pursuant to the City Municipal Code, with guidelines provided by the City Council Policy 100-3. Of the 10.5 cents of collected TOT, 4.0 cents shall be applied toward promoting the City as a tourist destination, 5.5 cents shall be applied toward general government purposes and the remaining 1.0 cent to be allocated for any purposes approved by the City Council.

San Diego's local attractions, natural amenities, and proximity to other popular tourist sites continue to make the area a top destination. According to estimates from the San Diego Convention and Visitors Bureau ("CONVIS"), total visitors to San Diego in 2009 totaled 29.6 million, compared to 2008 totals of 31.1 million visitors and the historical high point of 2006, when there was a total of 32.2 million visitors. Although the region remains a popular vacation spot, the economic recession has had a negative effect on tourism over the last two years, and the City can provide no assurance

that the continued economic weakness will not have an adverse impact on tourism in San Diego during the next Fiscal Year or for any longer period.

The Fiscal Year 2010 Revised Adopted Budget assumes continued decline in San Diego's visitor industry in calendar year 2010. Total TOT revenue included in the Fiscal Year 2010 Revised Adopted Budget is \$144.9 million, of which \$75.9 million is allocated to the General Fund and the remaining revenue is allocated to the Special Promotional Programs. General Fund TOT revenue represents 6.8% of the Fiscal Year 2010 Revised Adopted Budget. The Citywide projection of total annual TOT in the Fiscal Year 2010 Year-End Monitoring Report is \$126.0 million, with \$66.0 million allocated to the General Fund, which is a 13% or \$10.2 million decrease from the corresponding amount in the Fiscal Year 2010 Revised Adopted Budget. TOT revenue, along with sales tax revenues, has been adversely affected by the decline in business and discretionary consumer spending. Both business and leisure travel have declined significantly since the onset of the recession in December 2007. While spending on travel and tourism are still on the decline, the San Diego tourism outlook is slowly improving according to recent information from the CONVIS. The current projection for TOT revenue is based on the mixed forecast for the two main factors that drive revenue levels: room demand and the average daily room rate ("ADR"). A forecasted increase in room demand for the final two quarters of Fiscal Year 2010 (of 0.7% and 1.6%) is tempered by a forecasted decrease in ADR for the same period (3.7% and 1.5%). This decrease in room rates offsets any gains in revenue that the forecasted increase in demand would generate, resulting in the current forecast roughly equal to the Fiscal Year 2010 Revised Adopted Budget. The City projects a slow recovery in tourism spending. See APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY—Table B-6" for historical transient occupancy tax data.

Franchise Fees. General Fund franchise fees represent 6.6% of the Fiscal Year 2010 Revised Adopted Budget. Franchise fees revenue results from agreements with private utility companies in exchange for the City's rights-of-way. Currently, SDG&E, Cox Communications, Time Warner Cable, and AT&T are the primary sources of franchise revenue to the City. In addition, the City collects franchise fees from private refuse haulers that conduct business within its borders. Based on actual revenues being lower than projected and current trends in the refuse collection and cable television revenue through the first nine months of Fiscal Year 2010, the current projected General Fund annual franchise fee revenue for Fiscal Year 2010 has been adjusted downward by \$7.5 million from the Fiscal Year 2010 Revised Adopted Budget, primarily due to declines in refuse haulers fee revenue and franchise fees from SDG&E.

SDG&E, the single largest contributor of franchise fee revenue, is charged 3.0% of the gross sales of gas and electricity within the City. In addition, the City receives a 3.5% surcharge on SDG&E's electricity sales for the undergrounding of electric utility lines that was approved by the California Public Utilities Commission in December 2002. The City also generates revenue by collecting 5.0% of gross revenues from Cox Communications, Time Warner Cable, and AT&T. Refuse hauler fees are imposed on private refuse haulers depending on tonnage per year: Class I haulers (less than 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

San Diego Gas & Electric. The Fiscal Year 2010 Revised Adopted Budget was based on projected revenue from SDG&E franchise fees of \$55.2 million (Citywide), reflecting 2.8% growth over the Fiscal Year 2009 actual receipts. This annual projection of franchise fee revenue has

currently been revised downward by \$5.4 million Citywide (or \$4.1 million for the General Fund) due to actual receipts from SDG&E in Fiscal Year 2010. In accordance with the City Charter, 25.0% of revenue received from SDG&E is to be deposited into the Environmental Growth Fund (“EGF”). Pursuant to the City Charter and City Council policy one-third of the EGF is used to finance the maintenance of parks and the remaining two-thirds are used for the annual interest payments for debt service on open space acquisition bonds, if any, and parkland maintenance. The remaining revenue balance received from SDG&E franchise fees is allocated to the General Fund.

Cable Companies. The Fiscal Year 2010 Revised Adopted Budget was based on projected revenue for Fiscal Year 2010 from cable franchise fees of \$18.1 million. This is a 7.3% growth rate over Fiscal Year 2009 actual receipts. The majority of cable franchise fees are from Cox Communications and Time Warner Cable. Franchise fee revenue from AT&T, which the City began receiving in Fiscal Year 2008 when the company started providing services, has grown steadily for the past two years and is expected to grow as the company continues to expand in the San Diego market. The annual franchise fee revenue projection for Fiscal Year 2010 has been lowered to \$17.2 million, or \$0.9 million less than the Fiscal Year 2010 Revised Adopted Budget.

Refuse Haulers and Other Franchises. Revenue from private refuse haulers is based on the total amount of refuse hauled annually. The City’s Fiscal Year 2010 Revised Adopted Budget for refuse hauler revenues is \$11.3 million, a \$3.4 million or 42.2% increase from the Fiscal Year 2009 actual receipts. The large increase from the Fiscal Year 2009 actual receipts is due to an approved fee increase of \$4 per ton in the City’s Non-Exclusive Solid Waste Collection Franchise Fee for Class I and Class II refuse haulers. As of the most recent projections, set forth in the City’s Fiscal Year 2010 Mid-Year Monitoring Report, revenue from refuse collection is expected to be \$2.5 million lower than projected in the Fiscal Year 2010 Revised Adopted Budget. In addition, this category also includes franchise fees from the Sycamore Facility in the amount of \$2.6 million and other minor miscellaneous franchise fees. The total revenue for the Refuse Haulers and Other Franchises category is \$14.2 million.

Reserves

City Charter Section 91 titled “General Reserve Fund” was approved by the voters on November 6, 1962. This section requires City Council to create and maintain a General Reserve Fund for the purpose of keeping the payment of running expenses of the City on a cash basis. Section 91 requires that the reserve be maintained in an amount sufficient to meet all legal demands against the City Treasury for the first four months or other necessary period of each Fiscal Year prior to the collection of taxes. This fund may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council.

The City Council approved a “City Reserve Policy” on July 29, 2008 which defined the General Fund Reserve. The General Fund Reserve includes the Emergency Reserve, Appropriated Reserve and Unappropriated Reserve described as follows.

The Emergency Reserve shall contain an amount no less than 5% of annual General Fund revenues. Emergency Reserve funds are only to be used in the case of a natural disaster or unforeseen catastrophic event caused by human activity, such as a terrorist attack. The Emergency

Reserve should not be accessed to meet operating shortfalls or to fund new programs or personnel; although Emergency Reserve funds in excess of the reserve level may be re-appropriated by City Council action. This reserve may be expended only in the event of a public emergency, as determined by a two-thirds vote of the City Council, when such expenditures are necessary in order to ensure the safety, lives, and property of the City or its inhabitants. The City has not to date drawn on its emergency reserves.

The funds dedicated to the Appropriated Reserve are appropriated to a single account within the General Fund annual budget and do not conform to a maximum or minimum amount in any given Fiscal Year. Funds left unexpended in a given Fiscal Year will return to the General Fund's Unappropriated Reserve balance and may then be re-appropriated in the subsequent Fiscal Year.

An Unappropriated Reserve is maintained to support General Fund operations in the event of unanticipated requirement for additional appropriations where the use of the Emergency Reserves would not be appropriate. Should the funds in the Appropriated Reserve be exhausted in a Fiscal Year, the Unappropriated Reserve may be used. Recommendations to appropriate these funds would be brought forward by the Mayor or the City Council and would require approval by a majority of the City Council.

The City's Reserve Policy defines a goal of having a minimum of 8% of annual General Fund revenues held in General Fund reserves no later than Fiscal Year 2012. For Fiscal Year 2010 the Reserve Policy calls for 7% of General Fund revenues to be held in the General Fund Reserve at the end of the Fiscal Year 2010.

The Fiscal Year 2011 Proposed General Fund Budget adopted by City Council in December 2009 includes a one-year suspension of the additional planned contributions to the General Fund, Public Liability and Workers Compensation reserves to reach reserve levels outlined in the current City Reserve Policy. As a result of this budgetary action, the City plans to maintain a 7% General Fund reserve level for Fiscal Year 2010 through Fiscal Year 2011 instead of increasing reserves to 7.5% by the end of Fiscal Year 2011. The Fiscal Year 2011 Revised Proposed General Fund Budget General Fund reserve goal for Fiscal Year 2012 is 7.5% and 8.0% thereafter.

The Workers' Compensation reserves are maintained as a contingency in the event the annual expense for claims exceeds the annual "pay-go" budgeted amount. The Fiscal Year 2010 Revised Adopted Budget includes a contribution of \$20.6 million for the pay-as-you-go payment of Workers' Compensation claims, as well as a \$5.0 million contribution to reserves to achieve the City's reserves target of 22% of outstanding claims liability, as specified in the City's Reserve Policy. The \$5.0 million contribution to the Workers' Compensation Reserve in Fiscal Year 2010 increases the reserve level to \$34.3 million. Pursuant to the Revised Fiscal Year 2011-2015 Five Year Outlook, the Workers' Compensation Fund contributions have been smoothed over seven years (starting in Fiscal Year 2012) to achieve a reserve level equal to 50% of current estimated outstanding workers' compensation obligations by 2018. The Fiscal Year 2011 Proposed General Fund Budget does not include additional funding for the Workers' Compensation reserves in Fiscal Year 2011. The 22% reserves level projected for Fiscal Year 2010 will be maintained in Fiscal Year 2011 instead of

reaching 30% as projected in the City's Fiscal Year 2011-15 Five-Year Financial Outlook. See "RISK MANAGEMENT – Workers' Compensation and Long-Term Disability" herein.

The City's Fiscal Year 2011-15 Five-Year Financial Outlook had also projected increased funding for the Public Liability Fund Reserve. These reserves are maintained to fund self-insured retention expenses related to the fund that may exceed the amounts budgeted for the annual estimated claims expense. The Fiscal Year 2010 Revised Adopted Budget includes \$7.1 million to build the Public Liability Fund Reserve, an amount that is in addition to the annual pay-as-you-go allocation of \$18.0 million, for a total budgeted amount of \$25.1 million. The Fiscal Year 2010 target for the Public Liability Reserve is 15.0% of outstanding claims value according to the City's current Reserve Policy. The \$7.1 million contribution in Fiscal Year 2010 to the Public Liability Reserve increases the reserve level to \$17.1 million. The Fiscal Year 2011 Proposed General Fund Budget does not include additional funding for the Public Liability Reserve in Fiscal Year 2011 and the 15% reserve level is expected to be maintained in Fiscal Year 2011 instead of reaching a 25.0% amount targeted in the City's Fiscal Year 2011-15 Five-Year Financial Outlook. Pursuant to the Revised Fiscal Year 2011-2015 Five Year Outlook, the Public Liability Fund contributions have been smoothed over seven years (starting in Fiscal Year 2012) to achieve a reserve level equal to 50% of current estimated outstanding public liability obligations by Fiscal Year 2018. See "RISK MANAGEMENT – Public Liability Insurance" herein.

State Budget

The following information concerning the State's budget has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the State Department of Finance website, www.govbud.dof.ca.gov under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each Web site and not by the City, and the City can take no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

The State of California is experiencing significant financial and budgetary stress. State budgets are affected by national and State economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget.

On-going weak economic conditions have resulted in significant revenue shortfalls to the State, and various budget actions were required throughout the past year to address these shortfalls. Following lengthy budget negotiations, on February 19, 2009, the State Legislature passed revisions to the State Budget Act for the remainder of Fiscal Year 2009, as well as adopted the State Budget Act for Fiscal Year 2010 and related legislation, which the Governor signed on February 20, 2009 after

making some line-item vetoes. Balancing the State's budget relied upon a combination of temporary and permanent measures, totaling \$41.6 billion for the remainder of Fiscal Year 2009 and for Fiscal Year 2010.

The Fiscal Years 2009 and 2010 State Budget Acts included approximately \$6 billion of revenue measures that were subject to voter-approval. These measures were defeated at a State-wide special election held on May 19, 2009.

The Governor released the Fiscal Year 2010 May Revision in 2009 and subsequent updates that contained proposals to address a \$24.3 billion projected shortfall. On July 1, 2009, the State Department of Finance increased its estimate of the State budget shortfall to \$26.3 billion. On July 24, 2009 the Legislature adopted a Fiscal Year 2010 State budget that addressed approximately \$24 billion of the shortfall. This new budget legislation was signed, incorporating a number of line item vetoes. Subsequent "clean up" legislation was adopted in September.

Among the measures implemented to balance the State's Fiscal Year 2010 Budget was a borrowing by the State of up to 8% of local government property tax revenues as allowed under the State Constitution. (See "LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 1A," herein.)

On January 8, 2010, Governor Schwarzenegger released the Proposed Fiscal Year 2011 Budget, which stated that, without corrective action, the State faced a budget gap of \$19.9 billion in Fiscal Year 2011, comprised of a Fiscal Year 2010 Budget shortfall of \$6.6 billion, a budget year shortfall of \$12.3 billion, and a modest reserve of \$1 billion. The State's Proposed Fiscal Year 2011 Budget indicated that various factors have contributed to the increase in the State's projected Fiscal Year 2011 deficit from \$6.9 billion since the Fiscal Year 2010 budget was enacted, including, revenue estimates being \$3.4 billion lower than projected, federal and State court decisions reducing budget solutions adopted previously by \$4.9 billion, erosions of previous solutions contributing \$2.3 billion, and population and caseload growth adding \$1.4 billion in costs.

The State's Proposed Fiscal Year 2011 Budget proposes a combination of spending reductions (\$8.5 billion), alternative funding (\$3.9 billion), fund shifts (\$572 million) and additional federal funds (\$6.9 billion) to close the \$19.9 billion budget shortfall. The Governor has declared a fiscal emergency and called the Legislature into Special Session in order to close the budget gap as soon as possible. The State's Proposed Fiscal Year 2011 Budget proposal includes solutions for action in the Special Session that will close \$8.9 billion of the budget gap. It also includes expenditure reductions which would become effective in the event that expected federal funding increases do not materialize. Delays in the adoption of these proposals until the enactment of the State's 2011 Budget would result in the loss of a significant portion of the proposed budgetary solutions and thereby necessitate even deeper cuts in Fiscal Year 2011. During the special session, which ended March 11, 2010, the Legislature adopted and sent to the Governor legislation intended to reduce the budget gap by approximately \$3.2 billion, a portion of which (intended to provide \$2.1 billion in savings), the Governor vetoed. The Governor has indicated he will not sign another portion of the legislation in its current form (providing for the elimination of sales taxes on gasoline together with an increase in excise taxes), which was intended to provide \$1.1 billion in savings.

In addition, the Governor signed into law budget-related bills providing for more than \$200 million of General Fund relief. The Governor encouraged the Legislature to continue work to enact spending reductions. The Governor intends to work with the legislature on additional measures to address the projected budget shortfall for the current and next fiscal years. It is expected that the Legislature will consider additional budget measures during the current legislative session.

The State Department of Finance's most current monthly bulletin for April 2010 forecast shows receipts of State preliminary General Fund agency cash for March 2010 was \$670 million above the Fiscal Year 2011 Governor's Budget forecast of \$5.837 billion.

On May 14, 2010, the Governor released the May Revision to the 2011 State Budget (together with the contingency proposals referenced therein, the "2010 May Revision"), which projects a budget deficit of \$19.1 billion through Fiscal Year 2011, consisting of a \$7.7 billion deficit for Fiscal Year 2010, a \$10.2 billion deficit for Fiscal Year 2011 and a reserve of \$1.2 billion. The 2010 May Revision proposes to address these deficits through additional borrowings and approximately \$12.4 billion in program reductions. The 2010 May Revision estimates Fiscal Year 2010 revenues and transfers of \$86.521 billion, total expenditures of \$86.465 billion and a year-end deficit of \$5.305 billion, which includes a \$5.361 billion prior-year State General Fund deficit and an allocation of \$1.537 billion to the reserve for the liquidation of encumbrances. The 2010 May Revision projects Fiscal Year 2011 revenues and transfers of \$91.451 billion, total expenditures of \$83.404 billion and a year-end surplus of \$2.742 billion (net of the \$5.305 billion deficit from Fiscal Year 2010), of which \$1.537 billion will be reserved for the liquidation of encumbrances and \$1.205 billion will be deposited in a reserve for economic uncertainties. The 2010 May Revision indicates that the economic recovery will be moderate and prolonged as compared to historical standards.

On May 18, 2010, the California Legislative Analyst's Office (the "LAO") released an analysis of the May Revision to the State's Proposed Fiscal Year 2011 Budget entitled "The 2010-11 Budget: Overview of the May Revision" (the "LAO May Overview"). The LAO May Overview states that the economic and revenue forecasts and assessments of the State's budgetary problems set forth in the May Revision are reasonable and realistic in light of the effects of the economic slowdown throughout the United States. The LAO projects that the proposals set forth in the May Revision to the State's Proposed Fiscal Year 2011 Budget are sufficient to eliminate the estimated \$17.9 billion deficit in Fiscal Year 2011 and provide a State General Fund reserve in the amount of \$1.2 billion. However, the LAO estimates that the budgetary measures included in the May Revision will reduce but not eliminate annual operating shortfalls through at least Fiscal Year 2015.

The LAO May Overview states that the May Revision relies on a number of proposals that could result in a General Fund reserve at the end of Fiscal Year 2010 of \$1.2 billion, but that the largest proposals carry the largest risks. The LAO also notes that proposals such as the elimination of CalWORKs and State child care funding could result in significant reductions in federal funding for the State. The LAO recommends that the State Legislature develop contingency plans in the event certain ballot measures and initiatives scheduled for the November 2010 election affect the State Legislature's budget plans. The LAO May Overview states that the State Legislature will face significant challenges to address the State's ongoing structural mismatch between revenues and spending for future years. The LAO May Overview reiterated that the State Legislature should look

to long-term solutions and alternatives to balance the State's finances, such as implementing delays in previously scheduled tax reductions or expirations, eliminating lower priority tax expenditure programs, increasing fees for General Fund services and adopting targeted tax increases.

Several of the components of the State's budget are subject to legal challenge.

See "CITY GOVERNMENT AND FINANCIAL INFORMATION – Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget – Fiscal Year 2010 and 2011 State Budget Impacts" herein for a description of the State budget's impact on the City.

Civil Grand Jury Recommendations

On June 8, 2010, a San Diego County civil grand jury released a report on the City's fiscal condition which made a number of recommendations, including that the Mayor and City Council convene a panel of experts to evaluate the legal and financial ramifications of the City declaring bankruptcy. The City is not considering bankruptcy and neither the Mayor nor the City Attorney believes a bankruptcy filing is appropriate. The City is required to respond to the grand jury recommendations by September 6, 2010. The City has no obligation to implement any grand jury recommendation.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

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

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

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

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

Article XIII B of the California Constitution

Article XIII B of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population, and services for which the fiscal responsibility is shifted to or from the governmental entity. The “base year” for establishing this appropriations limit is Fiscal Year 1979 and the limit is adjusted annually to reflect changes in population, consumer prices and certain increases or decreases in the cost of services provided by these public agencies.

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

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

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

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. San Diego voters have approved two four-year Gann limit waivers in the past, the last expiring in 1999. The City's appropriations limit for Fiscal Year 2010 is established at \$1,392,023,944. Using the Fiscal Year 2010 Original Adopted Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be \$760.1 million, which was \$632.0 million lower than the Gann Limit. The City's appropriations limit for Fiscal Year 2011 will be established at \$1,375,737,264, subject to City Council approval. Such amount is approximately \$660.7 million above those appropriations in Fiscal Year 2011 that are expected to be subject to the Gann Limit.

Articles XIII C and XIII D (Proposition 218) of the California Constitution

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

Article XIII C. Section 1 of Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and Section 2 thereof requires two thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements.

Although a portion of the City's General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were either imposed, extended or increased prior to the effective date of Proposition 218 or in accordance with the requirements of Proposition 218. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges, such as the TOT, Proposition 172 revenues, or storm water fees which support the City's General Fund. TOT and other local taxes, assessments, fees and charges, could be subject to reduction or repeal by initiative under Proposition 218.

Section 3 of Article XIII C expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges that had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIII C to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

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

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

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after [the effective date of Proposition 218] assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution.

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

If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City's General Fund. Given the approval requirements imposed by Article XIID, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. If the City chose to fund any such programs from the General Fund instead, the General Fund budget would be affected.

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

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

Depending on the interpretation of what constitutes a "property related fee" under Article XIID, there could be future restrictions on the ability of the City's General Fund to charge its enterprise funds for various services provided. In the event that fees and charges of enterprise funds cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to supplement any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

The City believes its current water and wastewater rates materially comply with the notice and substantive provisions of Article XIID.

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

In addition to the enterprise funds discussed above, the City's storm water program currently is funded partially with fees, but primarily from the General Fund. The City is a co-

permittee under a National Pollution Discharge Elimination System Permit (“NPDES Permit”) for its storm water program. Pursuant to the NPDES Permit, the City is obligated to undertake substantial capital improvements and implement new operations and maintenance procedures for its storm water program (“NPDES Permit Requirements”). If the City is not able to or chooses not to increase its storm water fees to pay for the NPDES Permit Requirements, or if such fees are reduced pursuant to the exercise of the initiative power under Article XIII C, the City will have to identify a plan of finance for same. Such plan of finance may include General Fund moneys not previously identified. Compliance with the NPDES Permit has created a significant impact on the City’s General Fund budget, and the management of the permit is a budget priority under the City’s Five Year Financial Outlook. Functions include storm water pollution prevention, street sweeping, and storm drains. The Storm Water Department Fiscal Year 2010 Original Adopted Budget is \$37.7 million, which was reduced to \$36.1 million following a mid-year adjustment. The Storm Water Department is projected to end Fiscal Year 2010 with \$6.7 million, or 18%, of expenditures over budget. The projected expenditure variance is associated with the carry forward encumbrances for storm water related contracts and is offset by the release of prior year appropriations to the General Fund reserve. In Fiscal Year 2011 the City will continue to fund programs in accordance with the permit regulations by including \$35.2 million in the Fiscal Year 2011 Proposed General Fund Budget.

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

Statutory Spending Limitations

A statutory initiative (“Proposition 62”) was adopted by the voters of the State at the November 4, 1986, General Election which, among other things (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by a two-thirds vote of the governmental agency’s legislative body and by a majority of the electorate of the governmental entity, and (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the “*Santa Clara* decision”), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a “special tax” as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v City of Brawley* 59 Cal. App. 4th 1441 (1997), the Fourth District Court of Appeal concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Court of Appeals have held that the voter approval requirements of

Proposition 62 do not apply to certain taxes imposed by charter cities. See, *Fielder v City of Los Angeles* 14 Cal. 4th 137 (1993) and *Fisher v County of Alameda* 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities, derived from the State Constitution, to impose taxes. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

While, as of the date of the Official Statement, the City Attorney believes that the provisions of Proposition 62 do not apply to charter cities, this position may be the subject of future litigation and the City Attorney can give no assurance that this position will be upheld if properly challenged. If ultimately found valid and applicable to charter cities, Proposition 62 could adversely affect the ability of the City to continue the imposition of certain taxes, such as its TOT, and may further restrict the City's ability to raise revenue and the impact on future budgets could be material.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2009, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years from the borrowing. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A can be suspended with the declaration of a fiscal emergency by the Governor and the approval of two-thirds of the Legislature. The State legislature suspended the requirements of Proposition 1A (2004) in an effort to balance the State's Fiscal Year 2010 budget. In Fiscal Year 2010, the State has borrowed approximately \$1.9 billion in property tax revenue from local jurisdictions to help balance the State budget; the City's share of this is approximately \$35.8 million. However, the City has recovered this property tax revenue during Fiscal Year 2010 through a securitization program of the California Statewide Communities Development Authority. See "State Budget" above.

The State Constitution indicates that the property tax protection provisions of Proposition 1A cannot be suspended more than twice in a 10-year period (the first year begins with

the first suspension). Further, the State cannot suspend Proposition 1A until all previous loans are paid in full. The State Constitution requires that the State provide repayment of the property tax revenue borrowed from local jurisdictions within a three-year period. ABX4 15 sets the repayment deadline for the property tax revenues borrowed from local jurisdictions in Fiscal Year 2010 at June 30, 2013.

Proposition 1A may, in some circumstances, result in decreased resources being available for State programs. The decreased resources in turn, could affect actions taken by the State to resolve budget difficulties. Such actions have recently included increasing State taxes, and could include decreasing spending on other state programs or other actions, some of which could be adverse to the City. While Proposition 1A provides some protection to the City from the State taking of property tax, sales tax and vehicle license fees, there are certain significant issues that relate to sources of funds not covered by Proposition 1A and to the statutory relationships between the State and San Diego County. Impacts to the City's budget that are controlled by the State and County include property tax administration fees, booking fees and the SB 172 allocation.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State and the City to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

LABOR RELATIONS; SDCERS; OTHER POSTEMPLOYMENT BENEFITS

Labor Relations

General. The City has five labor organizations which represent classified employees. They are the International Association of Firefighters Local 145 ("IAFF Local 145"), the San Diego Police Officers Association (the "POA"), the Municipal Employees Association (the "MEA"), the American Federation of State, County and Municipal Employees, Local 127 ("AFSCME Local 127"), and the California Teamsters Local 911 ("Teamsters Local 911"), who represent lifeguards. A sixth labor organization, the Deputy City Attorneys' Association (the "DCAA"), represents unclassified deputy city attorneys.

As of June 24, 2010, AFSCME Local 127 represented approximately 1,793 employees; MEA represented approximately 4,814 employees; POA represented approximately 1,863 employees; IAFF Local 145 represented approximately 858 employees; DCAA represented approximately 138; and Teamsters Local 911 represented approximately 315 employees.

Contracts for Fiscal Years 2010 through 2011. On April 14, 2009, the City Council unanimously approved the terms of the labor agreements for Fiscal Years 2010 and 2011 for the MEA, the IAFF Local 145 and the DCAA. Negotiations with the remaining two bargaining units, AFSCME Local 127 and the POA, did not end in agreement. The City Council imposed on both unions the terms and conditions of employment contained in the Mayor's last, best and final offer

for Fiscal Year 2010. Pursuant to the labor agreements for the bargaining units and the terms and conditions approved for AFSCME Local 127 and POA, all five bargaining units and the City's unclassified and unrepresented employees were held to a general salary freeze and subject to a 6% reduction in overall compensation, which was effected through salary reductions, decreases in the City-paid allotment for employee health care, retirement and other employment benefits, fewer paid holidays, mandatory furloughs and elimination of the employer contribution to San Diego City Employees' Retirement System employee pickup/offset and to the mandatory match of the supplemental pension savings plan. Each bargaining unit reached the 6% target through a different combination of the aforementioned measures. The compensation reductions also apply to management and unrepresented City employees, including the Mayor, his staff, and some independent departments. Departments not under the Mayor, including some City Council offices, did not participate in some or all of the compensation reductions.

Contracts for Fiscal Years 2011 through 2012. The City has reached a final agreement with Local 911 and has pending agreements with the POA and AFSCME Local 127 for Fiscal Years 2011 and 2012. The contracts call for a continuation of the 6% reduction in overall compensation. There are no salary increases contained in the agreements.

San Diego City Employees' Retirement System

The City faces significant financial challenges in addressing an unfunded pension liability to SDCERS, which, as of June 30, 2009, was approximately \$2.106 billion. The challenges posed by the unfunded pension liability are significant and, together with significant costs related to postemployment healthcare benefits, pose a threat to the future fiscal health of the City.

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

SDCERS is considered part of the City's financial reporting entity and is included in the City's CAFR as a pension system trust fund. SDCERS does prepare its own CAFR, the most recent of which is for Fiscal Year 2009.

UAAL and its Calculation. According to the June 30, 2009 Annual Actuarial Valuation of SDCERS, prepared by Cheiron, Inc. ("Cheiron") dated as of January 8, 2010 (the "2009 Valuation"), the funded ratio (the actuarial value of assets available for benefits to total actuarial accrued liability) of the City's portion of the SDCERS fund was 66.5%, and the SDCERS fund had an unfunded actuarial accrued liability (the "UAAL") of \$2.106 billion. Thus, for every dollar of benefits due (all vested liabilities), SDCERS had \$.66 in assets available for payment as of June 30, 2009. The UAAL is the difference between total actuarially accrued liabilities (the "AAL"), which was approximately

\$6.282 billion as of June 30, 2009, and actuarially calculated assets allocated to funding, which was approximately \$4.175 billion as of June 30, 2009.

Global financial markets experienced significant volatility in Fiscal Year 2009 and SDCERS experienced an actuarial investment loss of \$811.4 million in the City's plan during that period. According to the City's June 30, 2008 Annual Actuarial Valuation (the "2008 Valuation") and the 2009 Valuation, the actuarial value of assets (City's portion) as of June 30, 2008 and June 30, 2009 were respectively \$4.660 billion and \$4.175 billion. The market value of assets (City's portion) as of June 30, 2008 and June 30, 2009, as reported in the 2008 Valuation and the 2009 Valuation, respectively, were \$4.409 billion and \$3.479 billion. A decline in the actuarial value of assets over time will result in an increase to the City's ARC in comparison to the amounts estimated in the Revised Five Year Fiscal Years 2011-2015 Financial Outlook.

Actuarial Assumptions. The following are the principal actuarial assumptions used by SDCERS' actuary in preparing the valuation as of June 30, 2009:

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

"Smoothing" Methodology. In determining the actuarial value of its assets, SDCERS, as permitted by applicable actuarial guidelines, uses an expected value of assets "smoothing" methodology to reduce the impact of market volatility on plan assets. The market value of assets represents, as of the valuation date, the value of the assets as if they were liquidated on that date. The actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce annual contribution volatility. The actuarial value of assets is used to determine SDCERS' contribution rates for the City. As of June 30, 2009, the market value of plan assets was \$3.479 billion, and the actuarial value was \$4.175 billion. By the smoothing method used in the 2009 Valuation, the calculation of the actuarial value of assets at June 30, 2009 started with the actuarial value of assets at June 30, 2008, added to that 100% of the actuarially assumed rate of return, plus the contribution towards plan assets, less payments out from plan assets, plus 25% of the difference between the expected actuarial value of assets at June 30, 2009 (using the above calculation) and the actual market value of assets at June 30, 2009. In no event will the actuarial value of assets ever be less than 80% of the market value of assets nor greater than 120% of the market value of assets. The impact of this smoothing methodology will vary each year depending upon the year's actual market value compared to the expected value of assets, either as a net gain or a net loss. The City expects SDCERS to employ the smoothing method used in the 2009 Valuation to valuations for future fiscal years. As a result of the smoothing methodology, even a healthy increase in the market value of the SDCERS' plan assets as of June 30, 2010 would have a

limited impact on improving the Fiscal Year 2012 ARC. For example, holding all other actuarial assumptions constant, an annual investment return of 25% for Fiscal Year 2010 is estimated to result in an ARC of \$244.2 million on a citywide basis for Fiscal Year 2012 (compared to an ARC of \$229.1 million for Fiscal Year 2011). This is primarily due to the fact that because of the smoothing methodology approximately 45% of Fiscal Year 2009's market loss has yet to be captured in future ARC calculations and only 25% of any Fiscal Year 2010 gains will be included in the Fiscal Year 2012 ARC calculation.

City Contributions to SDCERS. The City's ARC consists of: (i) the "normal cost," being the present value of the benefits that SDCERS expects to become payable in the future attributable to a current year's employment, and (ii) payments made to amortize the UAAL. SDCERS currently amortizes the UAAL over several different closed periods: the amortization of changes in the UAAL due to assumption changes is over 30 years, the amortization of changes in the UAAL due to benefit changes is over five years, the outstanding balance of the Fiscal Year 2007 UAAL is amortized over 20 years (such that, as of Fiscal Year 2009, 18 years of amortization remain), and subsequent yearly gains and losses are amortized over 15 years. Finally, if necessary, there is an additional UAAL cost component to ensure that there is no negative amortization in any year, all as approved by the SDCERS Board of Administration in its administrative capacity pursuant to its plenary authority over the Pension System. For several years, the City was paying less than the full ARC. The reasons for this are numerous, including prior agreements between the City and SDCERS, earnings on pension assets at greater than the previous actuarially assumed rate of 8% being credited against contributions, payments pursuant to litigation settlements that were mistakenly characterized as "contingent" and therefore not made in certain years, and other reasons explained in detail in Note 12 to the City's 2009 audited financial statements. See APPENDIX C – "BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR FISCAL YEAR 2009" attached hereto.

Due to the City's prior practice of funding the Pension System at less than actuarially required levels, the City has a Net Pension Obligation ("NPO"), which is the cumulative difference between the annual pension cost ("Annual Pension Cost") to the City of the Pension System and the actual contribution in a particular year. The Annual Pension Cost is equal to (i) the ARC, (ii) one year's interest on the NPO, and (iii) an adjustment to the ARC to offset, approximately, the amount included in item (i) for amortization of the past contribution deficiencies.

In Fiscal Year 2009, the City's total pension contribution, which includes contributions to both the core pension plan and the Preservation of Benefits ("POB") Plan (referenced in the Fiscal Year 2009 CAFR as the "Preservation of Benefits Plan") was \$163.6 million. The City's NPO at the end of Fiscal Year 2009 was \$177.8 million. The City's core pension ARC for Fiscal Year 2010, not inclusive of the POB ARC, is \$154.2 million and has been paid in full. The City anticipates contributing \$1.4 million to the Preservation of Benefits Plan in Fiscal Year 2010 and \$1.7 million to the Preservation of Benefits Plan in Fiscal Year 2011.

Table A-7 below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2005 through 2009.

TABLE A-7
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years 2005 through 2009
(\$ in thousands)
(unaudited)

<i>Valuation Date (June 30)</i>	<i>Valuation Assets</i>	<i>AAL</i>	<i>Funded Ratio</i>	<i>UAAL</i>
2005 ⁽¹⁾⁽²⁾	\$ 2,983,080	\$ 4,436,017	67.25%	\$ 1,452,937
2006 ⁽¹⁾	3,981,932	4,982,700	79.92	1,000,768
2007 ⁽³⁾	4,413,411	5,597,653	78.84	1,184,242
2008	4,660,346	5,963,550	78.15	1,303,204
2009	4,175,229	6,281,593	66.47	2,106,364

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

⁽²⁾ For Fiscal Year 2005, the actuarial accrued liability, the UAAL and the funded ratio have been adjusted to reflect the impact of the Corbett contingent settlement benefit. The actuarial valuation provided by the actuary for Fiscal Year 2005 does not include this contingent benefit in the funded ratio. However, the valuations prepared by the actuary for Fiscal Years 2006 through Fiscal Year 2009 do include the impact of the Corbett contingent settlement benefit. See Note 12 to the CAFR for Fiscal Year 2009 attached hereto as Appendix C.

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

Source: Fiscal Year 2005 – 2008: Comprehensive Annual Financial Report, Comptroller’s Office, City of San Diego
Fiscal Year 2009: SDCERS June 30, 2009 Actuarial Valuation.

Table A-8 sets forth the City’s ARC and pension payments for Fiscal Years 2008 through 2011 as well as the amounts related specifically to the General Fund.

TABLE A-8
CITY OF SAN DIEGO
PENSION CONTRIBUTION
Fiscal Years 2008 through 2011
(In Millions)

<i>Fiscal Year ending June 30</i>	<i>ARC⁽¹⁾</i>	<i>Total City Pension Contribution⁽²⁾</i>	<i>General Fund Pension Contribution⁽³⁾</i>
2008	\$140.1	\$166.6	\$127.7
2009	165.7	163.6	133.8
2010	155.2	155.6	124.9
2011 ⁽⁴⁾	230.9 ⁽⁵⁾	230.8	177.5

⁽¹⁾ Includes core pension ARC and POB Plan ARC. See Note 12 in the City’s Fiscal Year 2009 CAFR for more information on ARC and POB. Pursuant to IRS guidelines, the City may not pre-fund the POB Plan. Therefore, plan contributions may differ from the ARC in any given year. See footnote 2.

⁽²⁾ Fiscal Years 2008 and 2009: Audited; Fiscal Year 2010: Budgeted; and Fiscal Year 2011: Projection. Fiscal Year 2008: Includes \$137.7 million core pension contribution pursuant to SDCERS June 30, 2006 Actuarial Valuation, \$1 million POB Plan contribution, and \$27.9 million in additional voluntary contributions. Fiscal Year 2009: Includes \$161.7 million core pension contribution pursuant to SDCERS June 30, 2007 Actuarial Valuation, \$1.2 million POB Plan contribution, and \$700,000 in additional voluntary contributions. Fiscal Year 2010: Includes \$154.2 million core pension contribution pursuant to SDCERS June 30, 2008 Actuarial Valuation and a budgeted \$1.4 million POB Plan contribution. Fiscal Year 2011: Includes a projected \$229.1 million core pension contribution and a projected \$1.7 million POB Plan contribution. The Fiscal Year 2011 core pension contribution was determined pursuant to SDCERS June 30, 2009 Actuarial Valuation and in accordance with SDCERS Board of Administration action on May 28, 2010, whereby the employee portion for City safety members (IAFF Local 145 and POA) will increase by \$3.3 million and the City General Fund share of the Fiscal Year 2011 ARC will decrease by approximately \$2.6 million.

⁽³⁾ Fiscal Years 2008 and 2009: Actual. Fiscal Year 2010: Budgeted. Fiscal Year 2011: Projected. Although the columns in the table labeled “ARC” and “Total City Pension Contribution” include both the core pension ARC and POB Plan ARC, the column “General Fund Pension Contribution” only includes the General Fund contribution to the core pension ARC.

⁽⁴⁾ Revised core pension ARC and contribution in accordance with SDCERS Board of Administration action on May 28, 2010, whereby the employee portion for City safety members (IAFF Local 145 and POA) will increase by \$3.3 million and the City General Fund share of the Fiscal Year 2011 ARC will decrease by approximately \$2.6 million.

⁽⁵⁾ The Fiscal Year 2011 POB ARC is \$1.8 million.

Source: Fiscal Years 2008 – 2009: Comprehensive Annual Financial Report, Comptroller’s Office, City of San Diego; Fiscal Years 2010 – 2011: Financial Management Department, City of San Diego.

In addition to the City’s ARC payment, the City has entered into a court-approved class action settlement in the case of *William J. McGuigan v. City of San Diego, et. al.* (the “McGuigan Settlement”), that requires the City to make a payment of the remaining settlement amount of approximately \$32.8 million plus any interest accrued under the settlement to SDCERS by June 8,

2011. On June 4, 2010, the court approved the modification of the McGuigan judgment, which will allow for the judgment to be sold to Bank of America. The City expects to complete the sale on or before June 30, 2010. Under the terms of the sale, the bank will pay the remaining portion of the amount due to SDCERS under the McGuigan Settlement and the City will repay the bank over a four year term beginning in Fiscal Year 2012. This lawsuit involved the underfunding of the pension system by the City and all payments made by the City under the settlement are credited against the UAAL. See "CITY GOVERNMENT AND FINANCIAL INFORMATION—Fiscal Year 2011 Proposed General Fund Budget and Revised Fiscal Year 2011 Proposed Budget" herein.

Postemployment Healthcare Benefits

The City provides retiree healthcare benefits, also known as other postemployment benefits ("OPEB"), to certain health-eligible retired employees through a plan administered by SDCERS. The City's OPEB plan includes approximately 5,400 retirees, 8,900 active employees and 600 terminated vested members as of June 30, 2009. Historically, OPEB expenses were funded on a pay-as-you-go basis. Beginning in Fiscal Year 2008, the City entered into an agreement with the California Public Employees Retirement System ("CalPERS") as a participating employer in the CalPERS Employers Retirement Benefits Trust ("CERBT") to pre-fund future OPEB expenses. In Fiscal Year 2009, the City contributed approximately \$25.6 million to SDCERS to pay current OPEB expenses and contributed an additional amount of approximately \$23.9 million to the CERBT. In Fiscal Year 2010, the City budgeted approximately \$32.1 million to SDCERS to pay current OPEB expenses and budgeted an additional contribution of approximately \$25 million to the CERBT. As of December 31, 2009, the balance in the CERBT was approximately \$50.3 million.

As of the date of this Official Statement, the City has not fully funded its ARC for OPEB (i.e., the sum of the normal cost of the postemployment benefits plus amortization of the OPEB UAAL). The City has not projected the amounts necessary to fully fund its OPEB ARC payments beyond the amounts set forth in the Fiscal Year 2011-2015 Five-Year Financial Outlook and does not expect to fully fund its OPEB ARC payment in that timeframe, as outlined in the Fiscal Year 2011-2015 Five-Year Financial Outlook. All future contributions for postemployment healthcare benefits will be credited toward the City's ARC for retiree healthcare liabilities in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" ("GASB 43"), and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). See Note 13 to the Fiscal Year 2009 audited financial statements attached hereto in Appendix C.

In connection with compliance with GASB 43 and GASB 45, the City has calculated its net OPEB obligation ("NOPEBO") as of June 30, 2009 to be approximately \$93.9 million. The NOPEBO is the cumulative difference between the City's annual OPEB cost and City's contributions to OPEB in a particular year, including the OPEB liability or asset at transition, if any. Annual OPEB cost is equal to (i) the ARC for OPEB, (b) one year's interest on the NOPEBO from prior years (which the City determined to be zero at the beginning of Fiscal Year 2008, the transition year, in accordance with GASB 45), and (c) an adjustment to the ARC for OPEB to offset the effect of actuarial amortization of past under- or over-contributions.

An actuarial valuation of the City’s postemployment medical benefit program as of June 30, 2009 (the “2009 OPEB Valuation”) was performed by Buck Consultants for the purpose of determining the City’s annual cost in accordance with GASB 45. The valuation, dated September 17, 2009, reflected a discount rate of 6.69% based on the City’s actual and expected contributions to CERBT, inflation factors for increases in healthcare costs and premium costs, and a 30-year amortization period (open basis). According to the 2009 OPEB Valuation, using the assumptions described above and consistent with GASB 45, the UAAL for OPEB for all retirees, deferred retirement participants, vested terminated and active members was \$1.32 billion and the ARC for OPEB will be \$120.32 million for Fiscal Year 2011 (as reported in the actuarial valuation dated June 30, 2009).

Table A-9 sets forth the retiree healthcare ARC and contributions for Fiscal Years 2008 through 2011.

TABLE A-9
CITY OF SAN DIEGO
RETIREE HEALTH CONTRIBUTIONS
Fiscal Years 2008 through 2011
(In Millions)

<i>Fiscal Year ending June 30</i>	<i>ARC</i>	<i>Total City Retiree Health Contribution⁽¹⁾</i>	<i>General Fund Retiree Health Contribution⁽¹⁾⁽²⁾</i>
2008	\$ 91.6	\$53.6	\$32.5
2009	104.5	49.5	34.9
2010	113.4	57.1	39.7
2011	120.3	57.8	40.0

⁽¹⁾ Fiscal Years 2008 and 2009: Actual. Fiscal Year 2010: Budgeted. Fiscal Year 2011: Projected.

⁽²⁾ Includes pay-as-you-go portion and contribution towards the CalPERS Employment Retirement Benefit Trust (CERBT).

Source: Fiscal Years 2008 – 2009: Comprehensive Annual Financial Report, Comptroller’s Office, City of San Diego; Fiscal Years 2010 – 2011: Financial Management Department, City of San Diego.

RISK MANAGEMENT

Workers’ Compensation and Long-Term Disability

The City is self-insured for workers’ compensation and long-term disability (“LTD”). All operating funds of the City participate in both these programs and make payments to the Self Insurance Fund. Each fund contributes an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the Self Insurance Fund. The City’s Fiscal Year 2011-2015 Five-Year Financial Outlook addresses reserves for the Workers’ Compensation Fund. See “Reserves” herein.

Employee Group Health Insurance

The City offers a cafeteria-style flexible benefits plan. For all employees, this plan requires employees to choose a health and life insurance plan and also gives employees the option of obtaining dental insurance, vision insurance, or catastrophic care insurance. For MEA and Local-127 represented employees, this plan requires employees to choose a life insurance plan for their flexible benefit credit. For all other employees, \$50,000 of City-paid life insurance is automatically provided outside of the flexible benefit credit. Employees can place remaining flexible benefit dollars into IRS qualified dental/medical/vision and childcare reimbursement accounts, into their 401(k), and/or take as cash.

Public Liability Insurance

The City's self-insured retention for public liability is \$4,000,000 per occurrence. The City maintains excess public liability insurance policies in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to \$50,000,000 per occurrence. The City's Fiscal Year 2011-2015 Five-Year Financial Outlook addresses reserves for the Public Liability Fund. See "Reserves" herein.

Public liability, workers' compensation, and LTD estimated liabilities as of June 30, 2009 are determined based on results of independent actuarial evaluations and include amounts for claims incurred but not reported and the loss adjustment expenses. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the Self Insurance Fund, Sewer Utility Fund, and Water Utility Fund. Table A-10 presents the liability expense of the City for all three funds for the years presented, and the liability premium payments. Amounts charged to the General Fund for claims and premiums vary from year to year based on a variety of factors including distribution of claims among responsible funds.

TABLE A-10
CITY OF SAN DIEGO
LIABILITY CLAIMS⁽¹⁾ AND PREMIUMS
Fiscal Years 2005 through 2009

<i>Fiscal Year</i>	<i>Liability Claims Payments and Settlement Costs</i>	<i>Liability Premium Payments</i>
2005	\$24,508,000	\$2,928,104
2006	28,563,000	3,541,053
2007	31,832,000	5,725,972
2008	28,043,000	4,487,500
2009	25,588,000	5,491,130

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

Source: Information under tabular heading "Liability Claims Payments and Settlement costs" — Fiscal Year 2005 - Fiscal Year 2009: Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego
Information under tabular heading "Liability Premium Payments" - Risk Management Department, City of San Diego.

During Fiscal Year 2009 and to date in Fiscal Year 2010, there were no significant reductions in insurance coverage from the prior year. For each of the past three full Fiscal Years, the settlements have not exceeded insurance coverage. The City can give no assurance that particular losses will be covered or that providers will be able to pay covered losses.

Property Insurance

The City participates in the joint purchase of property insurance and flood insurance through the CSAC-EIA pool, policy term March 31, 2010 through March 31, 2011, which includes flood coverage for certain scheduled locations. This joint purchase of the City's "all risk" property insurance, insuring approximately \$2.67 billion of City property, provides coverage for loss to City property under the primary policy up to approximately \$25 million per occurrence, with a \$25,000 deductible. This limit of insurance includes coverage for rental interruption for designated lease financed locations. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member counties are mutually subject to losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to requirements of bond financed projects and in response to changes in the insurance marketplace and the City can give no assurance that any future losses will be covered or that its insurance provider will be able to cover any such losses.

Earthquake Insurance

The City has access up to \$307.5 million of coverage limits, including coverage for rental interruption, for earthquake for designated buildings/structures and certain designated City lease financed locations. Depending upon the availability and affordability of such earthquake insurance,

the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels. Earthquake coverage is subject to the greater of a 5% or \$100,000 per unit deductible, effective through March 31, 2011. The City's earthquake coverage is purchased jointly and shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. The City can give no assurance that any future losses will be covered by its insurance or that its insurance will be able to pay any covered losses.

Employee Dishonesty and Faithful Performance Insurance

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

LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND AND OTHER OPERATING FUNDS OF THE CITY

No Pending Litigation Regarding the Notes

There is no litigation against the City pending or, to the knowledge of the executive 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 Notes; (ii) questioning or affecting the validity of the Notes; or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Notes. 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.

Litigation and Regulatory Actions

The City is a defendant in lawsuits pertaining to various matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City received approximately 2,300 notices of claims in Fiscal Year 2009. The City has received approximately 1,766 notices of claims to date in Fiscal Year 2010. The City does not expect the aggregate amount of the uninsured liabilities of the City which may result from an adverse ruling in any or all of such claims to have a material adverse effect on its ability to pay principal and interest on the Notes when due.

The estimate of the aggregate liability for unsettled claims as of June 30, 2009 that are not otherwise reported in Note 18, is accrued in the City's audited financial statements for the Fiscal Year ended June 30, 2009 and attached hereto as APPENDIX C — "CITY OF SAN DIEGO

COMPREHENSIVE ANNUAL FINANCIAL REPORT” under the Government-Wide Statement of Net Assets and the Proprietary Funds financial statements. This liability was estimated by categorizing the various claims and was supplemented by information provided by the City Attorney with respect to the merit of certain individual claims and proceedings for which estimated Citywide exposure (including the City’s Proprietary Funds) in the event of an adverse ruling was \$2 million or more (“Potentially Significant Litigation”).

Potentially Significant Litigation involving individual lawsuits that are not accrued as noted above are reported in the 2009 audited financial statements under either Note 18 (Contingencies) or Note 22 (Subsequent Events). Such litigation may involve liabilities attributable to the City’s Proprietary Funds and for which the City’s General Fund may not be liable.

Also, *Swift Frame v. City of San Diego*, a class action lawsuit, was filed December 24, 2009 seeking a return of the processing fee that the City charged to the Business Tax and Rental Unit Business Tax. Plaintiff alleges that a processing fee (\$75 first year and \$15 per year thereafter) is an illegal tax since the fee was not approved by a super majority of the voters as allegedly required by Proposition 218. In the event of an adverse ruling the liability facing the City is estimated to be in the range of \$0-\$5,000,000.

Ernest Abbit, et al. v. City of San Diego. In this case residents of the De Anza Mobilehome Park filed a lawsuit in 2006 alleging violations of the California Mobilehome Residency laws for management abuses and individual tort claims. In March, 2010 a settlement was reached and is in the process of being finalized, and the City expects that the entire settlement amount on behalf of the defendants will be paid for by the insurance companies for the City and the co-defendant.

On March 4, 2008, the Colony Hills Homeowners Association (the “HOA”) and 40 property owners within the HOA filed a lawsuit against the City, which is described in Note 18 to the City’s 2009 audited financial statements. This lawsuit was settled in February of 2010. The total cost to the City under the settlement is expected to be approximately \$515,000 to \$715,000, inclusive of out-of-pocket expenses, and will be paid from the Water Utility Fund.

Border Business Park, Inc. (aka De La Fuente Business Park, Inc.) v. City of San Diego. Starting in 1995, an Otay Mesa developer filed the first of four lawsuits against the City concerning alleged breaches to a 1986 development agreement and inverse condemnation. The developer, Roque De La Fuente, controls all of the plaintiff entities. In the first lawsuit, *Border Business Park, Inc.*, a jury returned a verdict of \$94,500,000 in plaintiff’s favor. On appeal, however, the Court of Appeal overturned the jury’s verdict and ordered a new trial on the breach of contract claim only. Two other lawsuits, *National Enterprises, Inc.* and *Otay Acquisitions, LLC*, were stayed during the pendency of the *Border Business Park* appeal. Upon remand, the City successfully demurred in each of the three cases, and each was dismissed. Plaintiff subsequently filed appeals in these matters. On June 7, 2010, the California Court of Appeal, Fourth Appellate District, Division Two, reversed the judgments entered in favor of the City on the breach of contract causes of action only. The dismissal of the inverse condemnation causes of action was affirmed. A fourth lawsuit, *Otay Truck Parking, L.P.*, setting forth substantially similar allegations, was filed in the August 2009. According to the City Attorney, the possible aggregate exposure of these cases ranges between \$0 and \$30,000,000.

All of the estimates of any potential losses in the event of an adverse ruling are subject to change without notice, and, except as required by the Note Purchase Agreement, the City disclaims any undertaking to update the information concerning pending litigation or asserted claims for matters which may thereafter be brought to the attention of the City. See APPENDIX C – “CITY OF SAN DIEGO COMPREHENSIVE ANNUAL FINANCIAL REPORT”.

INVESTMENT OF FUNDS

Investment of Funds

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

City Pool. In accordance with the Charter of the City and authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Pool. Responsibility for the daily investment of funds in the City Pool is delegated to the City’s Chief Investment Officer. The City and certain related entities are the only participants in the City Pool; there are no other City Pool participants either voluntary or involuntary in the City Pool. The investment objectives of the City Pool are preservation of capital, liquidity and return.

Oversight and Reporting Requirements. The City Treasurer provides an investment report on a monthly basis to the Chief Financial Officer, the City Comptroller and the City Council and annually presents the Investment Policy to the Chief Financial Officer, the Investment Advisory Committee and the City Council. The Investment Advisory Committee is comprised of two City employees, currently the Chief Financial Officer and the Director of Debt Management, and three investment professionals from the private sector and is charged with overseeing the review of the City’s Investment Policy and practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City’s financial statements.

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

Authorized Investments. Investments in the City Pool are governed by State law and further restricted by the City’s Investment Policy. The Investment Policy is prepared with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, U.S. Agency mortgage backed securities, corporate medium term notes, money market instruments, non-negotiable FDIC-insured certificates of deposit and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements (“reverse repos”) are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions

as well. The main operating funds of the City are managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising approximately 35% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to approximately one year. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Merrill Lynch one- to three-year U.S. Treasury Index. The 35% Liquidity/65% Core portfolio split serves as a guideline. The actual split may vary due to market conditions or other factors. Safety of principal and liquidity are paramount considerations in the management of both portfolios.

Pool Liquidity and Other Characteristics. The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. Based on unaudited month-end data as of March 31, 2010, approximately 13% of the pool investments mature within 62 days, 16% within 92 days and 24% within 184 days, 39% within 1 year, 77% within 2 years, 98% within 3 years, and 100% within 5 years (on a cumulative basis). As of March 31, 2010, the Pool had a weighted average maturity of 1.34 years (488 days) and its weighted average yield was 1.015%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.37 years and the Core portfolio had a duration of 1.78 years as of March 31, 2010. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.37% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.78% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

Table A-11 below sets forth information concerning the City Pool at March 31, 2010.

TABLE A-11
CITY OF SAN DIEGO POOLED INVESTMENT FUND
at March 31, 2010
(\$ in thousands)
(unaudited)

<i>Investment Instrument</i>	<i>Book Value</i>	<i>Fair Value</i>	<i>Percent of Total⁽¹⁾</i>
U.S. Treasury Bills and Notes	\$ 881,235	\$ 883,223	42.94%
Federal Agency Securities ⁽²⁾	770,534	771,644	37.54
Medium Term Notes (Corporate) ⁽³⁾	194,360	196,183	9.47
Money Market Instruments ⁽⁴⁾	156,317	156,277	7.62
Local Agency Investment Fund	49,957	49,957	2.43
TOTAL INVESTMENTS	\$2,052,403	\$2,057,284	100.00%

(1) Based on book value.

(2) Federal National Mortgage Association ("Fannie Mae") securities and Federal Home Loan Mortgage Corporation ("Freddie Mac") securities represent 29.82% and 20.16%, respectively, of total Federal Agency Securities, which is approximately 11.19% and 7.57%, respectively, of the City Pool.

(3) These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months. 70.63% of these notes were issued under the Temporary Liquidity Guarantee Program and are backed by the full faith and credit of the FDIC.

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

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

The City Pool is not invested in any structured investment vehicles, mortgage-backed securities or other asset-backed securities. In addition, the City has no outstanding swap arrangements or liquidity facilities.

BONDED AND OTHER INDEBTEDNESS

Long-Term Obligations

As of June 30, 2010, the City will have \$4,340,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and \$520,825,000 aggregate principal amount of long-term general fund lease obligations outstanding.

Table A-12 provides a schedule, by years, of principal and interest payments required to be made by the City or its oversight entities with respect to future obligations, as of June 30, 2010.

TABLE A-12
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS ⁽¹⁾
As of June 30, 2010
(in thousands)

<i>Fiscal Year Ending June 30</i>	<i>General Obligation Bonds</i>	<i>General Fund Lease Obligations</i>	<i>Total Principal and Interest Payable</i>
2011	\$ 2,319	\$ 38,344	\$ 40,663
2012	2,314	39,238	41,552
2013	0	41,545	41,545
2014	0	41,539	41,539
2015	0	41,549	41,549
Thereafter	0	660,858	660,858
Subtotal	\$ 4,633	\$ 863,073	\$ 867,706
Less Interest Portion	<u>(293)</u>	<u>(342,248)</u>	<u>(342,541)</u>
Total Principal Portion	<u>\$ 4,340</u>	<u>\$ 520,825</u>	<u>\$ 525,165</u>

⁽¹⁾ Unaudited

Source: Debt Management Department, City of San Diego.

The following provides a summary list of outstanding general obligation bonds and General Fund lease commitments as of June 30, 2010.

<u>General Obligation Bonds</u>	<u>Principal Outstanding (in thousands)</u>
1991 – Public Safety Communications	\$ 4,340
Total Principal of General Obligation Bonds	\$ 4,340
<u>General Fund Lease Commitments</u>	
<i>Certificates of Participation</i>	
1996A – Balboa Park/Mission Bay Park Capital Improvements	\$ 3,435
2003 – Balboa Park/Mission Bay Park Capital Improvements Refunding	8,195
<i>Lease Revenue Bonds</i>	
1998A – Convention Center Expansion Financing Authority	162,545
2002B – Fire and Life Safety Facilities Project	21,730
2003 – City/MTDB Authority for Old Town Trolley Extension Refunding	11,445
2007A – Ballpark Project	145,840
2010A – Lease Revenue Refunding Bonds	<u>167,635</u>
Total Principal of General Fund Lease Commitments	<u>\$ 520,825</u>

Source: Debt Management Department, City of San Diego.

Proposed Additional General Fund Lease Financings

From time to time, the City issues lease revenue bonds to fund various capital improvements and projects. The City’s Fiscal Year 2011-15 Five-Year Financial Outlook describes the City’s General Fund deferred capital improvement needs. Deferred capital improvements include needed repairs to City facilities, including roof replacement, heating and cooling system upgrades, structural repairs, and repairs and improvements to storm drains and streets. The City estimates that its deferred capital improvement needs, excluding those related to water and wastewater enterprises, may be at least \$800 million to \$900 million. The City has no current plans to borrow to meet those deferred capital needs, other than as described in the next paragraph.

In March 2009, the Public Facilities Financing Authority of the City of San Diego sold \$103 million of lease revenue bonds for deferred capital improvement projects on a private placement basis, which were refunded in May 2010 by the Series 2010A Bonds. Based on the Revised Fiscal Year 2011-15 Five-Year Financial Outlook, approximately \$124 million in General Fund supported obligations are projected to be issued to address deferred capital improvement needs in each of the Fiscal Years 2012 and 2014.

The City also monitors its outstanding bond issuances for refunding opportunities, and, depending on market conditions, the City may issue refunding bonds where economically advantageous to the City.

Short-Term Borrowings

The City has issued tax and revenue anticipation notes since the mid-1960's (except for Fiscal Year 1979) in anticipation of receipt of taxes and other General Fund revenues, and will do so in Fiscal Year 2011 with the issuance of the Notes, as described in the forepart of this Official Statement. The following Table A-13 presents a 10-year history of the City's tax and revenue anticipation notes:

TABLE A-13
CITY OF SAN DIEGO GENERAL FUND
TAX AND REVENUE ANTICIPATION NOTES
Fiscal Years 2001 through 2010
(in thousands)

<i>Fiscal Year</i>	<i>Principal Amount⁽¹⁾</i>
2001	\$77,000
2002	73,000
2003	93,200
2004	110,900
2005 ⁽²⁾	114,000
2006 ⁽²⁾	145,000
2007 ⁽²⁾	142,000
2008 ⁽²⁾	116,000
2009 ⁽²⁾	135,000
2010	124,070 ⁽³⁾

⁽¹⁾ Principal amounts issued pursuant to Charter Section 92.

⁽²⁾ Private placements in Fiscal Years 2005-2009.

⁽³⁾ Matured on April 30, 2010.

Source: Debt Management Department, City of San Diego.

Operating Lease Commitments

The City has entered into various General Fund lease arrangements under which the City must make annual payments to occupy facilities necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 2009.

TABLE A-14
CITY OF SAN DIEGO
FUTURE MINIMUM RENTAL PAYMENTS
GENERAL FUND OPERATING LEASE COMMITMENTS(1)
(in thousands)
As of June 30, 2009

<u>Fiscal Year</u>	<u>Rent Payable</u>
2010	\$ 8,852
2011	8,241
2012	8,321
2013	8,264
2014	5,877
2015	53
2016	49
2017	49
2018	49
2019	49
Thereafter ⁽²⁾	<u>245</u>
Total	<u>\$40,049</u>

⁽¹⁾ Table describes commercial rent payable by the City of San Diego.

⁽²⁾ Fiscal Years 2020-2024.

Source: Real Estate Assets Department, City of San Diego

Overlapping Debt and Debt Ratios

Table A-15 presents a statement of direct and overlapping bonded debt (the "Debt Statement") of the City as of March 1, 2010. The City has issued bonds or certificates of participation secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501(c)(3) non-profit corporations. These bonds and certificates of participation are not secured by City General Fund amounts or revenues.

The Debt Statement is prepared by California Municipal Statistics Inc. and is included for general information purposes only. The City has not reviewed the Debt Statement for completeness or accuracy and makes no representations in connection therewith. The Debt Statement does not include the Series 2010A Bonds and the Notes described in the forepart of this Official Statement.

The Debt Statement generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

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

The City periodically issues Special Assessment or Community Facilities District (Mello-Roos) bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined extraordinary benefit to the City. These bonds are secured by property owner assessments or special taxes. As of December 31, 2009, there were two 1915 Act Assessment District and two Reassessment District bond issues with aggregate outstanding principal of \$24,745,520, and eight Community Facilities District bond issues with outstanding principal of \$136,970,000.

The reserve funds for each of the City's outstanding Assessment District and Community Facilities District bond issues were fully funded as of December 31, 2009. The City is not in any way obligated to make debt service payments for either Assessment District or Community Facilities District bond issues. Based on the City's current Debt Policy, if a short-fall in assessments or special tax receipts needed to make debt service payments occurred as a result of delinquencies, the City does not expect to cover such shortfalls using its general revenues.

TABLE A-15
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
(as of March 1, 2010)
(unaudited)

2009-10 Assessed Valuation:	\$181,065,185,204
Redevelopment Incremental Valuation:	<u>17,977,774,770</u>
Adjusted Assessed Valuation:	\$163,087,410,434

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/10</u>
Metropolitan Water District	9.011%	\$ 23,808,864
Palomar Community College District	26.111	39,623,443
San Diego Community College District	99.923	625,197,412
Poway Unified School District School Facilities Improvement District Nos. 2002-1 and 2007-1	67.752 & 68.491	171,168,918
San Diego Unified School District	99.926	1,526,327,902
Sweetwater Union High School District	20.702	71,154,723
San Ysidro School District	84.442	73,795,640
Other School, High School and Community College Districts	Various	58,407,187
Grossmont Healthcare District	8.251	7,065,090
Palomar Pomerado Health System	32.014	133,697,929
City of San Diego	100.	4,340,000
City of San Diego Community Facilities District No. 1	100.	37,130,000
City of San Diego Community Facilities District No. 2, Improvement Area Nos. 1, 3 and 4	100.	68,390,000
City of San Diego Community Facilities District No. 3	100.	19,195,000
City of San Diego Community Facilities District No. 4	100.	12,165,000
City of San Diego 1915 Act Bonds	100.	24,745,520
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	100.	29,115,000
North City West School District Community Facilities District	100.	90,692,921
Poway Unified School District Community Facilities Districts	99.609-100.	305,770,005
San Dieguito Union High School District Community Facilities Districts	39.731-81.063	32,105,640
Sweetwater Union High School District Community Facilities Districts	8.935-100.	23,222,679
Other Special District 1915 Act Bonds	Various	<u>1,787,962</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 3,378,906,835
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	46.840%	\$ 197,482,124
San Diego County Pension Obligations	46.840	399,786,304
San Diego Superintendent of Schools Certificates of Participation	46.840	9,924,225
Palomar Community College District General Fund Obligations	26.111	1,817,326
Poway Unified School District Certificates of Participation	71.391	90,998,888
Sweetwater Union High School District Certificates of Participation	20.702	2,585,680
Chula Vista School District General Fund Obligations	4.914	7,028,249
San Ysidro School District Certificates of Participation	84.442	31,264,651
Other School, High School and Community College District Certificates of Participation	Various	2,194,775
City of San Diego General Fund Obligations and MTDB Authority	100.	525,230,000⁽¹⁾
Otay Municipal Water District Certificates of Participation	8.183	<u>5,064,459</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 1,273,376,681
Less: Otay Municipal Water District Certificates of Participation		<u>5,064,459</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 1,268,312,222
 GROSS COMBINED TOTAL DEBT		 \$ 4,652,283,516⁽²⁾
NET COMBINED TOTAL DEBT		\$ 4,647,219,057

(1) Excludes the Series 2010A Bonds.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on the principal amount due at maturity.

(table continued on next page)

TABLE A-15
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
(as of March 1, 2010)
(unaudited)
(continued from previous page)

Ratios to 2009-10 Assessed Valuation:

Direct Debt (\$4,340,000)	0.002%
Total Direct and Overlapping Tax and Assessment Debt	1.87%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$529,570,000) (1)	0.32%
Gross Combined Total Debt.....	2.85%
Net Combined Total Debt	2.85%

(1) City	\$ 4,340,000
City Authorities and Certificates of Participation	<u>525,230,000</u>
	\$ 529,570,000

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

Source: California Municipal Statistics Inc.

APPENDIX B

DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY

Set forth below is certain demographic information regarding the City of San Diego (the "City") and the County of San Diego (the "County"). This information is provided for informational purposes only and general background. The Notes are not a debt of the County, the State, or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable thereon. The information and data within this Appendix B is the latest data available; however, the current state of the economy at City, County, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the City.

As set forth under "THE NOTES—Security for the Notes" in the forepart of this Official Statement, the Notes are secured by Pledged Moneys, which are comprised of a portion of the moneys chargeable to the City's General Fund for Fiscal Year 2011.

INTRODUCTION

The City, with a total population of approximately 1,376,173 as of January 1, 2010 and a land area of approximately 342 square miles, is the eighth largest city in the nation and the second largest city in California. The City is the county seat for the County. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. Major components of the City's diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications.

Population

The following Table B-1 sets forth annual population figures for the City, the County and the State for calendar years 2000 through 2009. The City's population increased by approximately 6.0% between 2000 and 2009, with an average annual increase of approximately 8,529.

TABLE B-1
POPULATION GROWTH
Calendar Years 2000 through 2009

<i>Calendar Year⁽¹⁾</i>	<i>City of San Diego</i>	<i>Annual Growth Rate</i>	<i>County of San Diego</i>	<i>Annual Growth Rate</i>	<i>State of California</i>	<i>Annual Growth Rate</i>
2000	1,277,168	1.82%	2,836,284	2.16%	34,095,209	2.02%
2001	1,250,700	-2.07	2,892,535	1.98	34,766,730	1.97
2002	1,255,742	0.40	2,948,541	1.94	35,361,187	1.71
2003	1,275,112	1.54	2,994,300	1.55	35,944,213	1.65
2004	1,294,000	1.48	3,025,524	1.04	36,454,471	1.42
2005	1,306,000	0.93	3,053,111	0.91	36,899,392	1.22
2006	1,311,162	0.40	3,077,313	0.79	37,274,618	1.02
2007	1,316,837	0.43	3,117,943	1.32	37,674,415	1.07
2008	1,336,865	1.52	3,169,490	1.65	38,134,496	1.22
2009	1,353,993	1.28	3,208,466	1.23	38,487,889	0.93

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

Source: City of San Diego data: Fiscal Year 2009 Comprehensive Annual Financial Report, Statistical Section (Unaudited).

County of San Diego and State of California data: State of California Department of Finance, Demographic Research Unit.

Employment

The following Table B-2 sets forth information regarding the size of the labor force, employment and unemployment rates for the City for calendar years 2005 through 2009, and for May 2010 (Preliminary).

TABLE B-2
LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE(1)
Calendar Years 2005 through 2009, and May 2010
(Not Seasonally Adjusted)

	<i>Calendar Year</i>					<i>May</i>
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010⁽²⁾</i>
Civilian Labor Force						
City of San Diego ⁽¹⁾						
Employed	637,500	645,100	649,700	652,800	627,700	629,100
Unemployed	28,900	26,600	30,800	41,900	67,500	70,000
Unemployment Rates						
City ⁽¹⁾	4.3%	4.0%	4.5%	6.0%	9.7%	10.0%
County ⁽¹⁾	4.3	4.0	4.5	6.0	9.7	10.4
California ⁽¹⁾	5.4	4.9	5.3	7.2	11.4	12.2
United States ⁽³⁾	5.1	4.6	4.6	5.8	9.3	9.5

⁽¹⁾ Revised labor force data and Unemployment Rates are based on a March 2009 benchmark.

⁽²⁾ Preliminary; subject to change.

⁽³⁾ The United States unemployment rates for calendar year 2005-2009 were generated as of June 23, 2010.

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

The State of California Employment Development Department, Labor Market Information Division (the "EDD"), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the City in May of 2010 was 629,100, of which approximately 70,000 persons were unemployed. Based on preliminary estimates of the EDD as of June 23, 2010, the City's unemployment rate in May of 2010 of 10.0%, on a seasonally unadjusted basis, was below that of the County at 10.4% and below that of the State at 12.2%. However, the City's unemployment rate exceeded that of the United States, which was 9.5%. The following Table B-3 sets forth estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major industry category in the County for calendar years 2005 through 2009. Annual industry employment information is not compiled by sector for the City.

TABLE B-3
COUNTY OF SAN DIEGO
WAGE AND SALARY EMPLOYMENT
Calendar Years 2005 through 2009⁽¹⁾

<i>Industry Category</i>	2005	2006	2007	2008	2009
Mining & Logging	400	500	400	400	400
Construction	90,800	92,700	87,000	76,100	61,100
Manufacturing	104,500	103,900	102,500	102,800	95,400
Nondurable Goods	25,400	25,500	25,200	24,700	22,200
Durable Goods	79,100	78,400	77,300	78,100	73,200
Transportation, Warehousing & Utilities	28,400	28,700	28,800	29,000	27,100
Trade	191,000	193,400	193,600	186,900	171,200
Wholesale	43,600	45,100	45,500	44,900	40,700
Retail	147,400	148,300	148,100	142,000	130,500
Financial Activities⁽²⁾	83,200	83,700	80,300	75,200	70,300
Services⁽³⁾	568,700	580,900	594,000	603,300	579,500
Government	215,100	217,900	222,400	225,100	224,700
Federal	39,700	40,400	40,900	41,600	43,300
State and Local	175,400	177,500	181,500	183,500	181,400
TOTAL NONAGRICULTURAL	<u>1,282,100</u>	<u>1,301,600</u>	<u>1,308,800</u>	<u>1,298,700</u>	<u>1,229,600</u>

⁽¹⁾ All figures are based on a March 2009 Benchmark.

⁽²⁾ Includes finance, insurance, and real estate.

⁽³⁾ Includes professional and business, information, educational and health, leisure and hospitality and other services.

Source: State of California Employment Development Department, Labor Market Information Division.

Since the industry employment data referenced above is organized by standard industrial classification codes, employment in the various high tech categories, such as telecommunications, software and biotechnology may not fall into a single employment section alone. For example, some telecommunications firms appear in Manufacturing while others appear in Services.

Taxable Sales

The following Table B-4-1 sets forth taxable transactions in the City for calendar years 2004 through 2008 and the following Table B-4-2 sets forth taxable transactions in the City for the first quarter of calendar year 2009. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Major Revenue Sources" for a discussion of City assumptions regarding negative trends of taxable transactions and sales tax revenues for Fiscal Year 2009, Fiscal Year 2010 and Fiscal Year 2011.

TABLE B-4-1
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 2004 through 2008
(In Thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007⁽¹⁾</u>	<u>2008⁽¹⁾</u>
Retail Stores					
Apparel	\$785,563	\$865,833	\$924,301	\$959,509	\$1,123,736
General Merchandise	2,142,892	2,170,831	2,236,087	2,272,494	1,995,887
Food	741,899	801,351	843,800	881,871	828,471
Eating and Drinking	2,197,430	2,311,013	2,466,681	2,617,392	2,682,884
Home Furnishings and Appliances	728,841	747,339	706,043	655,097	749,808
Building Materials	1,440,726	1,396,894	1,427,987	1,098,559	865,280
Motor Vehicles and Parts	2,213,662	2,228,510	2,132,207	2,237,019	1,852,953
Service Stations	1,232,354	1,398,512	1,567,032	1,656,784	1,847,002
Other Retail Stores	<u>2,375,353</u>	<u>2,465,882</u>	<u>2,527,653</u>	<u>2,321,276</u>	<u>2,045,273</u>
Total Retail Stores	\$13,858,720	\$14,386,165	\$14,831,791	\$14,700,001	\$13,991,295
All Other Outlets	4,679,723	5,105,581	5,227,476	5,356,105	5,422,964
TOTAL ALL OUTLETS	<u>\$18,538,443</u>	<u>\$19,491,746</u>	<u>\$20,059,267</u>	<u>\$20,056,106</u>	<u>\$19,414,259⁽²⁾</u>

⁽¹⁾ In early 2007 the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change process, industry data for 2007 and 2008 are not comparable with data from prior years.

⁽²⁾ Line items may not add to totals due to independent rounding.

Source: California State Board of Equalization.

TABLE B-4-2
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Year 2009 – First Quarter
(in Thousands)

Type of Business	2009 <u>First Quarter</u>
Motor Vehicle and Parts Dealers	\$ 404,313
Home Furnishings and Appliance Stores	232,046
Building Materials and Garden Equipment and Supplies	179,969
Food and Beverage Stores	201,635
Gasoline Stations	278,502
Clothing and Clothing Accessories Stores	278,305
General Merchandise Stores	313,311
Food Services and Drinking Places	623,086
Other Retail Group	<u>358,877</u>
Total Retail and Food Services	2,870,044
All Other Outlets	<u>1,173,138</u>
TOTAL ALL OUTLETS	<u>\$4,043,182</u>

Source: California State Board of Equalization, Taxable Sales in California.

Total taxable sales in the City of San Diego during the first quarter of calendar year 2009 declined by approximately 13%, compared to the same period of the prior year.

Tourism

The tourism industry is the County's third largest industry in terms of business revenue generation, following manufacturing and the military. The following Table B-5 sets forth total visitor spending in the County for the calendar years 2005 through 2009.

TABLE B-5
COUNTY OF SAN DIEGO
TOTAL VISITOR SPENDING⁽¹⁾
Calendar Years 2005 through 2009
(In Millions)

<u><i>Calendar Year</i></u>	<u><i>Amount</i></u>
2005 ⁽²⁾	\$7,224
2006 ⁽²⁾	7,719
2007 ⁽²⁾	7,899
2008	7,916
2009	6,958

⁽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.

⁽²⁾ Figure reflects revised estimate to include day visitors from Mexico, non-resident air travelers and conference and convention planners and exhibitor companies.

Source: San Diego Convention and Visitors Bureau.

The following Table B-6 sets forth the City’s transient occupancy tax revenues for Fiscal Years 2005 through 2009. See APPENDIX A—“CITY GOVERNMENT AND FINANCIAL INFORMATION—Major Revenue Sources” for a discussion of negative trends of City transient occupancy tax projected for Fiscal Year 2010 and Fiscal Year 2011.

TABLE B-6
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX⁽¹⁾
Fiscal Years 2005 through 2009
(in thousands)

<u><i>Fiscal Year</i></u>	<u><i>Amount</i></u>
2005	\$ 120,792
2006	136,803
2007	154,810
2008	159,348
2009	140,657

⁽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. Special Promotional Programs are intended to: advance the City’s economy by promoting the City as a visitor destination; develop, maintain, and enhance visitor-related facilities; and support the City’s cultural amenities and natural attractions.

Source: Fiscal Year 2009 Comprehensive Annual Financial Report, Comptroller’s Office, City of San Diego.

The City is the focal point for tourism in the County. Based on the San Diego County Visitor Industry Summary produced by San Diego Convention and Visitors Bureau, in calendar year 2009 an average of 67.3% of the County’s hotel and motel rooms rented were located in the City. In addition, 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, Balboa Park and a host of other cultural and recreational activities.

Based on the San Diego County Visitor Industry Summary, in calendar year 2009, there were 8,501,391 airport arrivals and 665,757 Amtrak arrivals in the County; City average hotel occupancy was 65.4%. As of March 2010, the City average hotel occupancy rate was 70.9%, which represents a 12.0% increase from the same period of the prior year.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major sporting events. The City annually hosts the Buick Invitational, a Professional Golfers’ Association Tour Event played at the world renowned Torrey Pines Golf Course. In addition, the City has annually hosted a pair of post season contests of elite college football teams, the Holiday Bowl and the Poinsettia Bowl.

The San Diego Convention Center has 2.6 million total gross square feet of buildings. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention

Center has generated over \$18.3 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

Military

Military and related defense spending are significant factors in the County economy. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot (MCRD); Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

The following Table B-7 sets forth the military and related defense expenditures and personnel in the City for the federal fiscal years ended September 30, 2008 and September 30, 2009.

TABLE B-7
CITY OF SAN DIEGO⁽¹⁾
TOTAL DEFENSE EXPENDITURE AND PERSONNEL
Federal Fiscal Years ended September 30, 2008 and September 30, 2009

Fiscal Year	<i>Expenditures (In Thousands)</i>		<i>Military & Civilian Personnel⁽²⁾</i>		
	Grants/ Contracts⁽³⁾	Payroll Outlays⁽²⁾	Active Duty Military	Civilian⁽⁴⁾	Total
2008	\$9,080,575	\$5,543,618	64,605	25,232	89,837
2009	\$10,754,006	\$5,778,806	67,432	24,965	92,397

⁽¹⁾ Data includes activity and expenditures which may occur outside the City or in adjacent counties related to County-based sites.

⁽²⁾ Computation for Personnel & Payroll Data includes Active Duty Marines and all Commands in the following Navy Installations: Naval Base San Diego, the Broadway Complex, Naval Base Point Loma, Naval Base Coronado, Marine Corps Air Station Miramar, Marine Corps Recruit Depot Miramar, and Naval Medical Center.

⁽³⁾ Procurement data includes Contracts for Dept of Defense only in Congressional Districts CA-49, CA-50, CA-51, CA-52 and CA-53.

⁽⁴⁾ Includes Appropriated and Non-appropriated Funds Civilians Navy employees, Defense Commissary Agency employees, Navy Exchange employees and Marine Corps Exchange employees.

Source: Defense Manpower Data Center and Total Workforce Management System, Commander Navy Region Southwest, Regional Business Office.

International Trade

The following Table B-8 sets forth the valuation of exports originating in the San Diego Customs District for the calendar years 2005 through 2009.

TABLE B-8
VALUATION OF EXPORTS
ORIGINATING IN SAN DIEGO CUSTOMS DISTRICT⁽¹⁾
Calendar Years 2005 through 2009
(In Millions)

<u><i>Calendar Year</i></u>	<u><i>Amount</i></u>
2005	\$14,990
2006	15,980
2007	16,002
2008	16,607
2009	14,007

⁽¹⁾ The San Diego Customs District includes the ports of San Diego, Andrade, Calexico, San Ysidro, Tecate, Otay Mesa Station, and Calexico-East.

Source: RAND California, Business and Economic Statistics and US Census Bureau Foreign Trade Statistics.

Top Ten Principal Employers

The following Table B-9 sets forth the top 10 principal employers in the City of San Diego as of June 30, 2009.

TABLE B-9
CITY OF SAN DIEGO
TOP TEN PRINCIPAL EMPLOYERS
Fiscal Year 2009
(unaudited)

<i>Employer</i>	<i>Number of Employees</i>	<i>Percentage of Total Employment⁽¹⁾</i>
United States Navy ⁽²⁾	55,300	7.91%
San Diego Unified School District ⁽³⁾	21,959	3.14
University of California San Diego	19,435	2.78
San Diego County ⁽⁴⁾	17,900	2.56
Sharp Memorial Hospital	14,724	2.11
City of San Diego ⁽⁵⁾	10,799	1.54
Kaiser Permanente	7,220	1.03
University of San Diego	6,086	0.87
Qualcomm, Inc. ⁽⁶⁾	6,000	0.86
UC San Diego Medical Center	<u>5,300</u>	<u>0.76</u>
Total Top Employers	<u>164,723</u>	<u>23.56%</u>

⁽¹⁾ Percentage based on total employment of 699,200 provided by the EDD Labor Force Data.

⁽²⁾ Employee count includes only U.S. Navy branch civilian and military personnel.

⁽³⁾ Employee count is district-wide; school district boundaries do not coincide with City of San Diego boundaries.

⁽⁴⁾ Employee count is county-wide.

⁽⁵⁾ Employee count is provided by the City of San Diego, Office of the Comptroller.

⁽⁶⁾ Based on Fiscal Year 2008 employee count. Fiscal year 2009 employee count was not yet available.

Source: Fiscal Year 2009 Comprehensive Annual Financial Report, Statistical Section (Unaudited).

Personal Income

The following Table B-10 sets forth the per capita personal income in the County and the State for calendar years 2005 through 2009.

TABLE B-10
COUNTY OF SAN DIEGO AND STATE OF CALIFORNIA
PER CAPITA PERSONAL INCOME⁽¹⁾
Calendar Years 2005 through 2009

<i>Calendar Year</i>	<i>County of San Diego⁽²⁾</i>	<i>State of California</i>
2005	\$40,383	\$37,418
2006	42,801	40,020
2007	44,832	41,805
2008	45,728	43,852
2009 ⁽³⁾	—	42,325 ⁽⁴⁾

⁽¹⁾ Amounts for County and State may not be comparable based on different source methodology.

⁽²⁾ Reflects per capita personal income for the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area.

⁽³⁾ County of San Diego Per Capita Personal Income for Calendar Year 2009 not yet available as of the date of this Official Statement.

⁽⁴⁾ Preliminary.

Source: California data: U.S. Bureau of Economic Analysis and Bureau of the Census.

Property Value and Construction

The following Table B-11 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2005 through 2009.

Residential construction activity has continued to decline since peaking in 2005. The subprime mortgage crisis and the resulting significant increase in the number of foreclosures have contributed to this downturn.

TABLE B-11
CITY OF SAN DIEGO
ASSESSED VALUE AND CONSTRUCTION PERMIT VALUATION
Fiscal Years 2005 through 2009
(\$ in thousands)

<i>Fiscal Year</i>	<i>Residential⁽¹⁾</i>		<i>Non-Residential⁽²⁾</i>		<i>Total Permit Assessed Value Estimate⁽³⁾</i>
	<i>Dwelling Units</i>	<i>Assessed Value⁽³⁾</i>	<i>Permits</i>	<i>Assessed Value⁽³⁾</i>	
2005	3,961	\$941,561	221	\$1,216,258	\$2,157,819
2006	3,702	762,811	272	1,266,451	2,029,262
2007	3,540	587,520	217	1,035,183	1,622,703
2008	2,228	437,934	175	931,648	1,369,582
2009	1,117	202,268	138	576,879	779,147

⁽¹⁾ Residential reflects construction of new structures.

⁽²⁾ Non-residential reflects construction of new structures whose intended use includes commercial, industrial, and other uses. Each permit is a separate structure.

⁽³⁾ Valuation figures only include valuation of newly created structures. These figures do not include minor modification work such as interior remodels, reroofs, etc. Total permit Assessed Value is an estimate determined at time of permit issuance; actuals may vary.

Source: Development Services Department, City of San Diego, Permit Tracking System Database.

According to the San Diego County Recorder's Office, there has been an increase in the number of notices of loan defaults issued in the County in calendar year 2009 relative to calendar year 2008; however, foreclosures have dropped during this time frame. There were 34,069 notices of default issued in 2008 in the County of San Diego, which increased to 38,308 notices issued in 2009. However, foreclosures in the County were 19,577 in 2008, which decreased to 15,487 foreclosures in 2009. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Major Revenue Sources" for a discussion of City assumptions regarding negative trends in property tax revenues.

The following Table B-12 sets forth foreclosure activity in the County for the calendar years 2005 through 2009.

**TABLE B-12
COUNTY OF SAN DIEGO
FORECLOSURE ACTIVITY
Calendar Years 2005 through 2009**

<i>Calendar Year</i>	<i>Foreclosures</i>	<i>Total number of Housing Units⁽¹⁾</i>	<i>% of Total Housing Units</i>
2005	559	1,107,985	0.05%
2006	2,065	1,118,283	0.18
2007	8,417	1,131,749	0.74
2008	19,577	1,140,349	1.72
2009	15,487	1,145,548	1.35

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

Source: County of San Diego, Assessor's Records; and SANDAG.

Transportation

San Diego's transportation system provides for the movement of people and goods through a network of highways and roads, public transit, freight railroads, airports, seaports, and intermodal facilities. Local streets, paths and trails serve to provide local access and connections to the regional network. The transportation system provides travel for residents, employees, visitors, and goods movement and creates a system that supports City and regional economic needs. To accommodate the various travel needs, the City's transportation network includes numerous modes of transportation.

SANDAG is the region's transportation and planning agency. The City participates in the development and adoption of SANDAG documents and programs through the votes of elected officials serving on the SANDAG Board of Directors, staff participation on SANDAG advisory committees, and direct citizen participation in the process.

The automobile-highway system is the primary mode of travel in the region. Based on public information published by SANDAG the existing regional transportation system consists of over 600 miles of freeways and highways and about 7,400 miles of local streets and roads. Over 84 million vehicle miles are traveled daily, with an average vehicle trip length of 6.4 miles. At present, the capacity of the auto-highway system is being exceeded in a number of corridors during the peak commute hours when most people are going to and from work. Within the San Diego region, transit services are provided by the Metropolitan Transit System ("MTS") in the southern metropolitan area (including the City) and the North County Transit District ("NCTD") in the northern part of the county (with Coaster and bus services that tie into the City of San Diego). Transit services are provided both for trips within the City and region and for trips between San

Diego and adjacent areas. The current transit network includes local and express bus, light rail (trolley), and Coaster commuter rail services. According to SANDAG data, the region's transit systems provide about 35 million miles of annual transit service, carrying over 104 million total annual passengers.

In addition, there are demand-responsive transit services that provide transit service in sparsely traveled areas and for travelers with special needs that cannot be well served by fixed-route service.

The Coaster and Amtrak trains provide passenger rail service to the City along the coastal rail corridor. Passenger and freight trains also share the predominately single-track corridor. The Coaster provides commuter rail service between Oceanside and Downtown San Diego with stations in the City at Sorrento Valley, Old Town, and the Santa Fe Depot. Amtrak provides intercity passenger rail service from Downtown San Diego to Los Angeles, and north to San Luis Obispo, which is the second most heavily traveled intercity passenger rail corridor in the nation.

The City of San Diego has a developed network of designated bikeways as described in the City's Bicycle Master Plan. The City's network includes bicycle paths in Mission Valley, Mission Bay Park, and along the beachfronts in Pacific Beach and Mission Beach. Other facilities of significant length can be found in the communities of Carmel Valley, Rancho Peñasquitos, Mira Mesa, Rose Canyon, near the San Diego Airport, and in the Mission Trails Park.

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APPENDIX C

CITY OF SAN DIEGO COMPREHENSIVE ANNUAL FINANCIAL REPORT

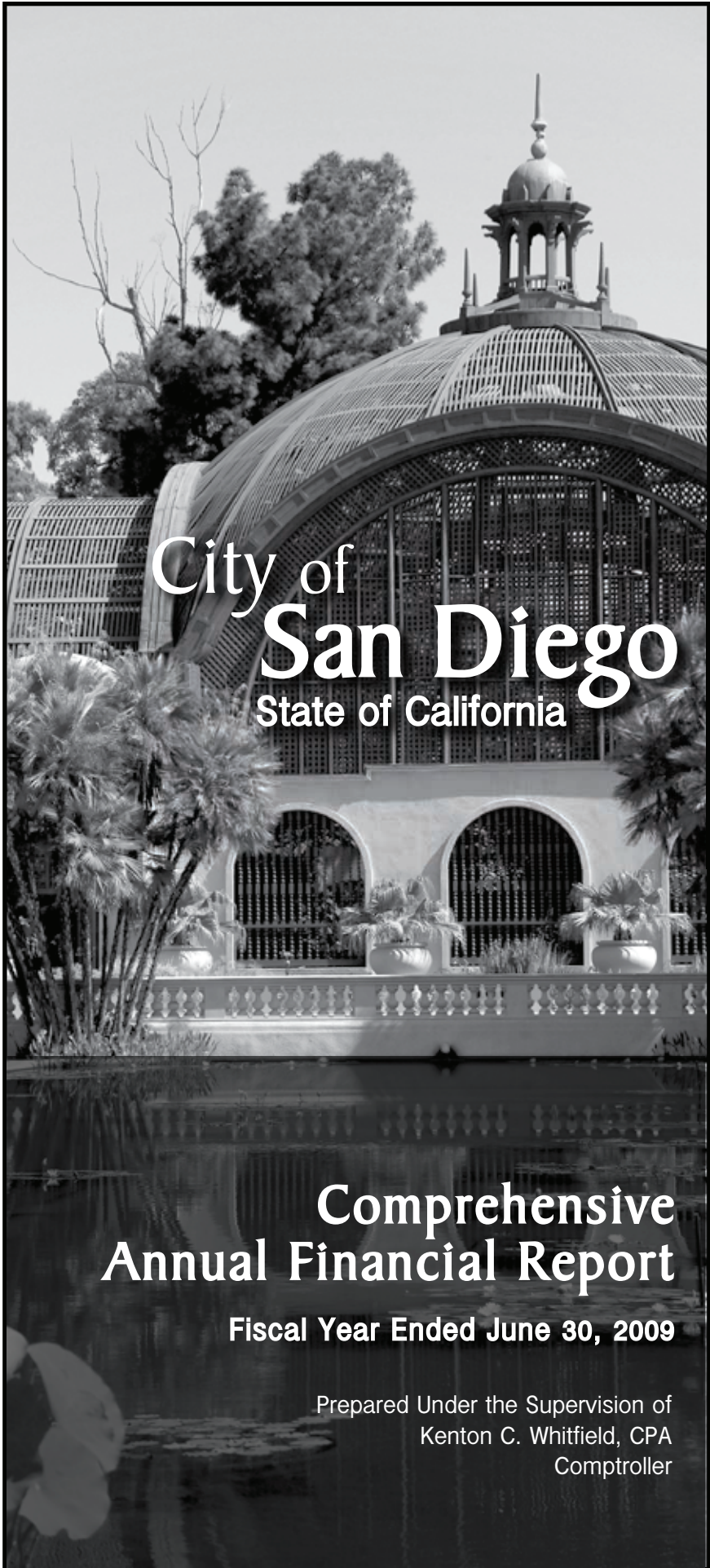
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Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2009



City of
San Diego
State of California



City of
San Diego
State of California

**Comprehensive
Annual Financial Report**

Fiscal Year Ended June 30, 2009

Prepared Under the Supervision of
Kenton C. Whitfield, CPA
Comptroller

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For The Fiscal Year Ended June 30, 2009

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Forward-Looking Statements

The Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2009 (CAFR), including the Letter of Transmittal and the section regarding Management's Discussion and Analysis, contains forward-looking statements regarding the City's business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in the CAFR. Additionally, statements concerning future matters such as City budgets and the financial outlook for future years, the level of City services, California state matters that may impact the City, revenue and expense levels and other statements regarding matters that are not historical are also forward-looking statements.

Although forward-looking statements in the CAFR reflect the City's good faith judgment, such statements can only be based on facts and factors currently known by the City. Consequently, forward-looking statements are inherently subject to risks and uncertainties. The actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of the CAFR. The City undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the CAFR. Readers are urged to carefully review and consider the various disclosures made in the CAFR which attempt to advise interested parties of factors that may affect the business, financial condition, results of operations and prospects of the City.

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INTRODUCTORY SECTION



THE CITY OF SAN DIEGO

December 21, 2009

Citizens and Interested Parties,

The San Diego economy has been severely impacted by the ongoing recession and recent economic data is mixed regarding the timing of any potential recovery. Federal stimulus funds contributed to positive GDP growth nationally in the third quarter of calendar year 2009 and local leading economic indicators have increased in each of the past six months showing some economic stabilization. However, State and local unemployment rates are at twenty-five year highs and property foreclosures continue to adversely affect home values. Lower consumer spending has significantly reduced economic activity in the City, resulting in decreased government revenues. Continued revenue reductions will affect the ability of the City to provide services to its citizens.

The City's fiscal challenges have been exacerbated by the State's ongoing budget crisis. The State legislature suspended the requirements of Proposition 1A (2004) in an effort to balance the State's FY 2010 budget. Proposition 1A is intended to prevent local revenues from being taken by the State; however, Proposition 1A can be suspended with the declaration of a fiscal emergency by the Governor and a vote of two-thirds of the Legislature. In fiscal year 2010, the State will borrow approximately \$1.9 billion in property tax revenue from local jurisdictions to help balance the State budget; the City's share of this is approximately \$35.8 million. However, the City will recover this property tax revenue during fiscal year 2010 through a securitization program established by the California Statewide Communities Development Authority. The State also passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to pay a total of \$2.05 billion of their property tax revenues to the State over the next two years. The impact to the City's Redevelopment Agency (RDA) will be approximately \$56 million in fiscal year 2010 and \$11 million in fiscal year 2011. The State continues to struggle to balance its budget resulting in ongoing uncertainty with respect to the City's expected revenues.

Economic Development Activities

The City addressed the economic downturn in fiscal year 2009 by increasing community investment, promoting business growth and retention, and by competing successfully for federal stimulus funds. The City division of Economic Growth Services (EGS) worked to create and retain jobs and taxable investment in the City of San Diego. EGS consists of two focused work units: the Business Expansion, Attraction, and Retention Team and the Government Incentives Team. These two teams work directly with businesses, business organizations, and City departments to create a business-friendly environment that promotes a stable economy. Economic growth, energy independence, revenue enhancement, and community revitalization are accomplished by attracting new companies, retaining and/or expanding existing companies, making San Diego competitive in emerging markets, and revitalizing older business communities.

Due to the economic downturn, Economic Growth Services has placed a strong emphasis on its business retention mission. In fiscal year 2009 EGS developed and executed successful business retention efforts for Sony Electronics, Cricket Corporation, Circle Foods, Lockheed Martin, Eli Lilly, and CamelBak. These efforts resulted in the creation or retention of approximately 2,900 San Diego based jobs. In the current fiscal year, EGS worked with Alliant Techsystems, Inc to retain or create 200 San Diego based jobs. The capital investments made by the companies EGS assisted in fiscal year 2009 and fiscal year 2010 represent a cumulative investment of more than \$368 million of construction and renovation activity for our local economy.

The "Certificate of Deposit Account Registry Service" (CDARS) is a deposit-placement service designed to allow FDIC-insured depository institutions to accept deposits of more than \$100,000 (currently \$250,000) and obtain full coverage for the depositor by spreading the funds among as many separate FDIC insured institutions as necessary so that no institution holds more than \$250,000 (principal plus interest) for each depositor. To support local reinvestment, the City increased its CDARS investment from \$5 million to \$15 million in fiscal year 2009. The City plans to increase the allowable investment in the CDARS program to approximately \$40 million in fiscal year 2010. The authorized CDARS investment program allows the City to invest millions of dollars into fully insured FDIC non-negotiable certificates of deposit. The initial deposit is split among small community banks throughout the country so that any single Certificate of Deposit at a financial institution does not exceed the \$250,000 FDIC insurance limit. The banks participating in the CDARS network send an equal amount of funds back to local San Diego banks to ensure that they retain funds equal to the City's initial deposit for reinvestment in the local community. The City's investment in the CDARS program assures that the full amount deposited at local banks stays in San Diego for reinvestment in the community.

According to the stimulus tracking website Recovery.org, California received more American Recovery and Reinvestment Act (ARRA) dollars than any other state and the San Diego region received the second largest total of stimulus dollars of any region in California (trailing Los Angeles). As of November 19, 2009, the San Diego region received 201 projects totaling over \$2.1 billion. The City of San Diego can expect to see at least \$340 million in stimulus funding. Of this amount, approximately \$290 million is for Federal projects and will not come directly through the City; the remaining \$50 million is expected to come to the City over the next six months. Projects including the modernization of Otay Mesa's Port of Entry and the San Ysidro border expansion project will alleviate congestion and improve the productivity and efficiency of US/Mexico border relations. This money will come either directly to the City in the form of block grants and competitive awards (\$49 million) or to our partner agencies in which the City participates, such as the San Diego Association of Governments and the San Diego Workforce Partnership (\$126 million), or to federal agencies pursuing major construction projects within the City of San Diego (\$164 million not including military projects). These ARRA funds will be used on transportation, housing, public safety and energy projects that will not only create jobs but will provide long term benefits for the City and the region.

Fiscal Challenges

The City of San Diego has faced significant financial challenges over the last several years and has made a determined effort to improve its overall financial condition and the quality of its financial statements, internal controls, and disclosure controls and procedures. A few of the City's achievements include (1) the release of audited financial statements for fiscal years 2003-2008 in a two year period; (2) the implementation of an annual five-year

financial outlook as a prudent planning tool; (3) the strengthening of the City's General Fund reserves; (4) fully funding the Annual Required Contribution (ARC) to the City's pension system since fiscal year 2006; (5) new pension plans for police and for non-public safety employees hired on or after July 1, 2009; (6) participation in a California Public Employees' Retirement System (CALPERs) trust for pre-funding of post-employment healthcare benefits for retired City employees; (7) rating upgrades from the national rating agencies, including, in the case of one agency, the reinstatement of the City's credit rating; and (8) re-entering the public bond market in 2009 and issuing \$1.6 billion in debt (new money and refunding) after a five year absence.

The City issued the Fiscal Year 2010 First Quarter Budget Monitoring Report on November 17, 2009, which presented a review of actual expenditures and receipts through September 2009 and projects annual expenditures and revenues for the General Fund through year end. Based on this analysis, the City expects a shortfall of approximately \$7.5 million in fiscal year 2010, primarily as a result of declining sales tax and Transient Occupancy Tax (TOT) revenues. The decline in major revenues is partially offset by conservative spending and a hiring freeze that has been in effect since August 2009.

The Five Year Financial Outlook (Outlook) issued on October 1, 2009, identified a projected deficit for fiscal year 2011 of \$179 million. The sensitivity analysis in the Outlook estimates a deficit range of \$168 to \$200 million, primarily resulting from the possible fluctuation of three major revenues: property tax; sales tax; and TOT. On November 24, the Mayor presented a proposed 18 month budget for the remainder of fiscal year 2010 and fiscal year 2011 to remediate the projected fiscal year 2011 deficit of \$179 million. On December 14, 2009 the City Council adopted the fiscal year 2010 budget revisions and the fiscal year 2011 proposed budget. The fiscal year 2011 budget framework approved by the City Council includes a combination of transfers, new revenue, and annual expenditure reductions that will impact services to City residents. Further action, including labor negotiations and additional City Council approval, will be necessary to implement all recommended adjustments. If the budget is implemented on January 1, 2010 as recommended, savings of approximately \$24 million in fiscal year 2010 will be set aside to assist in balancing the fiscal year 2011 budget.

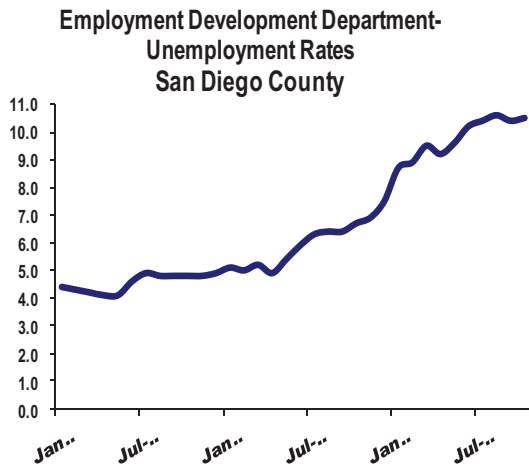
The City publicly issued a \$125 million Tax and Revenue Anticipation Notes (TRAN) on July 1, 2009 and does not currently foresee the need to issue additional notes to meet any General Fund liquidity needs for the remainder of fiscal year 2010. The City treasury holds approximately \$2 billion that is invested primarily in US Treasuries and agencies, and consistent with the City's investment policy, has sufficient liquidity to meet all currently foreseeable cash demands. The General Fund reserves are approximately \$79 million as of the issuance of this report, which includes \$55 million set aside in an Emergency Reserve Fund that can be accessed by a two-thirds vote of City Council.

Readers of these financial statements should pay particular attention to Notes 12, 13, 18, and 22, concerning Pension Plans, Other Post Employment Benefits, Contingencies, and Subsequent Events, respectively. The notes, along with the other financial and operational data included in the City's CAFR, must be read in their entirety to obtain a complete understanding of the City's financial position as of June 30, 2009.

Our Underlying Fundamentals

The City has a diversified economy, with the principal employers being government, high-tech industries, particularly biotech and telecommunications, and the tourism industry. The City's economic base is also anchored by higher education and major scientific research

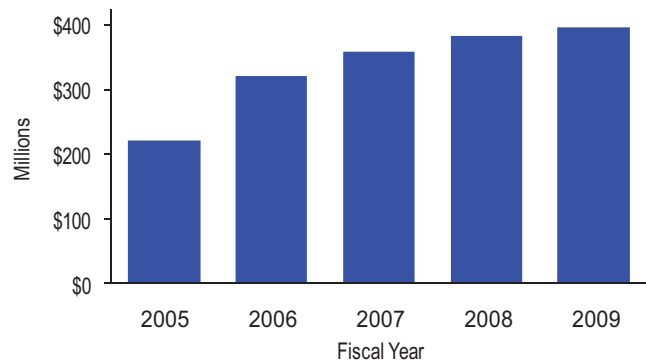
institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.



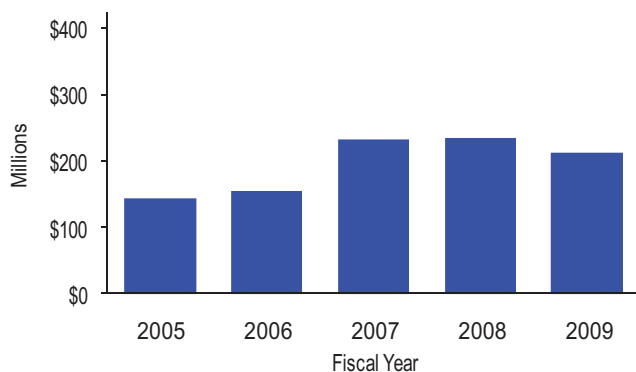
Like all regions around the country, San Diego County's economy has been impacted by the economic recession. In the past three years unemployment has more than doubled, rising from an average in 2006 of 4.0% to 10.5% as of October 2009. The recession has slowed both residential and commercial development within our region. This combined with a contraction in business payrolls and reduced travel spending has driven the unemployment rate to historic levels.

The City's property tax revenue has grown over the last five years, although at a decreasing rate. In fiscal year 2009 General Fund property tax revenues were \$398.7 million compared to \$384.3 million in fiscal year 2008, representing a 3.8% growth. However, due to the continued decline in home prices, the budgeted fiscal year 2010 property tax revenue in the General Fund was projected to decline 4.0% over fiscal year 2009 actuals. Subsequently, based on updated information from the County, the City revised its estimate for property tax revenue for fiscal year 2010 showing a smaller decrease of 1.5% over the fiscal year 2009 actual property tax revenue.

**City of San Diego
General Fund - Property Tax Revenue**



**City of San Diego
General Fund - Sales Tax Revenue**

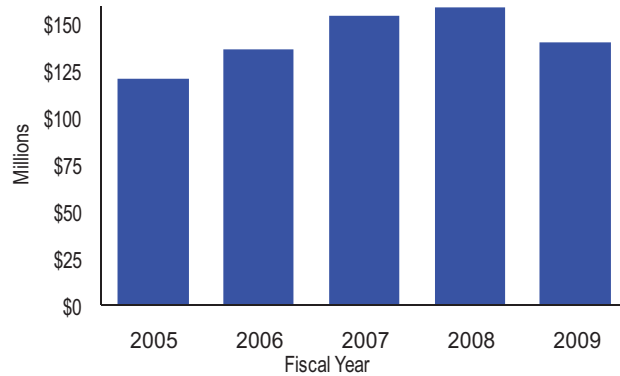


The impact of lower business and consumer spending has had a significant effect on sales tax revenues. In fiscal year 2009, actual General Fund sales tax revenues (including safety sales tax) were \$212.9 million, a 9.6% decline from 2008 sales tax revenues of \$235.6 million. For fiscal year 2010, the City budgeted a decline of 1.3% in sales tax revenues. However, the first quarter actual sales tax receipts were significantly below the budgeted amount. The City's adjusted projection for fiscal year 2010 is now \$191.2 million, or 10.2% lower than actual

revenue received for fiscal year 2009.

San Diego remains a top tourist destination due to the region's natural attractions; however, the tourism industry has not escaped the impact of the deteriorating economy. The City's Transient Occupancy Tax (TOT) rate is currently 10.5% and is allocated according to the Municipal Code. As such, the General Fund receives 52% of these revenues to be used for general governmental purposes, and the TOT fund receives the remaining 48% for the purpose of promoting the City as a tourism destination. The General Fund portion of TOT represents approximately 7% of the revenue from the fiscal year 2010 General Fund Adopted Budget. In fiscal year 2009, San Diego experienced an 11.7% decrease in TOT revenue from fiscal year 2008. For fiscal year 2010, the City budgeted an increase of 2.9% in TOT tax over 2009 actuals. Based on receipts from the first three months of fiscal year 2010, the City adjusted its estimate for TOT tax receipts to \$127.6 million which reflects a 9.3% decline from fiscal year 2009 actuals.

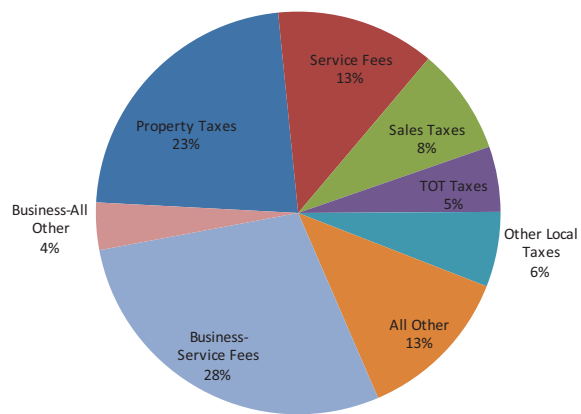
**City of San Diego
Total Transient Occupancy Tax Revenue**



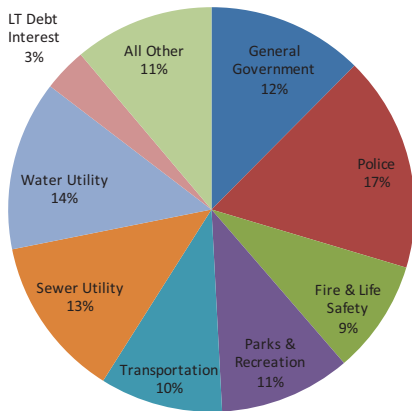
Financial Health

The City's total government-wide revenues, which are generated through a combination of governmental and business-type activities, have remained approximately the same over the prior three years, improving by 1%. While property tax revenues and business-type charges for services revenue for water and wastewater services have grown during this period, sales tax and TOT have declined. For fiscal year 2010, property tax revenue is projected to decline by 1.5%. Other major revenue sources are also trending flat to declining as well. Total government-wide revenues for fiscal year 2009 were \$2.7 billion; governmental activities were \$1.8 billion and business-type activities were \$.9 billion, and are illustrated in the chart to the right.

Total Government-Wide Revenues



Total Government-Wide Expenses



Over the last three years, the City’s total government-wide expenses have increased approximately 4%. These expenses supported all public services and the significant fiscal obligations of the City, including funding of the City’s pension system, post-employment healthcare benefits, and capital improvements. Total expenses for fiscal year 2009 were \$2.5 billion. Governmental activities were \$1.7 billion, of which 38% was spent on public safety for police, fire, and life safety services. Business-type activities were \$.8 billion, of which 85% of these expenses were for water and wastewater expenses.

The City’s unfunded pension liability remains a significant obligation of the City. The City has aggressively confronted this deficit, fully funding the City’s Annual Required Contribution (ARC) beginning in fiscal year 2006, and has made significant additional payments in excess of the ARC into the pension fund in certain years. The San Diego City Employees’ Retirement System (SDCERS) is the administrator of the City’s employee pension funds. On an annual basis, the pension fund portfolio and future pension obligations are evaluated by an independent actuary to determine the full pension liability. The June 30, 2008 valuation calculated the unfunded pension liability to be approximately \$1.303 billion. The June 30, 2009 actuarial report is not complete as of the issuance of this report.

Pension Funding Progress (Thousands)			
Actuarial Valuation Date	Actuarial Value of Assets	UAAL	Funded Ratio
6/30/2005	\$ 2,983,080	\$ 1,452,937	67.3%
6/30/2006	3,981,932	1,000,768	79.9%
6/30/2007	4,413,411	1,184,242	78.8%
6/30/2008	4,660,346	1,303,204	78.2%

In fiscal year 2009, the global financial markets experienced significant declines. The effects of the market declines have been wide ranging and impact even the most diversified investment portfolios. The SDCERS investment portfolio is no exception. SDCERS employs a long-term investment strategy. The City’s ARC is determined using an asset smoothing methodology which dampens the volatility of the market value of assets which occurs from fluctuations in market conditions. The ARC payment for fiscal year 2011 has not been determined by the SDCERS actuary as of the issuance of this report; however, it has been estimated by the SDCERS actuary, presented to the Board on July 17, 2009 and September 18, 2009, to be approximately \$224 million. This is an increase of \$70 million, or 45%, over the ARC payment of \$154 million the City is obligated to fund in fiscal year 2010. Any significant increase in the fiscal year 2011 ARC payment will require the City to reduce operating expenses which will affect services and programs.

In fiscal year 2008, Governmental Accounting Standards Board Statement 45 (“GASB 45”) went into effect requiring all municipal

Retiree Healthcare Liabilities (Thousands)			
Actuarial Valuation Date	Actuarial Value of Assets	UAAL	Funded Ratio
6/30/2008	\$ 29,637	\$ 1,206,070	2.4%
6/30/2009	41,497	1,317,880	3.1%

governments to report on Other Post Employment Benefits (retiree healthcare costs) in a manner similar to reporting on pension benefits. The City's actuarial valuation for retiree healthcare costs estimated an unfunded actuarial accrued liability (UAAL) of \$1.318 billion as of June 30, 2009. The City is participating in a trust administered by CalPERS to fund this long-term liability and, to date, has contributed \$54 million to the CalPERS trust. The fair value of these assets as of June 30, 2009 was \$41.5 million. The City is not currently fully funding the ARC for retiree healthcare, which is \$120.3 million for fiscal year 2011. The amount budgeted for fiscal year 2010 is \$57.1 million, of which \$32.1 million will fund the pay-go portion and \$25 million is expected to be transferred to the CalPERS trust by fiscal year end.

Governmental Funds (Tax Supported Operations)

The City's General Fund finished fiscal year 2009 with unrestricted cash and investments of approximately \$87 million. As a fiscal precaution against natural disasters or unforeseen events, the City maintains an emergency reserve fund that can only be accessed for qualifying emergencies as declared by the Mayor and/or City Council and approved by at least a 2/3 vote of the City Council. The General Fund Reserve Policy set a funding goal of 7.0% of General Fund revenue by the end of fiscal year 2009. The General Fund reserve was actually 7.7% of General Fund revenue at June 30, 2009, resulting in a total reserve balance of \$78.3 million. This balance is reported within the General Fund Balance Sheet as Undesignated Fund Balance. The reserves are currently cash funded within the City Treasury's pooled cash portfolio. The goal is to establish General Fund reserves at 8% of revenues by fiscal year 2012.

The Fiscal year 2010 Budget adopted in June 2009 reflected a reduction of expense growth by reducing program expenditures and imposing an across the board 6% reduction in compensation for all City employees. The City also was successful in redesigning the pension benefit package for most employees hired after July 1, 2009. Due to a projected decline in the City's major revenues, management addressed the City's projected budgetary imbalance by proposing, and City Council then adopting, a Fiscal year 2010 Budget that reduced spending on current services while also attempting to mitigate service level reductions. Council adopted a Fiscal year 2010 Budget in June 2009 that balanced estimated revenues to expenditures.

During fiscal year 2009, total long-term liabilities of the City's governmental activities increased by \$198 million. This was primarily the result of the capital improvement 2009A lease revenue bond issue for \$103 million for various capital improvement projects and an increase to the Net Other-Postemployment Benefits Obligation of \$45 million. Overall, our annual interest costs for governmental activities were approximately \$84 million in fiscal year 2009, which represents approximately 5% of our total governmental activities expenses.

The City's capital assets are essential to providing services to its residents and maintaining the quality of its environment. During fiscal year 2009, total capital assets for governmental activities increased by \$120 million. This was funded by a combination of developer contributions, grant monies, and city-funded capital improvement programs.

The City's capital improvement backlog is estimated to be approximately \$800 to \$900 million according to the most recent Five Year Financial Outlook. This amount is the most recent estimate and includes the cost of needed repairs to City facilities, streets and storm drains but does not include alleys, sidewalks or soft costs. The City is in the process of

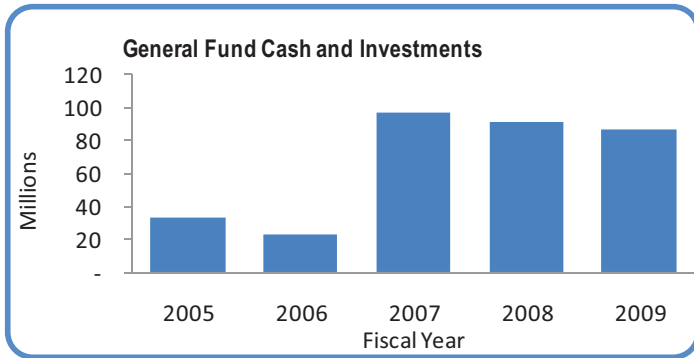
assessing and updating its cost estimate for its capital improvement backlog. These costs have been deferred because the City has not had the necessary funding resources. As mentioned above, the City issued \$103 million in bonds to fund deferred projects during fiscal year 2009. The bond proceeds will be used to fund deferred capital improvement projects within the City.

The City's Public Liability Fund, which accounts for governmental fund-related claims, has a deficit of approximately \$49 million as of June 30, 2009. This deficit includes an accrued liability for actuarially calculated claims costs, incurred but not reported claims, and allocated and unallocated losses of approximately \$59 million, offset with the cash reserves collected in the fund. This fund has seen significantly higher claims since fiscal year 2005, largely as a result of the legal claims and investigations stemming from the pension fund

underpayment and related financial disclosure issues; however, most of these unusual costs were paid through fiscal year 2007 and fiscal year 2008. The Workers' Compensation Fund, which accounts for both governmental and business-type claims, has a deficit of \$114 million as of June 30, 2009. This deficit includes an accrued liability for actuarially calculated liabilities for open and unreported claims, as well as a provision for the allocated loss adjustment expense totaling approximately \$148 million, offset with the cash reserves collected in the fund. The total liability for workers compensation has declined since fiscal year 2007 due to a downward trend in the number of claims and the effect of State legislation regarding workers compensation reform enacted in 2004. Per the City Reserve Policy, the City has budgeted funds annually to establish cash reserves to reach the goal of 50% of the estimated outstanding liabilities in each fund. While the City is committed to funding reserves in the Worker's Compensation and Public Liability funds, and has included funding for these reserves in the fiscal year 2010 budget, the goal of funding 50% of outstanding liabilities in both funds by 2014 is being reassessed given the economic downturn and continued decline in General Fund revenues.

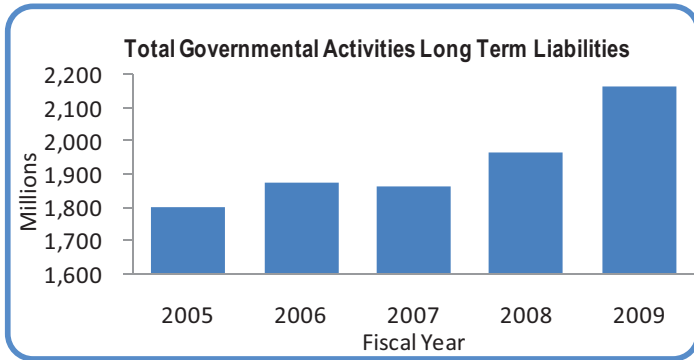


Governmental Activities Key Indicators



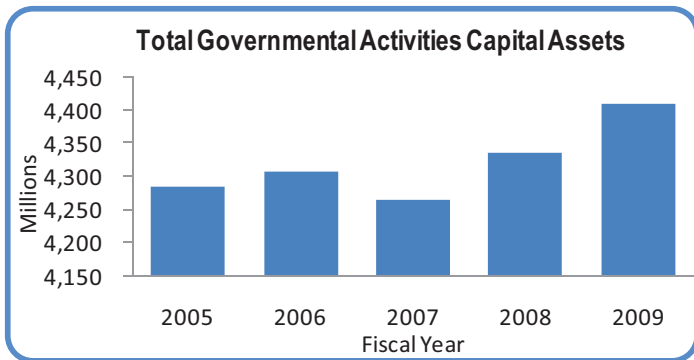
General Fund Cash

Continued expenditure savings due to vacancies and management imposed reductions in discretionary spending have helped the City to maintain a relatively stable cash position.



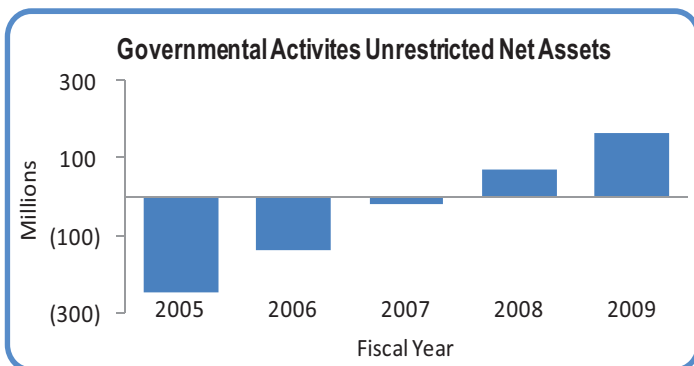
Total Long Term Liabilities

The City issued \$103 million in Lease Revenue Bonds to finance various public improvements during FY 2009. The City's obligation related to Other Post-employment Benefits also increased \$45 million in FY 2009, together creating an increase in total long term liabilities of approximately 10.1%.



Capital Assets

Capital Assets increased by approximately \$120 million during FY 2009. This included capital expenditures related to the City's new ERP system, seismic retrofitting of the City's bridge infrastructure, and infrastructure and improvements to repair street damage resulting from the Mt. Soledad landslide.



Unrestricted Net Assets

Unrestricted Net Assets increased approximately \$92 million in FY 2009. This was primarily the result of Redevelopment Agency revenues exceeding expenses to fund multi-year capital improvements.

Business-Type Activities

The majority of the City's business-type activities are related to utilities that provide water and wastewater services. The Water and Metropolitan Wastewater Departments have been consolidated into a single Public Utilities Department and continue to serve several regional agencies outside of the City's boundaries. The utilities operations are mainly supported by fees charged to customers. The Independent Rate Oversight Committee (an independent committee of stakeholders) monitors utility rates and expenditures on behalf of the ratepayers.

The City's Water Utility Fund issued \$485 million of Water Revenue and Revenue Refunding Bonds, Series 2009A and 2009B during fiscal year 2009 to prepay outstanding principal of \$207 million of Subordinated Water Revenue Notes, Series 2007A and 2008B; refund \$94 million of Certificates of Undivided Interest, Series 1998 monies; and to finance capital improvements on the water system. The publicly offered Water 2009A and 2009B Revenue Refunding Bonds are secured by and payable solely from net system revenues of the Water Utility Fund. The City's Wastewater Utility Fund issued \$1.089 billion of Senior Sewer Revenue Bonds to finance capital improvements to the wastewater system; fully refund \$224 million in wastewater revenue notes; and to refund approximately \$683 million in wastewater revenue bonds. The net change in these notes and bonds payable during fiscal year 2009 is the primary reason the business-type long term liabilities increased \$344 million over fiscal year 2008.

For the year ended June 30, 2009, the City's business-type activities closed with restricted and unrestricted cash and investment balances totaling \$1.2 billion, an increase over fiscal year 2008 of approximately \$319 million as a result of the debt issues discussed above.

While the City's capital assets for business-type activities have continued to increase in value, deferred maintenance remains an ongoing challenge. The City maintains a network of over 3,000 miles of water pipes and over 3,000 miles of sewer and waste water lines.

Compliance with environmental regulations generally requires infrastructure construction, including the replacement of water distribution systems, treatment plant upgrades, the replacement of wastewater collection systems, and improving sewage treatment capacity. The City has agreed with various state and federal regulators to build significant infrastructure upgrades. In June 2009, the City received tentative approval of a third five-year waiver permit from the Environmental Protection Agency (EPA) and the state Regional Water Quality Control Board to continue operating the Point Loma Wastewater Treatment Plant at advanced primary treatment level. The City is still working with the California Coastal Commission to receive final wording on a consistency determination in support of this EPA decision. The resolution is anticipated in early 2010.

The City is also facing challenges to the future of its water supplies. A persistent regional drought and judicial decisions regarding management of the State Water Project has put significant pressure on San Diego's regional water supplies. The City of San Diego imports as much as 90% of its water supply. The reliability of that supply has been reduced because of court decisions, weather conditions, the diminishing availability of stored water, and dwindling supplies of new water. The City continues to work with its water wholesalers (the San Diego County Water Authority and the Metropolitan Water District of Southern California) to address these supply issues but currently operates under a mandatory water conservation target to achieve an 8% reduction in overall use. The City's performance from June through September has averaged a monthly reduction of over 12%. The availability of

water has legal implications and could potentially affect City Council findings regarding state mandated water supply assessments for future development. These assessments must demonstrate the long-term availability of water for large projects before those projects can be approved by local jurisdictions. At this time, it is unclear what effect limitations to water supplies would have on the City's economy and its revenues as the most recent project assessments have all been able to find potable water offsets through the increased use of reclaimed water. The Mayor also proposed and the City Council approved in October 2009 a revised Landscape Ordinance in advance of the state's requirement to do so by January 2010. The City is also moving forward with the California Department of Public Health to undertake a demonstration project intended to verify that highly treated municipal wastewater can be placed in a drinking water reservoir.

Best Practice Operating Improvements

The City took a major leap forward on July 1, 2009 when it went live with its new SAP Enterprise Resource Planning (ERP) financial system. After two years of planning, the City successfully began the transition to an integrated financial system which allowed us to eliminate over a dozen legacy software applications. Throughout fiscal year 2010, core functionality modules will be implemented, eliminating even more costly legacy software applications and hardware. The addition of the ERP system and a well trained workforce are expected to significantly improve the City's financial operations and reporting capabilities.

Internal controls over financial operations and reporting continue to be a focus issue for the City. As part of the ERP system, the City has invested in an integrated internal controls module called Governance, Risk and Compliance (GRC). GRC, coupled with new process and procedure documents, are expected to improve our internal control environment. In addition, the City has established a comprehensive plan and has the proper staffing in place to complete the remediation of weaknesses in internal controls over financial reporting within 14 months.

The Five Year Financial Outlook

In October 2009, the City released an updated Five-Year Financial Outlook (the Outlook) for fiscal years 2011 through 2015. This document is an examination of the City's long range fiscal condition and financial challenges. The City updates the Outlook periodically to account for changed circumstances.

The City's General Fund was the primary focus of the 2011-2015 Outlook. Approximately 68% of the City's major revenues consist of four revenue sources: property tax, sales tax, TOT, and franchise fees. Nearly 70% of the City's General Fund expenditures are personnel expenses. Negative economic factors have resulted in a downward revision to revenue projections for the fiscal year 2010 annual budget, which served as a base for the Outlook. The Outlook discussed risks and opportunities that affect fiscal decisions and the City's ability to accomplish its strategic financial goals over the next five-year period. These goals include:

- Meet contractual obligations and fund mandated programs
- Contribute the full payment of the Annual Required Contribution (ARC) for the City's pension system
- Maintain or enhance General Fund and other reserves according to the City's Reserve Policy
- Preserve City services to the fullest extent possible

Five Year Outlook for Fiscal Years 2011 - 2015					
GENERAL FUND	Forecast FY 2011	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015
<i>Projected Revenues</i>					
Property Tax	\$ 396.4	\$ 404.5	\$ 416.7	\$ 433.4	\$ 450.7
Sales Tax	182.7	192.7	200.2	208.1	218.8
Transit Occupancy Tax	71.9	74.1	76.7	79.7	82.9
Franchise Fees	75.0	76.7	78.5	80.3	82.2
Other Revenues	335.6	346.1	353.3	355.3	362.0
	1,061.6	1,094.1	1,125.4	1,156.8	1,196.6
<i>Projected Expenses</i>					
Salary, Wages & Benefits	611.8	620.9	627.2	636.2	622.7
Operating Expenses	351.5	363.1	366.0	382.5	390.6
Pension Expense	217.8	206.5	225.2	242.5	258.7
Retiree Healthcare Expense	43.2	46.8	50.4	54.2	57.8
General Fund Reserves	4.2	7.9	2.5	2.5	3.2
Liability Funding	12.2	7.8	10.1	4.8	-
	1,240.7	1,253.0	1,281.4	1,322.7	1,333.0
General Fund Projected Shortfall	\$ (179.1)	\$ (158.9)	\$ (156.0)	\$ (165.9)	\$ (136.4)

The impact of continued declines in major revenue sources and increased costs for pension funding are the leading factors in the fiscal year 2011 forecasted budget deficit of \$179 million.

Because of the severity of the budget shortfall, the Mayor has indicated that cuts to services and programs will be inevitable in order for the City to maintain a balanced budget. Within the City, this will mean a workforce reduction combined with expenditure savings from reduced or eliminated programs and services. The Mayor's budget plan for fiscal year 2011 does not include contributions to fund reserves; however, the plan proposes that reserves will not be spent and will be maintained at current levels.

Looking Forward

These are difficult economic times, and the City has set challenging goals for its future. The City believes these goals are achievable with continued fiscal discipline and greater government efficiency. In some revenue categories, San Diego has relatively low taxes and fees compared to most other large municipalities in the United States. San Diego enjoys an ideal location with agreeable weather year round. The diversity of industry, education and tourism well positions the City for an early economic rebound when the economy begins its eventual recovery.

Out of these challenging times, San Diego is restructuring its operations, services and programs so that the City will emerge with a sound, fundamentally sustainable municipal business model. We have addressed the issues that have created prior difficulties for this City, and we are structuring ourselves for long-term solvency and flexibility. We will continue to live within our means and balance our annual budgets.

Purpose, Background, and Scope of this Report

San Diego City Charter § 111 requires the City to submit an annual report, including a Statement of Net Assets, and requires that all accounts of the City be audited by an independent auditor. Pursuant to this requirement, the Comprehensive Annual Financial Report ("CAFR") of the City of San Diego ("City") for the fiscal year ended June 30, 2009, is hereby submitted. The audit firm of Macias Gini & O'Connell LLP has issued an unqualified opinion on the City of San Diego's financial statements. The independent auditor's report is located at the front of the financial section of this report.

The CAFR has been prepared in conformance with the principles and standards for reporting as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City and its related agencies. The City's objective is to provide you with reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Additionally, the City continues to construct and improve a comprehensive internal control framework in order to ensure acceptable management of taxpayer funds.

To the best of our knowledge and belief, the data as presented, is accurate in all material respects; it is presented in a manner designed to present fairly the financial position and results of operations of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds of the City and its related agencies; and all disclosures necessary to enable the reader to gain an understanding of the City's, as well as its related agencies', financial activities have been included.

A narrative introduction, overview, and analysis of the financial statements can be found in Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report. The MD&A complements this letter of transmittal and should be read in conjunction with it. The CAFR is organized into three sections:

- The introductory section includes information about the organizational structure of the City, the City's economy, and selected other financial information.
- The financial section is prepared in accordance with governmental accounting standards. It includes the MD&A (unaudited), the independent auditor's report, the audited basic financial statements, notes to the basic financial statements, required supplementary information (unaudited), and supplementary information (unaudited).
- The statistical section contains historical statistical data on the City's financial data and debt statistics, as well as miscellaneous physical, demographic, economic, and social data of the City. This section of the CAFR is unaudited.

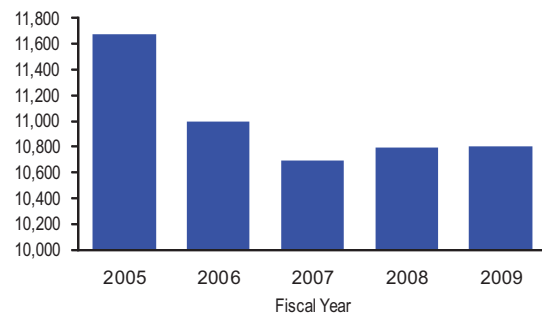
Profile of the City of San Diego

The City of San Diego was incorporated in 1850. The City comprises 342 square miles and, as of January 1, 2009, the California Department of Finance estimates the population to be 1,353,993. The City, with approximately 10,800 employees, provides a full range of governmental services including police and fire protection, sanitation and health services, the construction and maintenance of streets and infrastructure, recreational activities and cultural events, and the maintenance and operation of the water and sewer utilities.

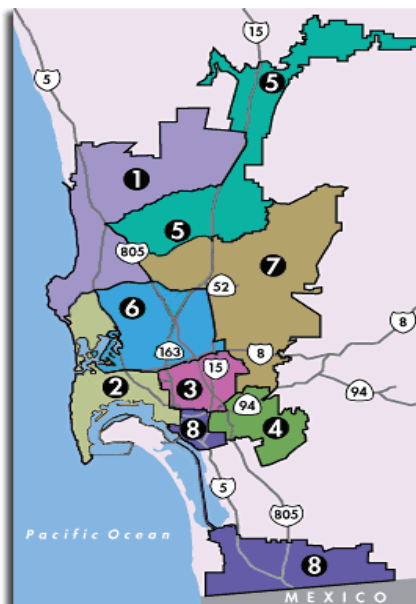
Governing Structure

The City operates under and is governed by the laws of the State of California and its own Charter, as periodically amended since its adoption by the electorate in 1931. The City is currently operating under a Strong-Mayor form of government. The departure, on an interim trial basis, from the City's previous Council-Manager form of government was approved by a vote of the public and became effective January 1, 2006. The Mayor is elected at large to serve a four-year term.

City of San Diego
Full Time and Part Time Employees



City of San Diego Council
District Map



Under the Strong-Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst (IBA), City Attorney, and City Auditor departments. Under this form of government, the City Council is composed of eight members and is presided over by the Council President, who is selected by a majority vote of the City Council. The Mayor presides over City Council in closed session meetings of the Council. The Council retains its legislative authority; however, all City Council resolutions and ordinances are subject to a veto of the Mayor except for certain ordinances including emergency declarations and the City's annual Salary and Appropriations Ordinances. The City Council may override a Mayoral veto with five votes. The City Attorney, who is elected for a four-year term, serves as the chief legal advisor of and attorney for the City and all departments.

During the County's primary election held on June 3, 2008, voters approved Proposition B which requires City Council to place a measure on the June 2010 ballot to allow voters to decide whether the Strong-Mayor form of government should become permanent effective January 1, 2011. Additionally, Proposition B provides for the public to decide whether the number of City Council districts should increase from eight to nine, and therefore, a corresponding increase of City Council votes required to override the Mayor's veto from five to six. Additionally, voters approved Proposition C, which separated the City Auditor's Office from the Comptroller's Office and made the Office of the IBA permanent. Under this amendment, the City Auditor serves a ten-year term and

is supervised by an Audit Committee consisting of two Councilmembers and three members of the public with auditing expertise, who are appointed by the City Council. This amendment also provides that the Mayor will appoint, with City Council confirmation, the Chief Financial Officer. In addition, the Mayor's appointment of the City Treasurer no longer requires City Council confirmation.

Current Elected Officials
(As of the issuance of this report)



Mayor Jerry Sanders

District 1 Councilmember Sherri Lightner			District 5 Councilmember Carl DeMaio
District 2 Council President Pro Tem Kevin Faulconer			District 6 Councilmember Donna Frye
District 3 Councilmember Todd Gloria			District 7 Councilmember Marti Emerald
District 4 Councilmember Tony Young			District 8 Council President Ben Hueso

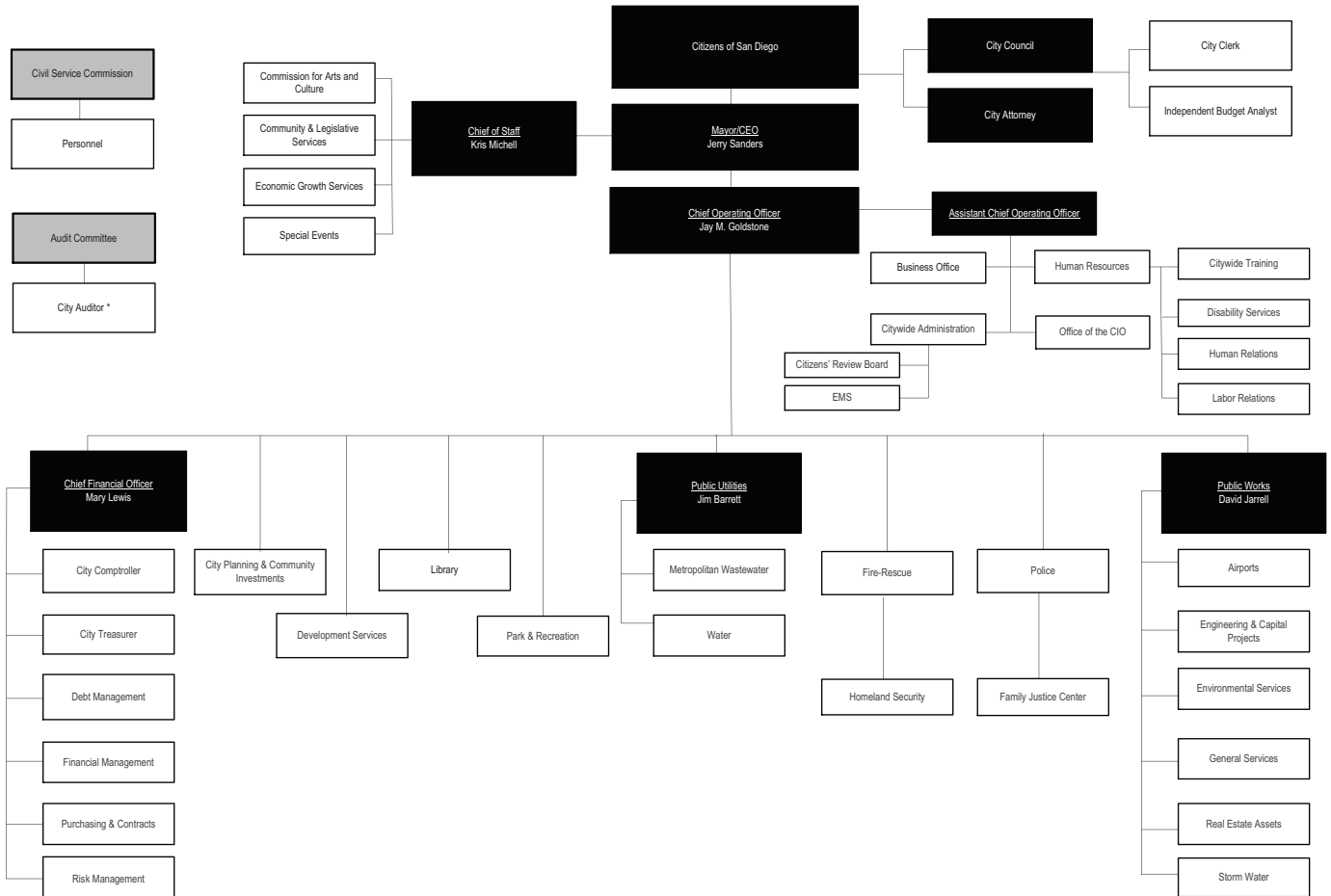


City Attorney
Jan Goldsmith

Other City Officials

- Jay M. Goldstone, Chief Operating Officer
- Mary Lewis, Chief Financial Officer
- Kenton C. Whitfield, City Comptroller
- Gail R. Granewich, City Treasurer
- Elizabeth Maland, City Clerk
- Andrea Tevlin, Independent Budget Analyst
- Eduardo Luna, City Auditor

City of San Diego Organization Chart (As of the issuance of this Report)



* Proposition C, passed in June 2008, provides that the City Auditor shall report to and be accountable to the Audit Committee. To complete the enacting measure for Proposition C, the City Auditor must be appointed by the City Manager (Mayor), in consultation with the Audit Committee, and confirmed by the City Council. This organization chart reflects the reporting structure called for in Proposition C, which will be in effect following that Council action.

Financial Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement 14, the following component units are incorporated into the accompanying financial statements:

- Centre City Development Corporation (CCDC)
- City of San Diego Metropolitan Transit Development Board Authority (MTDB)
- Redevelopment Agency of the City of San Diego (RDA)
- San Diego Data Processing Corporation (SDDPC)
- San Diego Housing Commission (SDHC)
- San Diego Open Space Park Facilities District #1
- Community Facilities and Other Special Assessment Districts
- Tourism Marketing District
- Convention Center Expansion Financing Authority (CCEFA)
- San Diego City Employees' Retirement System (SDCERS)
- Public Facilities Financing Authority (PFFA)
- San Diego Convention Center Corporation (SDCCC)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- Southeastern Economic Development Corporation (SEDC)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)

Additionally, the City participates in a joint venture operation with a private company to provide for emergency medical and medical transportation services. This joint venture is a limited liability company named San Diego Medical Services Enterprise, LLC. The financial impact of the joint venture is displayed in the General Fund within the governmental funds statement of revenues, expenditures and changes in fund balance and in the government-wide statement of activities.

Budgetary Process

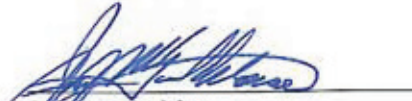
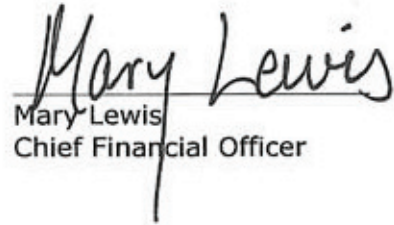
Pursuant to the City Charter, an annual budget is presented by the Mayor to the City Council for consideration. Set forth in this budget are the anticipated revenues and expenditures of the General Fund, certain special revenue funds, enterprise funds, and certain debt service funds for the ensuing fiscal year. Additionally, project-length financial plans are presented to and adopted by the City Council for the capital projects funds. The legal level of budgetary control for the City's general fund is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. Copies of the City's budgets are available at the Financial Management Office located at 202 C Street, MS8A, San Diego, CA 92101.

The City continues to look for ways to improve the effectiveness and efficiency of its operations. The focus now is on crafting policy that will ensure a continued commitment to strong financial stewardship.

Sincerely,



Jerry Sanders
Mayor


Jay M. Goldstone
Chief Operating Officer
Mary Lewis
Chief Financial Officer
Kenton C. Whitfield
City Comptroller

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FINANCIAL SECTION



MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

SAN DIEGO
402 W. Broadway, Suite 400
San Diego, CA 92101
619.573.1112

SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

NEWPORT BEACH

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit, which statements reflect 90%, 95% and 85% of the total assets, total net assets and total revenues, respectively, of the aggregate discretely presented component unit totals. Also, we did not audit the Southeastern Economic Development Corporation, a blended component unit, which statements reflect less than 1% in each of the total assets, total net assets and total revenues categories, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission and the Southeastern Economic Development Corporation is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedules of funding progress and schedule of contributions from employer and other contributing entities, and general fund budgetary information on pages 35 through 48, 168, and 172 through 174, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary information, and, statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

 Macias Gini & Connell LLP

Certified Public Accountants

San Diego, California
December 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
(In Thousands)
June 30, 2009

As management of the City of San Diego (City), we offer readers of the City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The statement of activities presents information showing changes in the City's net assets during the fiscal year 2009. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The focus is on both gross and net costs of City functions, which are supported by general revenues. This Statement also distinguishes functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: General Government and Support; Public Safety - Police; Public Safety - Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; and Neighborhood Services. The business-type activities of the City include: Airports; City Store; Development Services; Environmental Services; Golf Course; Recycling; Sewer Utility; and Water Utility.

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

Included within the primary government as blended component units:

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

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

The government-wide financial statements can be found beginning on page 52 of this report.

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

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

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

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

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

The basic governmental funds financial statements can be found beginning on page 56 of this report.

PROPRIETARY FUNDS

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

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Sewer and Water funds, which are considered to be major funds of the City. Data for the nonmajor proprietary funds are combined into a single, aggregated presentation, and the internal service funds are combined into a single, aggregated presentation as well. Included in the Supplementary Information section of this report are individual fund data for the nonmajor proprietary funds and the internal service funds. The basic proprietary funds financial statements can be found beginning on page 60 of this report.

FIDUCIARY FUNDS

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

The basic fiduciary funds financial statements can be found beginning on page 63 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 65 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and postemployment healthcare benefits to its employees, and the General Fund's budgetary comparison schedule. Required supplementary information can be found beginning on page 170 of this report.

The individual fund data referred to earlier in connection with nonmajor governmental funds, nonmajor proprietary funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions and the General Fund budgetary comparison schedule, beginning on page 199 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Capital Assets	\$ 4,455,525	\$ 4,335,317	\$ 4,766,721	\$ 4,634,918	\$ 9,222,246	\$ 8,970,235
Other Assets	2,110,185	2,096,751	1,357,070	1,031,815	3,467,255	3,128,566
Total Assets	6,565,710	6,432,068	6,123,791	5,666,733	12,689,501	12,098,801
Net Long-Term Liabilities	2,164,276	1,965,991	2,413,033	2,068,569	4,577,309	4,034,560
Other Liabilities	143,231	312,696	110,479	108,455	253,710	421,151
Total Liabilities	2,307,507	2,278,687	2,523,512	2,177,024	4,831,019	4,455,711
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	3,530,937	3,518,704	2,970,351	2,933,012	6,501,288	6,451,716
Restricted	564,605	564,042	42,485	39,436	607,090	603,478
Unrestricted	162,661	70,635	587,443	517,261	750,104	587,896
Total Net Assets	\$ 4,258,203	\$ 4,153,381	\$ 3,600,279	\$ 3,489,709	\$ 7,858,482	\$ 7,643,090

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$7,858,482 at June 30, 2009, an increase of \$215,392 over fiscal year 2008.

\$6,501,288, or approximately 82%, of total Net Assets represent the City's investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally are not used to liquidate these liabilities.

\$607,090, or approximately 8%, of total Net Assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$750,104, or approximately 10%, is available to finance ongoing services and obligations to the City's citizens and creditors.

Unrestricted Net Assets increased by \$162,208, or approximately 28%. Approximately \$70,000 of this increase was in the Business-Type activities, primarily attributed to Council approved rate increases. Governmental activities increased by approximately \$92,000. This was primarily the result of revenues exceeding expenses for RDA by approximately \$70,000. RDA projects are multi-year in nature, and therefore, revenues collected on an annual basis are often budgeted for future larger construction phases of the projects. In addition, RDA experienced increased property tax revenues from fiscal year 2008 to 2009. Another material increase was a \$20,000 increase to debt service reserves not legally restricted but internally set aside.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues						
Charges for Current Services	\$ 345,532	\$ 289,985	\$ 771,725	\$ 772,602	\$ 1,117,257	\$ 1,062,587
Operating Grants and Contributions	93,244	75,126	1,739	2,312	94,983	77,438
Capital Grants and Contributions	110,802	78,347	60,863	58,400	171,665	136,747
General Revenues						
Property Taxes	607,857	576,605	-	-	607,857	576,605
Transient Occupancy Taxes	140,657	159,348	-	-	140,657	159,348
Other Local Taxes	161,485	151,267	-	-	161,485	151,267
Grants and Contributions not Restricted to						
Specific Programs	8,488	6,251	-	-	8,488	6,251
Sales Taxes	229,651	269,757	-	-	229,651	269,757
Investment Income	75,245	96,725	31,004	41,224	106,249	137,949
Other	51,598	85,785	8,257	7,850	59,855	93,635
Total Revenues	1,824,559	1,789,196	873,588	882,388	2,698,147	2,671,584
Expenses:						
General Government and Support	303,581	322,157	-	-	303,581	322,157
Public Safety-Police	418,549	382,907	-	-	418,549	382,907
Public Safety-Fire, Life Safety, Homeland Security	220,787	204,822	-	-	220,787	204,822
Parks, Recreation, Culture and Leisure	258,038	231,955	-	-	258,038	231,955
Transportation	239,305	212,255	-	-	239,305	212,255
Sanitation and Health	77,447	51,772	-	-	77,447	51,772
Neighborhood Services	116,735	91,110	-	-	116,735	91,110
Debt Service:						
Interest on Long-Term Debt	84,070	82,211	-	-	84,070	82,211
Airports	-	-	5,140	4,109	5,140	4,109
City Store	-	-	321	788	321	788
Development Services	-	-	47,260	51,461	47,260	51,461
Environmental Services	-	-	35,718	37,279	35,718	37,279
Golf Course	-	-	11,864	11,142	11,864	11,142
Recycling	-	-	20,067	20,511	20,067	20,511
Sewer Utility	-	-	314,125	322,552	314,125	322,552
Water Utility	-	-	329,748	321,123	329,748	321,123
Total Expenses	1,718,512	1,579,189	764,243	768,965	2,482,755	2,348,154
Change in Net Assets Before Transfers:	106,047	210,007	109,345	113,423	215,392	323,430
Transfers	(1,225)	3,551	1,225	(3,551)	-	-
Net Change in Net Assets	104,822	213,558	110,570	109,872	215,392	323,430
Net Assets - July 1	4,153,381	3,939,823	3,489,709	3,379,837	7,643,090	7,319,660
Net Assets - June 30	\$ 4,258,203	\$ 4,153,381	\$ 3,600,279	\$ 3,489,709	\$ 7,858,482	\$ 7,643,090

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$104,822 during fiscal year 2009. Variances from fiscal year 2008 of more than 10% are discussed below.

- Charges for Services increased by \$55,547, or approximately 19%. The Special Engineering Fund was closed out during fiscal year 2009, and all Water and Sewer engineering positions were transferred to the General Fund. Charges for Services revenue increased as a result of those engineers billing Water and Sewer capital improvement projects.
- Operating Grants and Contributions increased by \$18,118, or approximately 24%, mainly due to an increase in Community Development Block Grant (CDBG) revenues. This was primarily the result of CDBG funded projects for non-City owned assets for various public improvements.
- Capital Grants and Contributions increased by \$32,455, or approximately 41%, which was caused by several factors. The City was awarded two new grants related to a 2007 landslide in the La Jolla area. The first was a Homeland Security grant for the Desert View Drive Area of La Jolla (\$6,800), and the second was a federal grant for the Mount Soledad Road area (\$11,900). In addition, there were increased revenues recognized for several other Capital Outlay grants including a Seismic Retrofit federal grant (\$5,500), a Prop1B State Grant (\$4,500), and a La Jolla/Pacific Beach/Ocean Beach/Mission Bay Water grant (\$1,200). Donated capital assets increased by \$8,900, which included park land turned over to the City (\$3,200) and land exchanged with the County for open space (\$2,600). These increases were offset by a decrease of approximately \$9,400 in CDBG related capital projects for city-owned public improvements.
- Transient Occupancy Taxes decreased by \$18,691, or approximately 12%, primarily due to the economic downturn in San Diego's tourism industry.
- Grants and Contributions not Restricted to Specific Programs increased by \$2,237, or approximately 36%, primarily due to one-time revenue received by RDA for the sale of downtown condominium units, pursuant to a participation agreement with a developer.
- Sales Taxes decreased by \$40,106, or approximately 15%. The General Fund's sales tax revenue decreased by approximately \$22,700, primarily due to declining retail sales as part of the overall downturn in the economy. TransNet's sales tax revenue decreased by approximately \$15,000. In fiscal year 2008 the City was awarded \$4,900 for the Bike Lanes and Major Corridor Programs, and in fiscal year 2009 the City was not awarded any new funds for these programs. In addition, SANDAG deferred approximately \$5,500 in sales tax disbursements to the City because the City was in violation of a SANDAG Board ruling which states that the City cannot maintain a balance in excess of 30% of the yearly apportionment. SANDAG deferred disbursement until the balance in the fund is reduced to meet the 30% rule.
- Investment Income decreased by \$21,480, or approximately 22%, primarily due to declining interest rates during 2008 and a decrease in interest income from the reinvestment of the investment pool's assets at these record low interest rates.
- Other Revenue decreased by \$34,187, or approximately 40% primarily due to a \$20,200 decrease in Proceeds from Land Sales. Due to the real estate market decline, the City has not sold the remaining parcels that were designated for disposition as part of the portfolio management plan for the City. There were also decreases in developer contributions in the Impact Fees Fund of \$9,300 and the Facilities Benefit Assessment Fund of \$2,400. These decreases were attributed to several communities, mainly Centre City (\$7,000), but also including smaller decreases in Uptown Urban Communities, Pacific Highlands Ranch, and Scripps Miramar Ranch.
- Parks, Recreation, Culture and Leisure expense increased by \$26,083, or approximately 11%, primarily due to the creation of the new Tourism Marketing District (TMD). Fiscal Year 2009 was the first full year for the TMD, causing an increase in expenditures of approximately \$9,500. There were also increases in depreciation of governmental capital assets in the amount of \$6,700 and Net Pension Obligation expense of \$6,900.

- Transportation expense increased by \$27,050, or approximately 13%, primarily due to the Underground Surcharge expenses. Since the underground program is funded by SDG&E franchise revenues, which came in lower than anticipated during fiscal year 2008, expenditures for the undergrounding of utility lines increased by approximately \$17,000 during fiscal year 2009 when revenues came in higher. Expenses related to the addition of the new Right of Way Design Program also increased by approximately \$6,400.
- Sanitation and Health expense increased by \$25,675, or approximately 50%, primarily due to an increase in the General Fund's Storm Water department expenditures. The City's Storm Drain and Street Sweeping programs were transferred to the Storm Water department from the Streets and Public Safety-Police departments, which accounted for an increase of approximately \$20,200. In addition, the Convention Center Fund paid \$5,900 for a one-time capacity fee adjustment for the annual cost of effluent dewatering.
- Neighborhood Services expense increased by \$25,625, or approximately 28%. This increase was primarily the result of a settlement agreement with the County of San Diego regarding the Grantville Redevelopment Project area for \$39,200. This was partially offset by a decrease of approximately \$9,300 which was attributed to a prior year loss on the disposition of an RDA parcel of land in the Centre City Project area, related to the Renaissance Hotel project. The loss was mostly due to timing differences in revenue and expense recognition because advances from the developer were recognized in prior years as the funds were used to acquire the property.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net assets by \$110,570 during fiscal year 2009. Variances from fiscal year 2008 of more than 10% are discussed below.

- Investment Income decreased by \$10,220, or approximately 25%, primarily due to a bottoming out of declining interest rates around December 2008 and a decrease in interest income from the reinvestment of the Investment Pool's assets at these record low interest rates.
- Airports expense increased by \$1,031, or approximately 25%, primarily due to higher personnel costs. This was the result of filling supervisory positions, as well as emergency repairs and maintenance performed on buildings and runways.
- City Store expense decreased by \$467, or approximately 59%, primarily due to the City Store operations being shut down during fiscal year 2009.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

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

As of the end of fiscal year 2009, the City's governmental funds reported combined ending fund balances of \$1,740,792, an increase of \$149,488 from fiscal year 2008. Approximately \$999,926 constitutes unreserved fund balance, which is available for spending at the government's direction. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual funding of various programs, or (4) for a variety of other purposes.

The General Fund is the principal operating fund of the City. At the end of fiscal year 2009, undesignated fund balance of the General Fund was \$78,347, while total fund balance was \$114,392. This represents a \$10,389 decrease from the fiscal year 2008 total fund balance.

PROPRIETARY FUNDS

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

As of the end of fiscal year 2009, Unrestricted Net Assets of the Sewer Utility Fund are \$292,441. Unrestricted Net Assets increased approximately \$48,724, or approximately 20%, mainly due to increased charges for services as a result of Council approved rate increases.

As of the end of fiscal year 2009, Unrestricted Net Assets of the Water Utility Fund are \$232,899. Unrestricted Net Assets increased by \$21,054, or approximately 10%, mainly due to increased sales of water as a result of Council approved rate increases.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for expenditures and transfers out was \$24,744 higher than the final budget due to increases (decreases) in appropriations primarily attributed to the following:

- (\$10,548) for General Governmental and Support. This variance was mostly attributed to the departments below:
 - (\$11,016) for Citywide Programs. The majority of the budget adjustment (\$7,614) is due to employee leveraged pick up savings being reimbursed to employees out of the UAAL fund instead of the General Fund. City Elections budget decreased by (\$1,975) due to fewer propositions on the November ballot and no run-off elections. The remaining (\$1,427) is made up of a decrease in the amount of Mission Bay revenue transferred to the Park Improvement Fund and other miscellaneous adjustments.
 - \$ 8,377 due to an increase in the General Fund Appropriated Reserve.
 - (\$1,200) for City Treasurer. This decrease was due to the first quarter budget adjustments approved by City Council, which reduced funding for supplies and services, as well as personnel costs.
 - (\$3,853) for City Comptroller, Facilities Maintenance, Field Engineering, and Project Implementation and Technical Services. This decrease was mainly due to the first quarter budget adjustments approved by City Council, which reduced funding for supplies and services, as well as personnel costs.
 - (\$ 2,837) for City Planning and Development, Community Services, Customer Services, Office of Ethics and Integrity, and Public Safety. This decrease was due to the first quarter budget adjustments approved by City Council, which eliminated these four departments.
- (\$7,902) for Public Safety-Police. The majority of the budget reduction was in personnel, which was attributed to vacant positions, the decrease in recruits from the Police Academy, and overtime savings.
- \$10,414 for Public Safety-Fire and Life Services and Homeland Security. The increase in budget was primarily due to over budget expenditures related to overtime Strike Team activities for wildfires and other Federal Emergency Management Agency requirements, unanticipated retirements, and an increase in reimbursable Emergency Medical Services.
- (\$1,560) for Parks, Recreation, Culture and Leisure. This decrease was mainly due to the first quarter budget adjustments approved by City Council.
- (\$4,561) for Transportation. This decrease was due to vacant reimbursable positions in the Streets Department and a budget reduction in supplies and services approved by City Council in December.
- (\$10,273) for Sanitation and Health. The decrease was primarily due to the first quarter budget adjustments approved by City Council, which reduced funding for Storm Drain Repairs, Contracts, Pollution Prevention, and personnel costs.

- \$818 for Principal Retirement. This increase was due to capital lease payments for Police and Parking Enforcement vehicles, as well as equipment, vehicles and helicopters for the Public Safety-Fire and Life Safety and Homeland Security department.
- \$194 for Interest Expense. This increase was due to capital lease payments for Police and Parking Enforcement vehicles, as well as equipment, vehicles and helicopters for the Public Safety-Fire and Life Safety and Homeland Security.

Actual revenues received for the General Fund were \$64,787 less than budgeted. Sales Tax and Transient Occupancy Tax were under budget by \$10,700 and \$8,424, respectively, due to the downturn in the economy. Other Local Taxes were under budget by \$4,545 mainly due to Property Transfer Tax which came in lower than anticipated. This was the result of reduced home sales and shortfalls in SDG&E and Refuse Collection Franchise Fees. Revenue from Use of Money and Property came in \$10,099 under budget, due to declining market values for the City's investment pool. Revenue from Federal Agencies came in \$11,433 under budget. \$2,347 was budgeted to come in during fiscal year 2009 but was actually accrued as fiscal year 2008 revenue. Charges for Current Services came in \$2,101 over budget due to the Engineering Department's work on Water and Sewer capital improvement projects. Other revenue was \$21,562 less than budgeted, which was due to Engineering's charges to Water and Sewer capital projects being received in the Charges for Services category, rather than in Other Revenue, where it was originally budgeted.

Actual expenditures for the General Fund were \$45,464 less than budgeted. \$20,136 was attributed primarily to an increase in the budget of the General Fund Appropriated Reserve without corresponding expenditures, and lower than anticipated allocations from the General Fund Fringe Benefits Reserve. The Fringe Benefits Reserve is used to compensate departments for fringe expenditures in excess of the Revised Budget. In addition, several categories had appropriation savings: Public Safety-Police had personnel and supplies and services savings of \$6,827; Sanitation and Health had savings of \$9,168 mainly due to vacant positions and delays in contractual expenditures for the Storm Water department; Parks, Recreation, Culture, and Leisure had savings of \$3,331 largely due to conservative spending in non-personnel costs. The remaining \$6,002 was primarily due to personnel savings in Neighborhood Services and non-personnel savings in Transportation.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land, Easements, Rights of Way	\$ 1,768,968	\$ 1,755,956	\$ 93,240	\$ 89,988	\$ 1,862,208	\$ 1,845,944
Construction-in-Progress	192,741	165,880	291,283	174,065	484,024	339,945
Structures and Improvements	826,488	827,912	1,253,903	1,422,839	2,080,391	2,250,751
Equipment	169,387	133,317	156,891	102,069	326,278	235,386
Distribution and Collection Systems	-	-	2,971,404	2,845,957	2,971,404	2,845,957
Infrastructure	1,497,941	1,452,252	-	-	1,497,941	1,452,252
Totals	\$ 4,455,525	\$ 4,335,317	\$ 4,766,721	\$ 4,634,918	\$ 9,222,246	\$ 8,970,235

CAPITAL ASSETS

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

The City's investment in capital assets (including infrastructure) for governmental and business-type activities as of June 30, 2009 was \$9,222,246 (net of accumulated depreciation). There was an overall increase in the City's investment in capital assets over fiscal year 2008 of approximately \$252,011. Readers interested in more detailed information on capital asset activity should refer to Note 4 Capital Assets.

HIGHLIGHTS OF FISCAL YEAR 2009 CAPITAL IMPROVEMENT ACTIVITIES

Governmental Activities

- Phase 1 of the Enterprise Resource Planning (ERP) System Core Project to provide a replacement of the legacy software currently used by the Offices of the Chief Financial Officer (CFO) and Business and Support Services was completed and implemented city-wide on July 1, 2009. As identified in the Kroll report, the legacy system was no longer meeting the City's requirement for responsible financial management, efficient human resources management, or IT operational efficiency. The project is being funded primarily through a lease purchase agreement with IBM Credit LLC and cash from SDDPC. The City's fiscal year 2009 capital expenditures for this project were \$19,501.
- Construction continued on the reconstruction of Soledad Mountain Road following the October 2007 landslide that destroyed a large section of the 5700 block of Soledad Mountain Road and Desert View Drive Alley. The project is funded by TransNet, as well as state and federal grants. The City's fiscal year 2009 capital expenditures for this project were \$12,594.
- Construction continues on the North Harbor Drive Bridge over the Navy Estuary. This project will provide for the seismic retrofitting of the bridge as well as stabilization of the existing piers, and joining the paired piers together at the waterline to increase support during seismic events. The City's fiscal year 2009 capital expenditures for this project were \$9,953.
- Construction was completed on the Bird Rock Coastal Traffic Flow Improvements. This project provides traffic calming measures to reduce speed and improve safety and walkability on La Jolla Boulevard. The project provides three modern roundabouts on La Jolla Boulevard, as well as three mini roundabouts on connecting residential streets. La Jolla Boulevard will also be reduced from four to two lanes. The project was funded by SANDAG, TransNet, Developer Impact Fees, and federal and state grants. The City added \$6,207 in capital infrastructure assets related to this project in fiscal year 2009.
- Construction was completed on the widening of Genesee Avenue from Interstate 5 to Campus Point Drive. This project provided for the widening of 2,500 feet of Genesee Avenue to a modified six-lane primary arterial including Class II bicycle lanes. The project was funded by Facility Benefit Assessments. The City added \$6,500 in capital infrastructure assets related to this project in fiscal year 2009.
- Construction continued on Phase II of the Logan Heights Branch Library. This project provides for a new 25,000 square foot library at 28th Street and Ocean Boulevard to serve the Logan Heights Community. The project is funded by various grants and the Library System Improvement Fund. The City's fiscal year 2009 capital expenditures for this project were \$5,540.
- Construction was completed on the Carmel Valley Community Park South. This project provided for the development of a 15 useable acre community park in the Torrey Hills and Carmel Valley Neighborhoods south of State Route 56, located in Carmel Valley Neighborhood 8A. The City added \$8,816 in capital infrastructure assets related to this project in fiscal year 2009.
- Construction began on the First Avenue Bridge Rehabilitation and Retrofit project. This project will provide for seismic retrofits to the abutments, expansion joints and bracing of the First Ave Bridge; as well as extensive hardware restoration

and replacement. The project is part of the Uptown Community Plan. The City's fiscal year 2009 capital expenditures for this project were \$3,714.

- Construction continued on the Bayshore Bikeway. The project provides for construction of a Class I bikeway from the northern end of 13th Street to Main Street at the I-5 interchange at the Southeast corner of San Diego Bay and will complete the missing segment of the planned bike path around San Diego Bay from Point Loma to Coronado. The project is funded by TransNet Major Corridor funds. The City's fiscal year 2009 capital expenditures for this project were \$3,217.

Business-Type Activities

During fiscal year 2009, the Water Utility Fund added approximately \$147,500 in capital improvement projects (CIP). Upgrades and expansion of the Miramar Water Treatment Plant, Otay Water Treatment Plant and the Alvarado Water Treatment Plant continued, along with water main replacements. Capital asset write-offs for fiscal year 2008 were approximately \$8,100, and were primarily related to losses on abandoned projects and retirements of developer contributed assets.

During fiscal year 2009, the Sewer Utility Fund added approximately \$49,500 in CIP, of which the Metropolitan system CIP increased approximately \$4,900. Municipal system CIP increased approximately \$44,600 and included the following major projects: Caltrans/SR-905 Otay Mesa Trunk Sewer, Pipeline Rehabilitation Phase C-1, and the continued replacement of sewer mains and upgrades to the sewer infrastructure. Capital asset write-offs for fiscal year 2008 were approximately \$3,500, and were primarily related to losses on abandoned projects and retirements of developer contributed assets.

HIGHLIGHTS OF APPROVED FISCAL YEAR 2010 CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGET

The Annual Approved Capital Improvements Budget for Fiscal Year 2010 is \$478,400 which is a decrease of \$108,600, or approximately 18.5% from the fiscal year 2009 budget of \$587,000. The decrease in the Fiscal Year 2010 budget is primarily due to one-time financing and Proposition 1B funds which were included in the Fiscal Year 2009 Annual Capital Improvement budget for deferred maintenance needs. Water and Sewer projects comprise over 59.3% of the total CIP budget. Engineering & Capital Projects and General Services projects comprise 25.4%, and 2.5% of the total CIP budget, respectively. Funding for governmental projects include: TransNet funds; Facilities Benefit Assessments; Developer Impact Fees; developer contributions; federal, state, local, and private contributions; land sale proceeds; and deferred maintenance bonds. Highlights of the key budgets by department are as follows:

Governmental Activities

- Engineering and Capital Projects: \$121,500 (25.4% of total CIP budget). Key projects include the undergrounding of City utilities to augment the California Public Utilities Commission (CPUC) Rule 20A funds, and conversion of City-owned street lighting and resurfacing of roadways associated with the undergrounding of utilities. The \$48,900 annual allocation for these projects is entirely funded by the Underground Surcharge Fund. Other significant projects include: \$11,100 for ADA improvements, \$10,200 for Carroll Canyon Road, \$3,500 for North Torrey Pines Road, and \$3,000 for 43rd Street and Logan/National Ave Intersection.
- General Services: \$12,200 (2.5% of total CIP budget). Key budgets include: \$11,800 for deferred maintenance projects.
- Parks and Recreation: \$29,400 (6.1% of total CIP budget). Planned project types for fiscal year 2010 include play area upgrades, joint use fields, accessibility improvements, comfort stations, picnic shelters, sports field and security lighting, new park development, and golf course improvements and upgrades.
- OneSD Support: \$9,900 (2.1% of total CIP budget). This budget is for completion of the Enterprise Resource Planning (ERP) System.
- City Planning and Community Investments: \$5,500 (1.1% of total CIP budget). This budget is for downtown parking improvement projects.

Business-Type Activities

The fiscal year 2010 Water Utility CIP budget is \$149,800. There are no phase funded projects budgeted for fiscal year 2010. Significant projects include: \$43,000 for water main replacements; \$37,900 for the Alvarado Water Treatment Plant–Upgrade and Expansion; \$15,700 for the Miramar Water Treatment Plant–Upgrade and Expansion; \$9,400 for the North City Reclamation System.

The fiscal year 2010 Sewer Utility CIP budget is \$134,100. There are no phase funded projects budgeted for fiscal year 2010. Significant projects include: \$74,300 for pipeline repair, replacement, and rehabilitation; \$39,200 for replacement of trunk sewers; \$8,900 for repair and upgrade of pump stations; and \$7,600 for the repair and upgrade of treatment plants.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Capital Lease Obligations	\$ 89,519	\$ 61,262	\$ -	\$ 166	\$ 89,519	\$ 61,428
Contracts Payable	4,715	2,615	-	-	4,715	2,615
Notes Payable	4,786	5,662	-	430,830	4,786	436,492
Loans Payable	44,815	34,777	90,326	95,875	135,141	130,652
Section 108 Loans	33,532	35,896	-	-	33,532	35,896
General Obligation Bonds	6,315	8,580	-	-	6,315	8,580
Revenue Bonds/COP's/ Lease Revenue Bonds	579,500	498,950	2,166,906	1,425,445	2,746,406	1,924,395
Special Assessment/ Special Tax Bonds	152,270	144,805	-	-	152,270	144,805
Tax Allocation Bonds	534,547	548,643	-	-	534,547	548,643
Tobacco Settlement Asset-Backed Bonds	95,380	99,370	-	-	95,380	99,370
Pooled Financing Bonds	33,460	34,115	-	-	33,460	34,115
Totals	<u>\$ 1,578,839</u>	<u>\$ 1,474,675</u>	<u>\$ 2,257,232</u>	<u>\$ 1,952,316</u>	<u>\$ 3,836,071</u>	<u>\$ 3,426,991</u>

LONG-TERM DEBT

At the end of fiscal year 2009, the City, including blended component units, had total debt outstanding of approximately \$3,836,071. Of this amount, \$6,315 is comprised of debt backed by the full faith and credit of the City. The remainder of the City's debt represents revenue bonds, lease revenue bonds, certificates of participation (COPs), special assessment bonds, tax allocation bonds, tobacco settlement asset-backed bonds, pooled financing bonds, contracts payable, notes payable, loans payable, Section 108 loans, SRF loans, and capital lease obligations.

Governmental Activities

- The City issued \$12,365 of Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds, Series 2008 A, to finance public improvements required in connection with the district, to fund the Reserve Fund, and to pay costs of issuance related to the 2008A Bonds. The 2008A bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982 and are limited obligations of the district.

- The City (PFFA) sold \$103,000 of Lease Revenue Bonds, Series 2009A, on a private placement basis, for the purpose of financing various capital improvement projects. The 2009A bonds are secured from base rental payments and bear interest at a rate of 3.89% through June 1, 2010. Thereafter the rate will be fixed to equal the purchaser's internal cost of funds rate plus a fixed spread of 3.00%, but not to exceed 12% until the final maturity date of December 1, 2018.
- Total principal payments for long-term debt were \$64,542. \$48,356 of this amount was for outstanding bonds, \$2,809 was for loans payable, \$876 was for notes payable, and \$12,501 was for capital leases. Readers interested in more detailed information regarding Governmental Activities Long Term Liabilities should refer to Note 5.

Business-Type Activities

- The City (PFFA) issued \$157,190 of Water Revenue Bonds, Refunding Series 2009A for the following purposes: to prepay \$57,000 of outstanding principal on the Subordinated Water Revenue Notes, Series 2007A; to partially refund \$94,165 of Certificates of Undivided Interest, Series 1998; to fund the reserve; and to pay costs of issuance related to the Series 2009A Bonds. The publicly offered Water 2009A Revenue Refunding Bonds are secured by and payable solely from net system revenues of the Water Utility Fund.
- The City (PFFA) issued \$453,775 of Senior Sewer Revenue Bonds, Series 2009A for the following purposes: to finance capital improvements to the Wastewater System; to pay in full \$223,830 of Subordinate Sewer Revenue Notes, Series 2007; to partially refund \$36,635 of Sewer Revenue Bonds, Series 1997A and \$13,410 of Sewer Revenue Bonds, Series 1997B; to fund the reserve; and to pay costs of issuance related to the Series 2009A Bonds. The publicly offered Sewer 2009A Revenue Bonds are secured by and payable solely from wastewater system net revenues.
- The City (PFFA) issued \$634,940 of Senior Sewer Revenue Refunding Bonds, Series 2009B for the following purposes: to fully refund \$160,220 of outstanding Sewer Revenue Bonds, Series 1993; to partially refund \$211,455 of Sewer Revenue Bonds, Series 1995; to partially refund \$80,255 of Sewer Revenue Bonds, Series 1997A and \$29,385 of Sewer Revenue Bonds, Series 1997B; to partially refund \$97,845 of Sewer Revenue Bonds, Series 1999A and \$54,015 of Sewer Revenue Bonds, Series 1999B; to fund the reserve; and to pay costs of issuance related to the Series 2009A Bonds. The publicly offered Sewer 2009B Revenue Refunding Bonds are secured by and payable solely from wastewater system net revenues.
- The City (PFFA) issued \$328,060 of Water Revenue Bonds, Series 2009B for the following purposes: to finance capital improvements to the Water System; to prepay \$150,000 of outstanding principal on the Subordinated Water Revenue Notes, Series 2008A; to fund the reserve; and to pay costs of issuance related to the series 2009B Bonds. The publicly offered Water 2009B Revenue Bonds are secured by and payable solely from net system revenues of the Water Utility Fund.
- Total principal payments for long-term debt were \$1,269,049, of which \$832,504 was for outstanding bonds, including \$786,910 of bonds refunded or redeemed in advance of scheduled maturity date, and \$45,594 of scheduled bond principal payments. \$430,830 was for outstanding notes prepaid, \$5,549 was for loans payable, and \$166 was for capital leases. Readers interested in more detailed information regarding Business-Type Activities Long Term Liabilities should refer to Note 6.

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

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

Section 90 of the City Charter provides that the general obligation bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation. The City's current outstanding general obligation balances as of June 30, 2009 are significantly less than the current debt limitations for water and other purposes, which are \$5,962,975 and \$3,975,316, respectively (see Statistical Section, Table 12).

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

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET ASSETS
June 30, 2009
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
ASSETS					
Cash and Investments	\$ 1,320,591	\$ 675,673	\$ 1,996,264	\$ 21,756	\$ 94,458
Receivables:					
Taxes - Net	86,059	-	86,059	-	-
Accounts - Net of Allowance for Uncollectibles					
(Governmental \$34,534, Business-Type \$3,019) ..	39,226	79,546	118,772	2,537	6,991
Claims - Net	155	2	157	-	-
Contributions	360	-	360	-	-
Special Assessments - Net	2,993	-	2,993	-	-
Notes	122,948	-	122,948	-	169,532
Accrued Interest	4,421	2,535	6,956	-	18,288
Grants	35,702	3,606	39,308	-	-
Investment in Joint Venture	1,824	-	1,824	-	-
Advances to Other Agencies	5,777	-	5,777	-	-
Internal Balances	(7,929)	7,929	-	-	-
Inventories of Water in Storage	-	36,947	36,947	-	-
Inventories	2,033	622	2,655	15	54
Land Held for Resale	39,413	-	39,413	-	-
Prepaid Expenses	5,313	461	5,774	1,057	1,623
Restricted Cash and Investments	431,547	535,647	967,194	-	699
Deferred Charges	19,752	14,102	33,854	-	-
Capital Assets - Non-Depreciable	1,961,709	384,523	2,346,232	-	36,545
Capital Assets - Depreciable	2,493,816	4,382,198	6,876,014	16,404	60,683
TOTAL ASSETS	<u>6,565,710</u>	<u>6,123,791</u>	<u>12,689,501</u>	<u>41,769</u>	<u>388,873</u>

STATEMENT OF NET ASSETS
June 30, 2009
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
LIABILITIES					
Accounts Payable	\$ 46,526	\$ 45,932	\$ 92,458	\$ 5,679	\$ 2,905
Accrued Wages and Benefits	31,314	12,003	43,317	-	415
Other Accrued Liabilities	210	-	210	1,796	2,638
Interest Accrued on Long-Term Debt	24,488	17,761	42,249	-	124
Long-Term Liabilities Due Within One Year	158,140	76,352	234,492	3,077	1,753
Due to Other Agencies	188	11,308	11,496	-	-
Unearned Revenue	34,794	7,494	42,288	9,986	2,342
Contract Deposits	-	8,596	8,596	-	-
Sundry Trust Liabilities	5,711	-	5,711	-	-
Customer Deposits Payable	-	4,566	4,566	-	-
Deposits/Advances from Others	-	2,819	2,819	-	965
Long-Term Liabilities Due After One Year:					
Arbitrage Liability	533	-	533	-	-
Compensated Absences	39,534	6,356	45,890	-	-
Liability Claims	230,316	29,352	259,668	-	-
Capital Lease Obligations	73,556	-	73,556	531	-
Contracts Payable	4,715	-	4,715	-	-
Notes Payable	4,786	-	4,786	500	26,671
Loans Payable	36,107	84,673	120,780	-	-
Section 108 Loans Payable	31,075	-	31,075	-	-
Net Bonds Payable	1,364,345	2,147,103	3,511,448	-	-
Estimated Landfill Closure and Postclosure Care	-	19,336	19,336	-	-
Pollution Remediation Obligation	-	620	620	-	-
Net Other Post Employment Benefit Obligation	73,504	19,767	93,271	-	-
Net Pension Obligation	147,665	29,474	177,139	-	-
TOTAL LIABILITIES	<u>2,307,507</u>	<u>2,523,512</u>	<u>4,831,019</u>	<u>21,569</u>	<u>37,813</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	3,530,937	2,970,351	6,501,288	13,510	69,458
Restricted for:					
Capital Projects	293,284	-	293,284	-	-
Debt Service	-	4,372	4,372	-	-
Low-Moderate Income Housing	135,581	-	135,581	-	-
Nonexpendable Permanent Endowments	13,280	-	13,280	-	-
Other	122,460	38,113	160,573	1,452	128,863
Unrestricted	<u>162,661</u>	<u>587,443</u>	<u>750,104</u>	<u>5,238</u>	<u>152,739</u>
TOTAL NET ASSETS	<u>\$ 4,258,203</u>	<u>\$ 3,600,279</u>	<u>\$ 7,858,482</u>	<u>\$ 20,200</u>	<u>\$ 351,060</u>

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

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009
(In Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government and Support	\$ 303,581	\$ 152,630	\$ 13,449	\$ 323
Public Safety - Police	418,549	42,178	14,054	-
Public Safety - Fire and Life Safety and Homeland Security ...	220,787	20,449	16,144	1
Parks, Recreation, Culture and Leisure	258,038	80,795	2,282	19,376
Transportation	239,305	18,360	10,572	77,277
Sanitation and Health	77,447	9,306	2,097	-
Neighborhood Services	116,735	21,814	34,646	13,825
Debt Service:				
Interest	84,070	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	1,718,512	345,532	93,244	110,802
Business-Type Activities:				
Airports	5,140	4,929	-	1,806
City Store	321	242	-	-
Development Services	47,260	37,310	-	-
Environmental Services	35,718	31,726	83	-
Golf Course	11,864	16,201	-	-
Recycling	20,067	16,027	227	-
Sewer Utility	314,125	322,571	167	28,780
Water Utility	329,748	342,719	1,262	30,277
TOTAL BUSINESS-TYPE ACTIVITIES	764,243	771,725	1,739	60,863
TOTAL PRIMARY GOVERNMENT	\$ 2,482,755	\$ 1,117,257	\$ 94,983	\$ 171,665
Component Units:				
San Diego Convention Center Corporation	\$ 38,365	\$ 30,774	\$ 4,129	\$ 143
San Diego Housing Commission	179,548	26,095	169,456	-
TOTAL COMPONENT UNITS	\$ 217,913	\$ 56,869	\$ 173,585	\$ 143
General Revenues:				
Property Taxes				
Transient Occupancy Taxes				
Other Local Taxes				
Developer Contributions and Fees				
Grants and Contributions not Restricted to Specific Programs				
Sales Taxes				
Investment Income				
Gain on Sale of Capital Assets				
Miscellaneous				
Transfers				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET ASSETS				
Net Assets at Beginning of Year				
NET ASSETS AT END OF YEAR				

Net Revenue/(Expense) and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
\$ (137,179)	\$ -	\$ (137,179)	\$ -	\$ -
(362,317)	-	(362,317)	-	-
(184,194)	-	(184,194)	-	-
(155,585)	-	(155,585)	-	-
(133,096)	-	(133,096)	-	-
(66,043)	-	(66,043)	-	-
(46,450)	-	(46,450)	-	-
(84,070)	-	(84,070)	-	-
(1,168,934)	-	(1,168,934)	-	-
-	1,595	1,595	-	-
-	(79)	(79)	-	-
-	(9,950)	(9,950)	-	-
-	(3,909)	(3,909)	-	-
-	4,337	4,337	-	-
-	(3,813)	(3,813)	-	-
-	37,393	37,393	-	-
-	44,510	44,510	-	-
-	70,084	70,084	-	-
(1,168,934)	70,084	(1,098,850)	-	-
-	-	-	(3,319)	-
-	-	-	-	16,003
-	-	-	(3,319)	16,003
607,857	-	607,857	-	-
140,657	-	140,657	-	-
161,485	-	161,485	-	-
16,148	-	16,148	-	-
8,488	-	8,488	-	-
229,651	-	229,651	-	-
75,245	31,004	106,249	289	5,543
1,922	-	1,922	-	-
33,528	8,257	41,785	579	-
(1,225)	1,225	-	-	-
1,273,756	40,486	1,314,242	868	5,543
104,822	110,570	215,392	(2,451)	21,546
4,153,381	3,489,709	7,643,090	22,651	329,514
\$ 4,258,203	\$ 3,600,279	\$ 7,858,482	\$ 20,200	\$ 351,060

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

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009
(In Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 86,667	\$ 1,085,808	\$ 1,172,475
Receivables:			
Taxes - Net	69,438	16,621	86,059
Accounts - Net of Allowance for Uncollectibles (General Fund \$7,032, Other Governmental \$26,606)	13,891	24,159	38,050
Claims - Net	130	16	146
Special Assessments	-	2,993	2,993
Notes	-	122,948	122,948
Accrued Interest	906	3,497	4,403
Grants	-	35,702	35,702
From Other Funds	1,500	26	1,526
Interfund Loan Receivable	-	33,460	33,460
Advances to Other Funds	-	7,959	7,959
Advances to Other Agencies	-	5,777	5,777
Land Held for Resale	-	39,413	39,413
Prepaid Items	886	1,351	2,237
Investment in Joint Venture	1,824	-	1,824
Restricted Cash and Investments	-	431,547	431,547
	<u>175,242</u>	<u>1,811,277</u>	<u>1,986,519</u>
TOTAL ASSETS	\$ 175,242	\$ 1,811,277	\$ 1,986,519
LIABILITIES			
Accounts Payable	\$ 3,789	\$ 34,295	\$ 38,084
Accrued Wages and Benefits	27,642	736	28,378
Other Accrued Liabilities	-	210	210
Due to Other Funds	2,095	5,993	8,088
Due to Other Agencies	-	188	188
Unearned Revenue	663	34,054	34,717
Deferred Revenue	26,661	58,784	85,445
Sundry Trust Liabilities	-	5,711	5,711
Advances from Other Funds	-	7,959	7,959
Interfund Loan Payable	-	36,947	36,947
	<u>60,850</u>	<u>184,877</u>	<u>245,727</u>
TOTAL LIABILITIES	60,850	184,877	245,727

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009
(In Thousands)**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND EQUITY:			
Fund Balances:			
Reserved for Land Held for Resale	-	39,413	39,413
Reserved for Notes Receivable	-	118,907	118,907
Reserved for Encumbrances	32,071	250,665	282,736
Reserved for Advances	-	13,736	13,736
Reserved for Low and Moderate Income Housing	-	95,668	95,668
Reserved for Permanent Endowments	-	13,280	13,280
Reserved for Debt Service	-	175,302	175,302
Reserved for Minority Interest in Joint Venture	1,824	-	1,824
Unreserved, Reported in General Fund:			
Designated for Unrealized Gains	1,943	-	1,943
Designated for Subsequent Years' Expenditures	207	-	207
Undesignated	78,347	-	78,347
Unreserved, Reported in:			
Special Revenue Funds	-	221,089	221,089
Debt Service Funds	-	265,236	265,236
Capital Projects Funds	-	430,479	430,479
Permanent Funds	-	2,625	2,625
TOTAL FUND EQUITY	114,392	1,626,400	1,740,792
TOTAL LIABILITIES AND FUND EQUITY	\$ 175,242	\$ 1,811,277	

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	4,329,571
Other assets and liabilities used in governmental activities are not financial resources, and therefore, are either deferred or not reported in the funds.	105,197
Internal Service funds are used by management to charge the costs of activities such as Fleet Services, Print Shop, Self Insurance, and Central Stores to individual funds. The assets and liabilities of certain Internal Service Funds are included in governmental activities in the Statement of Net Assets.	6,826
Certain liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(1,924,183)
Net Assets of governmental activities	\$ 4,258,203

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2009
(In Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	\$ 398,743	\$ 204,831	\$ 603,574
Special Assessments	-	63,500	63,500
Sales Taxes	212,918	20,222	233,140
Transient Occupancy Taxes	73,765	66,892	140,657
Other Local Taxes	72,432	98,760	171,192
Licenses and Permits	31,249	8,100	39,349
Fines, Forfeitures and Penalties	32,467	1,939	34,406
Revenue from Use of Money and Property	41,461	66,323	107,784
Revenue from Federal Agencies	4,268	66,118	70,386
Revenue from Other Agencies	8,915	43,541	52,456
Revenue from Private Sources	-	21,593	21,593
Charges for Current Services	133,117	70,315	203,432
Other Revenue	5,296	20,415	25,711
TOTAL REVENUES	1,014,631	752,549	1,767,180
EXPENDITURES			
Current:			
General Government and Support	243,057	101,873	344,930
Public Safety - Police	389,390	17,267	406,657
Public Safety - Fire and Life Safety and Homeland Security	195,596	30,100	225,696
Parks, Recreation, Culture and Leisure	116,391	95,368	211,759
Transportation	72,635	90,334	162,969
Sanitation and Health	67,867	10,393	78,260
Neighborhood Services	17,255	56,530	73,785
Capital Projects	-	138,634	138,634
Debt Service:			
Principal Retirement	818	56,391	57,209
Interest	3,106	75,553	78,659
Cost of Issuance	-	1,001	1,001
TOTAL EXPENDITURES	1,106,115	673,444	1,779,559
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(91,484)	79,105	(12,379)
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	6,267	1,979	8,246
Transfers from Other Funds	105,059	216,685	321,744
Transfers to Proprietary Funds	(4,043)	(2,547)	(6,590)
Transfers to Other Funds	(26,031)	(295,713)	(321,744)
Net Loss from Joint Venture	(157)	-	(157)
Proceeds from the Sale of Capital Assets	-	2,157	2,157
Capital Leases	-	30,392	30,392
Contracts Issued	-	2,100	2,100
Loans Issued	-	10,483	10,483
Special Tax Bonds Issued	-	12,365	12,365
Revenue Bonds Issued	-	103,000	103,000
Discount on Bonds Issued	-	(129)	(129)
TOTAL OTHER FINANCING SOURCES (USES)	81,095	80,772	161,867
NET CHANGE IN FUND BALANCES	(10,389)	159,877	149,488
Fund Balances at Beginning of Year	124,781	1,466,523	1,591,304
FUND BALANCES AT END OF YEAR	\$ 114,392	\$ 1,626,400	\$ 1,740,792

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

City of San Diego
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2009
(In Thousands)

Net change in fund balances - total governmental funds (page 58)	\$ 149,488
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	121,730
The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to decrease net assets.	(17,686)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	10,410
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(100,854)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation), and therefore are not accrued as expenses in governmental funds.	(92,248)
Internal Service funds are used by management to charge the costs of activities such as Fleet Services, Publishing Services, Central Stores, Self Insurance, and others to individual funds. The net revenue of certain internal service activities is reported with governmental activities.	<u>33,982</u>
Change in net assets of governmental activities (page 55)	<u>\$ 104,822</u>

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

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009
(In Thousands)**

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and Investments	\$ 345,933	\$ 225,556	\$ 104,184	\$ 675,673	\$ 148,116
Receivables:					
Accounts - Net of Allowance for Uncollectibles (Sewer \$930, Water \$1,749, Other Enterprise \$340, Internal Service \$896)	35,172	43,573	801	79,546	1,176
Claims - Net	-	-	2	2	9
Contributions	-	-	-	-	360
Accrued Interest	1,420	604	511	2,535	18
Grants	-	1,822	1,784	3,606	-
From Other Funds	-	-	3,609	3,609	5,980
Inventories of Water in Storage	-	36,947	-	36,947	-
Inventories	-	620	2	622	2,033
Prepaid Expenses	3	456	2	461	3,076
Total Current Assets	382,528	309,578	110,895	803,001	160,768
Non-Current Assets:					
Restricted Cash and Investments	231,212	263,883	40,552	535,647	-
Deferred Charges	7,114	6,988	-	14,102	-
Interfund Loan Receivable	3,487	-	-	3,487	-
Capital Assets - Non-Depreciable	118,881	240,760	24,882	384,523	1,984
Capital Assets - Depreciable	2,710,102	1,611,573	60,523	4,382,198	123,970
Total Non-Current Assets	3,070,796	2,123,204	125,957	5,319,957	125,954
TOTAL ASSETS	3,453,324	2,432,782	236,852	6,122,958	286,722
LIABILITIES					
Current Liabilities:					
Accounts Payable	11,995	32,367	1,570	45,932	8,442
Accrued Wages and Benefits	7,682	2,145	2,176	12,003	2,936
Interest Accrued on Long-Term Debt	6,162	11,598	1	17,761	269
Long-Term Debt Due Within One Year	54,663	19,705	1,984	76,352	55,267
Due to Other Funds	510	558	147	1,215	1,812
Due to Other Agencies	10,262	1,046	-	11,308	-
Unearned Revenue	-	817	6,677	7,494	77
Contract Deposits	3,503	4,756	337	8,596	-
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	4,566	-	4,566	-
Total Current Liabilities	94,777	77,558	12,892	185,227	68,803
Non-Current Liabilities:					
Deposits/Advances from Others	250	-	2,569	2,819	-
Compensated Absences	2,323	2,036	1,997	6,356	3,795
Liability Claims	27,776	1,576	-	29,352	178,126
Capital Lease Obligations	-	-	-	-	21,221
Loans Payable	67,100	17,573	-	84,673	-
Net Revenue Bonds Payable	1,251,957	895,146	-	2,147,103	-
Estimated Landfill Closure and Postclosure Care	-	-	19,336	19,336	-
Pollution Remediation Obligation	-	620	-	620	-
Net Other Post Employment Benefit Obligation	6,916	6,578	6,273	19,767	2,978
Net Pension Obligation	10,785	8,477	10,212	29,474	2,925
Total Non-Current Liabilities	1,367,107	932,006	40,387	2,339,500	209,045
TOTAL LIABILITIES	1,461,884	1,009,564	53,279	2,524,727	277,848
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,698,249	1,186,697	85,405	2,970,351	97,195
Restricted for Debt Service	750	3,622	-	4,372	-
Restricted for Closure/Postclosure Maintenance	-	-	38,113	38,113	-
Unrestricted	292,441	232,899	60,055	585,395	(88,321)
TOTAL NET ASSETS	\$ 1,991,440	\$ 1,423,218	\$ 183,573	3,598,231	\$ 8,874

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds..... 2,048

Net assets of Business-Type activities \$ 3,600,279

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

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Business-Type Activities - Enterprise Funds				Internal Service Funds
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	
OPERATING REVENUES					
Sales of Water	\$ -	\$ 324,772	\$ -	\$ 324,772	\$ -
Charges for Services	318,474	-	58,789	377,263	160,937
Revenue from Use of Property	-	5,418	-	5,418	-
Usage Fees	-	1,272	45,672	46,944	81,001
Other	4,097	11,257	1,974	17,328	883
TOTAL OPERATING REVENUES	322,571	342,719	106,435	771,725	242,821
OPERATING EXPENSES					
Benefit and Claim Payments	-	-	-	-	58,416
Maintenance and Operations	119,470	95,979	81,621	297,070	46,347
Cost of Materials Issued	-	-	-	-	29,149
Cost of Purchased Water Used	-	133,499	-	133,499	-
Taxes	-	162	-	162	-
Administration	71,300	33,258	34,138	138,696	55,715
Depreciation	76,554	39,627	5,797	121,978	26,513
TOTAL OPERATING EXPENSES	267,324	302,525	121,556	691,405	216,140
OPERATING INCOME (LOSS)	55,247	40,194	(15,121)	80,320	26,681
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	13,454	12,478	5,075	31,007	5,182
Federal Grant Assistance	-	192	27	219	-
Other Agency Grant Assistance	167	1,070	283	1,520	123
Loss on Sale/Retirement of Capital Assets	(3,525)	(2,436)	(814)	(6,775)	(236)
Debt Service Interest Expense	(46,151)	(28,081)	(3)	(74,235)	(971)
Other	5,244	751	2,262	8,257	10,461
TOTAL NONOPERATING REVENUES (EXPENSES)	(30,811)	(16,026)	6,830	(40,007)	14,559
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	24,436	24,168	(8,291)	40,313	41,240
Capital Contributions	28,780	30,277	1,806	60,863	198
Transfers from Other Funds	616	439	276	1,331	163
Transfers from Governmental Funds	1,238	3,443	2,617	7,298	5,723
Transfers to Other Funds	(59)	(99)	(63)	(221)	(1,273)
Transfers to Governmental Funds	(3,550)	(530)	(2,464)	(6,544)	(4,539)
CHANGE IN NET ASSETS	51,461	57,698	(6,119)	103,040	41,512
Net Assets at Beginning of Year	1,939,979	1,365,520	189,692		(32,638)
NET ASSETS AT END OF YEAR	\$ 1,991,440	\$ 1,423,218	\$ 183,573		\$ 8,874
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.				7,530	
Change in net assets of Business-Type activities				\$ 110,570	

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

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Business-Type Activities - Enterprise Funds				Internal Service Funds
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 327,771	\$ 277,717	\$ 90,607	\$ 696,095	\$ 3,182
Receipts from Interfund Services Provided	2,688	65,945	18,305	86,938	250,022
Payments to Suppliers	(120,624)	(262,356)	(41,838)	(424,818)	(104,650)
Payments to Employees	(41,702)	(567)	(61,907)	(104,176)	(90,710)
Payments for Interfund Services Used	(34,733)	(13,779)	(7,609)	(56,121)	(2,739)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	133,400	66,960	(2,442)	197,918	55,105
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	616	406	276	1,298	162
Transfers from Governmental Funds	1,238	186	2,617	4,041	2,550
Transfers to Other Funds	(26)	(99)	(62)	(187)	(1,273)
Transfers to Governmental Funds	(998)	(477)	(2,464)	(3,939)	(4,307)
Operating Grants Received.....	167	1,012	238	1,417	123
Proceeds from Advances and Deposits	-	235	2,569	2,804	-
Payments for Advances and Deposits	-	-	(25)	(25)	-
NET CASH PROVIDED (USED FOR) NONCAPITAL FINANCING ACTIVITIES	997	1,263	3,149	5,409	(2,745)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Contracts, Notes and Loans	-	-	-	-	10,362
Proceeds from Revenue Bonds	217,469	179,729	-	397,198	-
Proceeds from Capital Contributions	10,361	7,631	973	18,965	-
Acquisition of Capital Assets	(55,809)	(150,587)	(6,580)	(212,976)	(49,169)
Proceeds from the Sale of Capital Assets	-	5,707	-	5,707	3,358
Principal Payments on Capital Leases	-	-	(166)	(166)	(7,055)
Principal Payments on Contracts, Notes and Loans	(4,654)	(895)	-	(5,549)	-
Principal Payments on Revenue Bonds.....	(31,700)	(13,894)	-	(45,594)	-
Interest Paid on Long-Term Debt	(44,670)	(29,625)	(11)	(74,306)	(1,046)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	90,997	(1,934)	(5,784)	83,279	(43,550)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	988,652	1,671,625	-	2,660,277	-
Purchases of Investments	(1,173,015)	(1,759,692)	-	(2,932,707)	-
Interest Received on Investments	13,671	13,914	5,632	33,217	5,202
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(170,692)	(74,153)	5,632	(239,213)	5,202
Net Increase (Decrease) in Cash and Cash Equivalents	54,702	(7,864)	555	47,393	14,012
Cash and Cash Equivalents at Beginning of Year	291,240	241,215	144,181	676,636	134,104
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 345,942	\$ 233,351	\$ 144,736	\$ 724,029	\$ 148,116
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Assets:					
Cash and Investments	\$ 345,933	\$ 225,556	\$ 104,184	\$ 675,673	\$ 148,116
Restricted Cash & Investments	231,212	263,883	40,552	535,647	-
Less Investments not meeting the definition of cash equivalents	(231,203)	(256,088)	-	(487,291)	-
Total Cash and Cash Equivalents at End of Year	\$ 345,942	\$ 233,351	\$ 144,736	\$ 724,029	\$ 148,116
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:					
Operating Income (Loss)	\$ 55,247	\$ 40,194	\$ (15,121)	\$ 80,320	\$ 26,681
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Depreciation	76,554	39,627	5,797	121,978	26,513
(Increase) Decrease in Assets:					
Accounts Receivable - Net	2,455	281	63	2,799	(955)
Claims Receivable - Net	-	-	(2)	(2)	2
Contributions Receivable	-	-	-	-	39
Due from Other Funds	-	-	464	464	-
Inventories	-	(511)	76	(435)	72
Prepaid Expenses	5	(10)	10	5	(710)
Increase (Decrease) in Liabilities:					
Accounts Payable	(3,287)	(9,719)	8	(12,998)	(8,252)
Accrued Wages and Benefits	(2,052)	328	193	(1,531)	(296)
Due to Other Funds	(696)	(684)	(134)	(1,514)	(131)
Due to Other Agencies	7,365	(1,525)	-	5,840	-
Unearned Revenue	-	(326)	(372)	(698)	(49)
Contract Deposits	189	237	62	488	-
Arbitrage Liability	(157)	(429)	-	(586)	-
Compensated Absences	(197)	18	(505)	(684)	(362)
Liability Claims	(11,374)	(6,012)	-	(17,386)	2,331
Estimated Landfill Closure and Postclosure Care.....	-	-	907	907	-
Pollution Remediation Obligation.....	-	620	-	620	-
Net OPEB Obligation	3,878	3,919	3,652	11,449	1,237
Net Pension Obligation	226	201	198	625	(2,401)
Other Nonoperating Revenue	5,244	751	2,262	8,257	11,386
Total Adjustments	76,153	26,766	12,679	117,598	28,424
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 133,400	\$ 66,960	\$ (2,442)	\$ 197,918	\$ 55,105
Noncash Investing, Capital, and Financing Activities:					
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ 10,366
Developer Contributed Assets	18,419	22,646	-	41,065	198
Increase (Decrease) in Capital Assets related Accounts Payable	7,632	4,530	(382)	11,780	(6,246)
Noncash Retirement of Capital Assets	(3,525)	(8,142)	(814)	(12,481)	(318)
Contributions of Capital Assets from Governmental Activities	-	3,257	-	3,257	3,174
Proceeds of Refunding Bonds Issued.....	907,050	301,165	-	1,208,215	-
Repayment of Refunding Bonds to Escrow.....	(907,050)	(301,165)	-	(1,208,215)	-
Interest Fund Credits for Debt Service Payments.....	(13,281)	(5,186)	-	(18,467)	-

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

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009
(In Thousands)

	Pension & Employee Savings Trust	Investment Trust	Agency
ASSETS			
Cash or Equity in Pooled Cash and Investments	\$ 4,616	\$ 4,637	\$ 29,253
Cash with Custodian/Fiscal Agent	371,762	-	-
Investments at Fair Value:			
Short Term Investments	33,311	-	-
Domestic Fixed Income Securities (Bonds)	861,555	-	-
International Fixed Income Securities (Bonds)	143,677	-	-
Domestic Equity Securities (Stocks)	1,444,848	-	-
International Equity Securities (Stocks)	614,246	-	-
Real Estate Equity and Real Estate Securities	350,498	-	-
Defined Contribution Investments	673,922	-	-
Receivables:			
Accounts - Net	-	-	120
Contributions	16,957	-	-
Accrued Interest	13,135	38	15
Loans	32,559	-	-
Securities Sold	81,077	-	-
Prepaid Expenses	73	-	-
Securities Lending Collateral	395,085	-	-
Restricted Cash and Investments	-	-	10,205
Capital Assets - Depreciable	1,275	-	-
TOTAL ASSETS	5,038,596	4,675	\$ 39,593
LIABILITIES			
Accounts Payable	6,113	-	\$ -
Accrued Wages and Benefits	783	-	-
Deposits/Advances from Others	7,200	-	10,977
Sundry Trust Liabilities	-	-	28,616
DROP Liability	360,758	-	-
Net Other Post Employment Benefit Obligation	607	-	-
Net Pension Obligation	628	-	-
Securities Lending Obligations.....	395,085	-	-
Securities Purchased	203,700	-	-
TOTAL LIABILITIES	974,874	-	\$ 39,593
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	\$ 4,063,722	\$ 4,675	

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2009
(In Thousands)

	Pension & Employee Savings Trust	Investment Trust	Total
ADDITIONS			
Employer Contributions	\$ 248,677	\$ -	\$ 248,677
Employee Contributions	95,345	-	95,345
Retiree Contributions	7,483	-	7,483
Contributions to Pooled Investments	-	4,574	4,574
Earnings on Investments:			
Investment Income (Loss)	(1,012,535)	159	(1,012,376)
Investment Expense	(19,661)	-	(19,661)
Net Investment Income (Loss)	(1,032,196)	159	(1,032,037)
Securities Lending Income:			
Gross Earnings	11,607	-	11,607
Borrower Rebates	(4,944)	-	(4,944)
Administrative Expenses (Lending Agent)	(1,754)	-	(1,754)
Net Securities Lending Income	4,909	-	4,909
Other Income:			
Litigation Proceeds	325	-	325
TOTAL OPERATING ADDITIONS	(675,457)	4,733	(670,724)
DEDUCTIONS			
DROP Interest Expense	27,098	-	27,098
Benefit and Claim Payments	373,495	-	373,495
Distributions from Pooled Investments	-	4,484	4,484
Administration	15,057	-	15,057
TOTAL OPERATING DEDUCTIONS	415,650	4,484	420,134
CHANGE IN NET ASSETS	(1,091,107)	249	(1,090,858)
Net Assets at Beginning of Year	5,154,829	4,426	5,159,255
NET ASSETS AT END OF YEAR	\$ 4,063,722	\$ 4,675	\$ 4,068,397

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

NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED JUNE 30, 2009****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (In Thousands)**

The City of San Diego (the "City") adopted its current charter on April 7, 1931 and operates as a municipality in accordance with State laws. Since adoption, the City Charter has been amended several times. The most recent amendments were added with voter approval of Propositions C and D in the November 4, 2008 election. Proposition C amended the City Charter to designate the use of lease revenues from Mission Bay Park, exceeding certain thresholds, 75% for capital improvements in Mission Bay Park and 25% for capital improvements in other coastal and regional parks. Proposition D amended the Municipal Code section 56.54 to make consumption of alcoholic beverages unlawful at all City parks.

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

a. Financial Reporting Entity

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

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

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

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

- Centre City Development Corporation
- City of San Diego/Metropolitan Transit Development Board Authority
- Community Facilities and Other Special Assessment Districts
- Convention Center Expansion Financing Authority
- Public Facilities Financing Authority
- Redevelopment Agency of the City of San Diego
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- Southeastern Economic Development Corporation
- San Diego City Employees' Retirement System
- Tobacco Settlement Revenue Funding Corporation
- Tourism Marketing District

A brief description of each blended component unit follows:

- Centre City Development Corporation, Inc. (CCDC) is a not-for-profit public benefit corporation established in 1975 to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. The City Council elects the Board of Directors. CCDC's budget and governing board are approved by the Redevelopment Agency of the City of San Diego and services are provided exclusively to the primary government. CCDC is reported as a governmental fund. Financial statements can be requested from Centre City Development Corporation, 401 B Street- Fourth Floor, San Diego, California 92101.
- The City of San Diego/Metropolitan Transit Development Board Authority (MTDB Authority) is a financing authority which was established in 1988 to acquire and construct mass transit guide ways, public transit systems, and related transportation facilities primarily benefiting the residents of the City of San Diego. The Mayor appoints, with Council confirmation, two public members and the MTS Board appoints one MTS boardmember to the governing board of the MTDB Authority. The MTDB Authority primarily provides services to the primary government. The MTDB Authority is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The City maintains various Community Facilities, Maintenance Assessment, and Business Improvement Districts to pay for the construction, maintenance and improvement of community facilities and infrastructure. The governing body of Special Assessment Districts and Community Facilities Districts (special districts) is the City Council. Among its duties, it approves the budgets of special districts, parcel fees, special assessments, and special taxes. The special districts are reported in governmental fund types.
- The Convention Center Expansion Financing Authority (CCEFA) was established in 1996 to acquire and construct the expansion of the existing convention center. During the period reported, the CCEFA was governed by a board consisting of the Mayor [the City Manager] the Director of the Port of San Diego, and a member of the Board of Commissioners for the Port of San Diego. Under the strong mayor form of government, the City Manager position does not exist and therefore is currently vacant. The CCEFA provides services which primarily benefit the primary government. CCEFA is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The Public Facilities Financing Authority (PFFA) was established in 1991 by the City and the Redevelopment Agency to acquire and construct public capital improvements. PFFA is governed by a board of commissioners composed of the City Treasurer, the assistant executive director of the Redevelopment Agency and three members of the public appointed by the Mayor and confirmed by the Council. PFFA provides services exclusively to the primary government. Financing for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The Redevelopment Agency of the City of San Diego (RDA) was established in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the governing board sitting as the Board of Directors of the RDA, and the RDA is reported as a governmental fund. Complete stand-alone financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- San Diego Data Processing Corporation (SDDPC) was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services. SDDPC's budget and governing board are approved by the City Council. SDDPC provides services almost exclusively to the primary government. SDDPC is reported as an Internal Service Fund. Financial statements can be requested from San Diego Data Processing Corporation, 5975 Santa Fe Street, San Diego, California 92109.

- The San Diego Facilities and Equipment Leasing Corporation (SDFELC) is a not-for-profit public benefit corporation established in 1987 for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. The SDFELC is governed by a three member board consisting of the City Attorney, the Chief Financial Officer and the Mayor (as City Manager) and services are provided exclusively to the primary government. Financing for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The San Diego Industrial Development Authority (SDIDA) was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes. The City Council is the governing board. SDIDA is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- The San Diego Open Space Park Facilities District #1 (SDOSPF) was established in 1978 by the City for the purpose of acquiring open space properties to implement the Open Space Element of the City's General Plan. The boundaries are contiguous with those of the City. The City Council is the governing board. SDOSPF is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California 92101.
- Southeastern Economic Development Corporation (SEDC) is a not-for-profit public benefit corporation organized in 1980 by the City to administer certain redevelopment projects in southeast San Diego and to perform economic development services in its area of influence. SEDC's budget and governing board are approved by the Redevelopment Agency and services are provided exclusively to the primary government. SEDC is reported as a governmental fund. Financial statements can be requested from the Southeastern Economic Development Corporation, 995 Gateway Center Way, Suite 300, San Diego, California 92102.
- San Diego City Employees' Retirement System (SDCERS) was established in 1927 by the City and administers retirement, post employment healthcare, disability, and death benefits. Currently, SDCERS also administers the Port of San Diego and the San Diego County Regional Airport Authority defined benefit plans.

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

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

- The Tobacco Settlement Revenue Funding Corporation (TSRFC) is a not-for-profit public benefit corporation established in 2006 for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. TSRFC is governed by the Board of Directors which consists of the Chief Operating Officer, the Chief Financial Officer, and one independent director. The independent director shall be appointed by the Mayor or the remaining directors. TSRFC is reported as a governmental fund. Financial statements can be requested from the Office of the City Comptroller, 202 C Street, San Diego, California, 92101.

- The Tourism Marketing District (TMD) is an assessment district created, in fiscal year 2008, by the City on behalf of larger hotel and motel operators within the City. The TMD provides for tourism development, including coordinated joint marketing and promotion of San Diego, in order to maintain and expand the tourism industry. The TMD procedural ordinance establishes a method by which benefited businesses may be assessed for the cost of activities associated with tourism development within their respective area. The governing body of the TMD is the City Council. Among its duties, TMD will initiate proceedings to establish a district upon submission of a written petition, signed by the business owners in the proposed district who will pay more than 50 percent of the assessments proposed to be levied, and will approve the district management plan which includes an annual budget, frequency for levying assessments, and number of years assessments will be levied. The TMD is reported as a governmental fund.

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

There are two entities which are discretely presented component units:

- San Diego Convention Center Corporation (SDCCC)
SDCCC is a not-for-profit public benefit corporation originally organized to market operate and maintain the San Diego Convention Center. San Diego Theaters Inc. is a non-profit subsidiary of SDCCC created in 2003 to operate the San Diego Civic Theater and the restored Balboa Theater. The City is the sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints seven voting members out of the nine-member Board of Directors of SDCCC. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC. SDCCC is discretely presented because it provides services directly to the citizens. Complete stand-alone financial statements can be requested from San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, California 92101.
- San Diego Housing Commission (SDHC)
SDHC is a government agency which was formed by the City under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC primarily serves low-income families by providing rental assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services. Members of the Board of Commissioners are appointed by the Mayor and confirmed by the City Council. SDHC is discretely presented because it provides services directly to the citizens. Complete stand-alone financial statements can be requested from San Diego Housing Commission, 1122 Broadway, Suite 300, San Diego, California 92101.

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

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported discretely from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable as to a specific function or segment. Direct expenses reported include administrative and overhead charges. Program revenues include (1) charges to customers or

applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues and contributions.

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

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

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

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

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

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

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

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

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

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

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

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

Permanent Funds, also referred to as Endowment Funds, are governmental funds used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support City programs. The City has received endowments for the following programs: Mt. Hope Cemetery; Carmel Valley Sewer Maintenance; North Park Branch Library; Jacaranda Tree planting and maintenance in City rights-of-way; Rancho Bernardo Branch Library; La Jolla/Riford Branch Library; Los Penasquitos Canyon Preserve; Montezuma Road Median Maintenance; Southcrest Oak Estates II landscape maintenance; Sycamore Estates property maintenance; and, the Fortuna Mountain Conservation Bank management within Mission Trails Regional Park. The amount of investment earnings available for expenditure is reported as Undesignated Fund Balance in the fund level financial statements. The endowment principal is reported as Restricted for Nonexpendable Permanent Endowments in the Statement of Net Assets. The State law governing the spending of endowment funds investment earnings is California Probate Code Section 18504.

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

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

The following is the City's major governmental fund:

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

The following are the City's major Enterprise Funds:

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

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

The following are the City's other fund types:

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

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

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

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

d. Property Taxes

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

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

At the government-wide level, property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after the fiscal year in which they were levied are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are recorded as deferred revenue in the governmental funds. The City provides an allowance for uncollected property taxes of approximately 5% of the outstanding current balance which is analyzed each year against most recent data from the County.

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

e. Cash and Investments

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

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

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

It has been the City's policy to allow the General Fund to receive interest earned by certain governmental funds, internal service funds and agency funds, unless otherwise expressly stated in the resolutions creating individual funds. During the fiscal year ended June 30, 2009, approximately \$8,887 interest was assigned from various funds to the General Fund. These transactions caused an increase to the "transfers from other funds" amount for the General Fund and caused a like increase to the "transfer to other funds" amount for the fund disbursing the interest. In the case of negative interest, these transactions caused an increase to the "transfers from other funds" amount for the fund transferring the negative interest and caused a like increase to the "transfer to other funds" amount for the General Fund.

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

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

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

SDCERS' name, manage all investments.

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

f. Inventories

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

g. Land Held for Resale

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

h. Deferred Charges

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

i. Capital Assets

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

Depreciable Capital Assets, which include structures and improvements, equipment, distribution and collection systems, and infrastructure, are reported net of accumulated depreciation in the applicable governmental or business-type activities column in the government-wide financial statements, as well as in the proprietary funds financial statements. To meet the criteria for capitalization, an asset must have a useful life in excess of one year and in the case of equipment outlay, must equal or exceed a capitalization threshold of five thousand dollars. All other capital assets such as land, structures, infrastructure, and distribution and collection systems are capitalized regardless of cost. Subsequent improvements are capitalized to the extent that they extend the initial estimated useful life of the capitalized asset, or improve the efficiency or capacity of that asset. Costs for routine maintenance are expensed as incurred. Interest expense incurred during the construction phase of business-type capital assets are reflected in the capitalized value of the asset constructed. During fiscal year 2009, \$18,041 of interest expense incurred was capitalized, which is calculated net of related interest revenue of \$1,835.

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

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

j. Unearned/Deferred Revenue

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

k. Interfund Transactions

The City has the following types of interfund transactions:

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

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

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

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

l. Long-Term Liabilities

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

m. Sundry Trust Liabilities

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

n. Compensated Absences

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

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

o. Claims and Judgments

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

p. Non-Monetary Transactions

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

upon issuance and a corresponding capital asset is recorded in the government-wide financial statements.

q. Net Assets

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

- Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition of these assets.
- Restricted Net Assets consist of assets with restrictions imposed on them by external creditors, grantors, contributors, laws and regulations of other governments, or law through constitutional provisions or enabling legislation. It is the City's policy to first apply restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available. As of June 30, 2009, the amount of restricted net assets due to enabling legislation was approximately \$147,994.
- Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

r. Fund Balance

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

Designated fund balance indicates that portion of fund equity for which the City has made tentative plans. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods.

s. Reserves

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

On February 28, 1984, the City Attorney's Office issued Opinion No. 84-3 which addresses issues in regards to the City's compliance with the funding requirements of Charter Section 91. Such opinion stated, "To the extent that the legislative body approves the issuance of short term notes, commonly referred to as Tax or Revenue Anticipation Notes, pursuant to Section 92 titled "Borrowing Money on Short Term Notes"; or authorizes temporary loans to any tax-supported fund from any other funds in the treasury pursuant to Section 93 titled "Loans and Advances", the General Reserve Fund required under section 91 can be reduced." Therefore, the funding requirements of Charter Section 91 have been satisfied through a combination of the General Fund reserve of \$78,347 reported within the General Fund column of the Governmental Funds Balance Sheet in Undesignated Fund Balance, and the provisions set forth in Charter Sections 92 and 93 for the fiscal year ended June 30, 2009.

In September 2007, the City Attorney's Office issued a new opinion that supersedes, in part, the opinion issued on February 28, 1984. The revised opinion states that the Charter Section 91 General Reserve must be a separate, legal

fund. This fund, separate from the General Fund, must be funded if not at a “four month operating expenditure” level then at a level of such “other necessary funding.” The City Attorney’s Opinion referenced the guidance of the Government Finance Officer’s Association, which recommends a level between 5% and 15% of operating expenditures as the benchmark for interpreting the required funding level that meets the intent of the City’s voters. Per the City Attorney’s opinion, the City created a separate General Reserve in fiscal year 2008, and the General Fund reserve monies were transferred to that separate reserve and reported therein in all future financial statements. The City Council also approved the Mayor’s “City Reserve Policy” with Ordinance 19679 on November 13, 2007. This is a formal fiscal reserve policy that establishes a General Fund Reserve that will be set at a minimum of 8% of annual General Fund Revenues. The policy provides that the City shall reach this level of funding no later than fiscal year 2012. The General Fund Reserve is reported within the General Fund Undesignated Fund Balance as stated above.

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

As of June 30, 2009, the following is a schedule of all such internal stabilization reserves (in whole dollars) by fund:

<u>Internal Stabilization Reserve</u>	<u>CAFR Section</u>	<u>CAFR Column</u>	<u>Amount</u>
Convention Center Expansion	Special Revenue	Transient Occupancy Tax	\$ 6,850,531
Petco Park (PFFA-Ballpark)	Special Revenue	Transient Occupancy Tax	5,657,279
Balboa Park (SDFELC)	Special Revenue	Transient Occupancy Tax	3,286,878
Trolley (MTDB)	Special Revenue	Public Transportation	2,043,591
			<u>\$ 17,838,279</u>

These reserve funds were closed and the balances transferred to the General Fund in the FY2010 operating budget.

t. Participating Agencies Revenue Recognition

The Regional Wastewater Disposal Agreement between the City of San Diego (City) and the Participating Agencies (PA) in the Metropolitan Sewerage System allow for quarterly invoicing of local area member municipalities and utility districts to collect and process sewage waste using the City’s facilities. The invoicing is based on an estimated allocation of costs associated with each PA and may not represent that agency’s proportionate allocation of actual maintenance and operating costs of the sewerage system, resulting in an overstatement or understatement of revenue reported in the Sewer Utility Statement of Revenues, Expenses, and Changes in Fund Net Assets.

During fiscal year 2009 the City invoiced approximately \$43,484, net of \$13,966 in credits (expenses) and reimbursements (revenues) as a result of the audits of fiscal year 2006 and 2007 activity. In addition, the City has also recognized and accrued approximately \$4,514 in estimated credits applicable to fiscal year 2008, which has been recorded as a liability on the Sewer Utility Statement of Net Assets. In prior years, credits of \$2,543 and \$8,078 were recorded in the Sewer Utility fund financial statements for fiscal years 2005 and 2004, respectively.

u. Estimates

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

v. New Governmental Accounting Standards Implemented During Fiscal Year Ended June 30, 2009

The requirements for the following accounting standards are effective for the purpose of implementation, for the City, for fiscal year ended June 30, 2009.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean ups. The Statement generally requires the government to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. This would only be required if any one of five obligating events has occurred. If deemed appropriate, the liability will be accrued in the government-wide and proprietary fund financial statements and all required disclosures can be found in Note 18 Contingencies.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which requires endowments to report their land and other real estate investments at fair value. Governments are also required to report changes in fair value as investment income. As of June 30, 2009 the City does not have land or other real estate assets invested in any of the Endowment Funds, which are reported in the Permanent Fund financial statements.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of the financial statements. The GAAP hierarchy was previously included in the auditing standards of the American Institute of Certified Public Accountants (AICPA). This Statement improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*. The objective of this Statement is to incorporate in the GASB authoritative literature certain accounting and financial reporting guidance presented in the AICPA Statements on Auditing Standards. The three issues addressed are related party transactions, going concern consideration, and subsequent events. This Statement does not establish new accounting standards but rather incorporates existing guidance into the GASB standards.

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

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

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

The Governmental Funds Balance Sheet includes a reconciliation between "Total Fund Balances-Governmental Funds" and "Total Net Assets-Governmental Activities" as reported in the Government-wide Statement of Net Assets. One element of the reconciliation states, "Other assets and liabilities used in governmental activities are not financial resources (uses), and therefore, are either deferred or not reported in the funds." The details of this \$105,197 difference are as follows:

Deferred Charges, net, July 1, 2008	\$ 19,875
Issuance Costs	1,001
Amortization Expense	<u>(1,124)</u>
Deferred Charges, net, June 30, 2009	<u>19,752</u>
Deferred Revenue:	
Taxes Receivable	24,783
Notes Receivable	4,041
Motor Vehicle License Receivable	1,032
Special Assessments Receivable	2,077
Grants and Other Receivables	<u>53,512</u>
Deferred Revenue, net, June 30, 2009	<u>85,445</u>
Net Adjustment to increase "Total Fund Balances-Governmental Funds" to arrive at "Total Net Assets-Governmental Activities"	<u>\$ 105,197</u>

Another element of the reconciliation states, "Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this (\$1,924,183) difference are as follows:

Interest Accrued on Long-Term Debt	\$ (24,219)
Arbitrage Liability	(533)
Compensated Absences	(66,585)
Liability Claims	(52,190)
Capital Leases Payable	(60,760)
Contracts Payable	(4,715)
Notes Payable	(4,786)
Loans Payable	(44,815)
Section 108 Loans Payable	(33,532)
Net Bonds Payable	(1,402,100)
Accretion of Interest on Capital Appreciation Bonds	(14,682)
Net Pension Obligation	(144,740)
Net OPEB Obligation	<u>(70,526)</u>
Net adjustment to decrease "Total Fund Balances-Governmental Funds" to arrive at "Total Net Assets-Governmental Activities"	<u>\$ (1,924,183)</u>

Another element of the reconciliation states, "Internal Service Funds are used by management to charge the costs of activities such as Fleet Services, Publishing Services, Self Insurance, and Central Stores to individual funds. The assets and liabilities of certain Internal Service Funds are included in the governmental activities in the Statement of Net Assets. The details of this \$6,826 difference are as follows:

Assets:	
Capital Assets - Non Depreciable	\$ 1,984
Capital Assets - Depreciable	123,970
Internal Balances	(2,048)
Other Assets	160,768
Liabilities:	
Compensated Absences	(7,861)
Liability Claims	(221,789)
Capital Lease Obligations	(28,759)
Net Other Post Employment Benefits Obligation	(2,978)
Net Pension Obligation	(2,925)
Other Liabilities	<u>(13,536)</u>
Net adjustment to increase "Total Fund Balances-Governmental Funds" to arrive at "Total Net Assets-Governmental Activities"	<u>\$ 6,826</u>

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

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between "Net Change in Fund Balances-Total Governmental Funds" and "Changes in Net Assets of Governmental Activities" as reported in the Government-wide Statement of Activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$121,730 difference are as follows:

Capital Projects	\$ 138,634
Other Capital Activities	108,076
Depreciation Expense	<u>(124,980)</u>
Net Adjustment to increase "Net Changes in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u>\$ 121,730</u>

Another element of the reconciliation states "The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to decrease net assets." The details of this (\$17,686) are as follows:

In the Statement of Activities, only the net gain on the sale of land is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the net book value of the capital assets sold/retired.	\$ (6,587)
Transfers of capital assets to Business-Type activities decrease net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.	(3,594)
The Statement of Activities reports losses arising from the retirement of existing depreciable capital assets. Conversely, governmental funds do not report any gain or loss on retirements of capital assets.	<u>(7,505)</u>
Net adjustment to decrease "Net Change in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u>\$ (17,686)</u>

Another element of the reconciliation states, "Internal Service Funds are used by management to charge the costs of activities such as Fleet Services, Publishing Services, Central Stores, Self Insurance, and others to individual funds." The net expense of certain Internal Service activities is reported with governmental activities. The details of this \$33,982 are as follows:

Allocated Operating Profit	\$ 18,508
Nonoperating Revenues (Expenses):	
Loss on Sale/Retirement of Capital Assets	(235)
Other Nonoperating Revenues	14,798
Transfers	713
Capital Contributions	<u>198</u>
Net adjustment to increase "Net Changes in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u>\$ 33,982</u>

Another element of the reconciliation states "The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this (\$100,854) difference are as follows:

Debt Issued or Incurred:	
Capital Leases	\$ (30,392)
Contracts Payable	(2,100)
Loans Payable	(10,483)
Special Assessment/Special Tax Bonds	(12,365)
Revenue Bonds	(103,000)
Principal Repayments:	
Capital Leases	5,445
Contracts/Notes Payable	876
Loans Payable	168
Section 108 Loans	2,364
G.O. Bonds	2,265
Revenue Bonds	22,450
Special Assessment Bonds/Special Tax Bonds	4,900
Tax Allocation Bonds	14,096
Tobacco Settlement Asset-Backed Bonds	3,990
Pooled Financing Bonds	655
Loans Payable Modification (See Note 5)	<u>277</u>
Net adjustment to decrease "Net Changes in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u>\$ (100,854)</u>

Another element of the reconciliation states that "Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation) and therefore are not accrued as expenses in governmental funds." The details of this (\$92,248) difference are as follows:

Compensated Absences	\$ 16
Liability Claims	(39,200)
Net Pension Obligation/Net OPEB Obligation	(48,630)
Accrued Interest	(2,438)
Current Year Premiums/Discounts and Interest Accretion	
Less Amortization of Bond Premiums	(1,873)
Issuance Costs Less Current Year Amortization	<u>(123)</u>
Net adjustment to decrease "Net Changes in Fund Balances-Total Governmental Funds" to arrive at "Changes in Net Assets of Governmental Activities"	<u>\$ (92,248)</u>

3. CASH AND INVESTMENTS (In Thousands)

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

	Governmental Activities	Business-Type Activities	Fiduciary Statement of Net Assets other than SDCERS	Subtotal	SDCERS Fiduciary Statement of Net Assets	Grand Total
Cash and Cash or Equity in						
Pooled Cash and Investments	\$ 1,383,731	\$ 723,517	\$ 45,512	\$ 2,152,760	\$ 3,199	\$ 2,155,959
Cash and Investments with Fiscal Agent	156,258	175,593	26	331,877	371,736	703,613
Investments at Fair Value	212,149	312,210	673,922	1,198,281	3,448,135	4,646,416
Securities Lending Collateral	-	-	-	-	395,085	395,085
TOTAL	\$ 1,752,138	\$ 1,211,320	\$ 719,460	\$ 3,682,918	\$ 4,218,155	\$ 7,901,073

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

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

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

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

Cash on Hand - Petty Cash	\$ 206
Deposits - Held in Escrow Accounts	10,205
Deposits - Cash and Cash Equivalents (Not Pooled)	2,146
Deposits - Cash and Cash Equivalents (Pooled)	1,024
Deposits - Certificates of Deposit (CDARS)	15,000
Pooled Investments in the City Treasury	<u>2,127,378</u>
Total Cash and Cash or Equity in Pooled Cash and Investments	<u>\$ 2,155,959</u>

A summary of the investments held by the City Treasurer's investment pool as of June 30, 2009 is presented in the table below:

Investment	Fair Value	Book Value	Interest Rate	
			% Range	Maturity Range
U.S. Treasury Bills	\$ 190,408	\$ 188,884	0.29-2.10%	* 7/2/2009-11/27/2009
U.S. Treasury Notes & Bonds	966,025	961,686	0.88-4.88%	11/15/2009-5/15/2012
U.S. Agency Discount Notes	114,889	113,578	0.34-2.55%	* 8/14/2009-3/30/2010
U.S. Agency Notes & Bonds	533,169	529,225	0.50-4.63%	9/28/2009-6/20/2012
Commercial Paper	119,949	119,800	0.12-0.75%	* 7/1/2009-10/16/2009
Corporate Notes & Bonds	151,832	151,520	1.25-6.88%	8/10/2009-6/22/2012
Local Agency Investment Fund (LAIF)	39,718	39,667	1.91%	** 2/21/2010
Repurchase Agreement	11,388	11,388	0.07%	7/1/2009
Certificates of Deposit (CDARS)	15,000	15,000	2.20-2.21%	4/29/2010-5/6/2010
	<u>\$ 2,142,378</u>	<u>\$ 2,130,748</u>		

* Discount Rates

** LAIF - Fair Value is adjusted to account for LAIF factor. Maturity range is based on weighted average maturity of 235 days.

The following represents a condensed statement of net assets and changes in net assets for the City Treasurer's cash and investment pool as of June 30, 2009:

Statement of Net Assets

Deposit - Cash and Cash Equivalents (Pooled)	\$ 1,024
Deposits - Certificates of Deposit (CDARS)	15,000
Investments of Pool Participants	2,127,378
Accrued Interest Receivable of Internal Pool Participants	7,227
Accrued Interest Receivable of External Pool Participants	38
Total Cash, Investments, and Interest Receivable	<u>\$ 2,150,667</u>
Equity of Internal Pool Participants	\$ 2,145,992
Equity of External Pool Participants (SanGIS, ARJIS & AVA) **	4,675
Total Equity	<u>\$ 2,150,667</u>

**Voluntary Participation

Statement of Changes in Net Assets

Net Assets Held for Pool Participants at July 1, 2008	\$ 2,063,901
Net Change in Investments by Pool Participants	86,766
Total Net Assets Held for Pool Participants at June 30, 2009	<u>\$ 2,150,667</u>

b. Cash and Investments with Fiscal Agents

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

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

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

c. Investments at Fair Value

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

d. Investment Policy

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

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

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

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

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

Footnotes:

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

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

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

In fiscal year 2009, the City invested \$15 million as part of the Certificate of Deposit Account Registry Service (CDARS). The CDARS investment was deposited with two institutions, \$5 million with Neighborhood National Bank and \$10 million with First Business Bank. Under the City Treasurer's Investment Policy, this type of investment is subject to a 1% limit of total portfolio value for the City's pooled investments. The CDARS investment program is permissible per California Government Code (CGC) Section 53601.8 and is subject to a 30% limit of total portfolio value.

Ineligible investments prohibited from use in the portfolio include, but are not limited to, common stocks and long-term corporate notes/bonds. A copy of the City Treasurer's Investment Policy can be requested from the City Treasurer, 1200 3rd Avenue, Suite 100, San Diego, CA 92101.

Other Investment Policies

The City currently has a Funds Commission whose role is to supervise and control all trust, perpetuity, and investment funds of the City and such pension funds as shall be placed in its custody. The statutory authority for the Funds Commission is created in City Charter Article V, Section 41(a). While the duties described in the creation document form broad authority for the Funds Commission, in practice, the Funds Commission only oversees investments related to a small number of permanent endowments. The allowable investments for these funds are different than those as prescribed in the City Treasurer's Investment Policy. Each permanent endowment fund has its own separate investment policy. Copies of the individual investment policies can be requested from the City Treasurer, 1200 3rd Avenue, Suite 100, San Diego, CA 92101.

The City and its component units have funds invested in accordance with various bond indenture and trustee agreements. The investment of these bond issuances is in accordance with the Permitted Investments section and applicable account restrictions outlined in the Indenture of each bond issuance. The Permitted Investments section in each Indenture will vary based upon the maturity, cash flow demands, and reserve requirements associated with each issuance. In general, the Permitted Investments section of each Indenture will closely resemble the City Treasurer's Investment Policy, but may include certain investment options not authorized by applicable law for the City Treasurer's Investment Policy (CGC §53601). Copies of the individual bond indentures can be requested from the City Treasurer's Investment Division, 1200 3rd Avenue, Suite 1624, San Diego, CA 92101.

City of San Diego – Disclosures for Specific Risks

e. Interest Rate Risk

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

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

As of June 30, 2009, the City's investments (in thousands) by maturity are as follows:

	Years				Fair Value (In Thousands)
	Under 1	1-3	3-5	Over 5	
<u>Pooled Investments with City Treasurer:</u>					
U.S. Treasury Bills	\$ 190,408	\$ -	\$ -	\$ -	\$ 190,408
U.S. Treasury Notes	163,352	802,673	-	-	966,025
U.S. Agencies - Federal Farm Credit Bank	45,014	30,631	-	-	75,645
U.S. Agencies - Federal Home Loan Bank	170,603	111,858	-	-	282,461
U.S. Agencies - Federal Home Loan Mortgage Corporation	59,997	65,361	-	-	125,358
U.S. Agencies - Federal National Mortgage Association	40,000	124,594	-	-	164,594
Commercial Paper	119,949	-	-	-	119,949
Corporate Notes	12,073	139,759	-	-	151,832
Non-Negotiable Certificate of Deposit (CDARS deposit)	15,000	-	-	-	15,000
Repurchase Agreement	11,388	-	-	-	11,388
State Local Agency Investment Fund	39,718	-	-	-	39,718
	<u>867,502</u>	<u>1,274,876</u>	<u>-</u>	<u>-</u>	<u>2,142,378</u>
<u>Non-Pooled Investments with City Treasurer:</u>					
U.S. Treasury Bills	118,574	-	-	-	118,574
U.S. Treasury Notes	11,059	2,756	-	-	13,815
U.S. Agencies - Federal Farm Credit Bank	-	11,186	-	-	11,186
U.S. Agencies - Federal Home Loan Bank	15,031	-	-	-	15,031
U.S. Agencies - Federal Home Loan Mortgage Corporation	37,221	-	-	-	37,221
U.S. Agencies - Federal National Mortgage Association	18,200	10,253	-	-	28,453
Commercial Paper	165,146	-	-	-	165,146
Repurchase Agreements	122,812	-	-	-	122,812
	<u>488,043</u>	<u>24,195</u>	<u>-</u>	<u>-</u>	<u>512,238</u>
<u>Investments with Fiscal Agents, Funds Commission, and Blended Component Units:</u>					
U.S. Treasury Bills	23,595	-	-	-	23,595
U.S. Treasury Bonds and Notes	8,894	38,440	-	425	47,759
U.S. Agencies - Federal Home Loan Bank	94,146	-	-	-	94,146
U.S. Agencies - Federal Home Loan Mortgage Corporation	45,773	-	-	-	45,773
U.S. Agencies - Federal National Mortgage Association	23,077	-	-	-	23,077
Commercial Paper	6,054	-	-	-	6,054
Common Stock	2,429	-	-	-	2,429
Corporate Bonds and Notes	124	1,001	538	3,192	4,855
Guaranteed Investment Contracts	-	-	-	13,716	13,716
Money Market Mutual Funds	78,977	-	-	-	78,977
Mortgage Backed Securities - Commercial	-	-	-	89	89
Mortgage Backed Securities - Government	-	-	-	31	31
Mutual Funds - Equity	279,612	-	-	-	279,612
Mutual Funds - Fixed Income	-	-	396,244	1,537	397,781
Cash (with Fiscal Agents)	26	-	-	-	26
	<u>562,707</u>	<u>39,441</u>	<u>396,782</u>	<u>18,990</u>	<u>1,017,920</u>
Total Investments	<u>\$ 1,918,252</u>	<u>\$ 1,338,512</u>	<u>\$ 396,782</u>	<u>\$ 18,990</u>	3,672,536
Total Deposits					13,375
Total Cash on Hand					206
Total Investments, Deposits, and Cash on Hand (Includes SDCERS Pooled Cash and Investments with the City - \$3,199)					<u>\$ 3,686,117</u>

f. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2009, the City's investments and corresponding credit ratings are as follows:

<u>Pooled Investments with City Treasurer:</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percentage</u>
U.S. Treasury Bills	Exempt	Exempt	\$ 190,408	8.89%
U.S. Treasury Notes	Exempt	Exempt	966,025	45.10%
U.S. Agencies - Federal Farm Credit Bank	Aaa	N/A	75,645	3.53%
U.S. Agencies - Federal Home Loan Bank ¹	Aaa	N/A	262,517	12.25%
U.S. Agencies - Federal Home Loan Bank ¹	P-1	N/A	19,944	0.93%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	Aaa	N/A	70,413	3.29%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	P-1	N/A	54,945	2.56%
U.S. Agencies - Federal National Mortgage Association ¹	Aaa	N/A	124,594	5.82%
U.S. Agencies - Federal National Mortgage Association ¹	P-1	N/A	40,000	1.87%
Commercial Paper	P-1	N/A	119,949	5.60%
Corporate Notes	Aaa	N/A	123,055	5.74%
Corporate Notes	Aa1	N/A	5,157	0.24%
Corporate Notes	Aa2	N/A	12,073	0.56%
Corporate Notes	A1	N/A	10,544	0.49%
Corporate Notes	A2	N/A	1,003	0.05%
Non-Negotiable Certificates of Deposit (CDARS deposit)	Not Rated	Not Rated	15,000	0.70%
Repurchase Agreements	Not Rated	Not Rated	11,388	0.53%
State Local Agency Investment Fund	Not Rated	Not Rated	39,718	1.85%
Subtotal - Pooled Investments			<u>2,142,378</u>	<u>100.00%</u>
<u>Non-Pooled Investments with City Treasurer:</u>				
U.S. Treasury Bills	Exempt	Exempt	118,574	23.15%
U.S. Treasury Notes	Exempt	Exempt	13,815	2.70%
U.S. Agencies - Federal Farm Credit Bank	Aaa	N/A	11,186	2.18%
U.S. Agencies - Federal Home Loan Bank	P-1	N/A	15,031	2.93%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	Aaa	N/A	12,938	2.53%
U.S. Agencies - Federal Home Loan Mortgage Corporation ¹	P-1	N/A	24,283	4.75%
U.S. Agencies - Federal National Mortgage Association ¹	Aaa	N/A	10,253	1.99%
U.S. Agencies - Federal National Mortgage Association ¹	P-1	N/A	18,200	3.55%
Commercial Paper	P-1	N/A	165,146	32.24%
Repurchase Agreements	Not Rated	Not Rated	122,812	23.98%
Subtotal - Non-Pooled Investments			<u>512,238</u>	<u>100.00%</u>

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

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

¹ More than 5% of total investments are with U.S. Agencies whose debt is not backed by full faith and credit of the U.S. Government.

(continued on next page)

<u>Investments with Fiscal Agents, Funds Commission, and Blended Component Units:</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percentage</u>
U.S. Treasury Bills	Exempt	Exempt	\$ 23,595	2.32%
U.S. Treasury Bonds and Notes	Exempt	Exempt	47,759	4.69%
U.S. Agencies - Federal Home Loan Bank ¹	Aaa	N/A	42,977	4.22%
U.S. Agencies - Federal Home Loan Bank ¹	P-1	N/A	51,169	5.03%
U.S. Agencies - Federal Home Loan Mortgage Corporation	P-1	N/A	45,773	4.50%
U.S. Agencies - Federal National Mortgage Association	Aaa	N/A	83	0.01%
U.S. Agencies - Federal National Mortgage Association	P-1	N/A	22,994	2.26%
Commercial Paper	P-1	N/A	6,054	0.59%
Common Stock	Not Rated	Not Rated	2,429	0.24%
Corporate Bonds and Notes	Aa2	N/A	483	0.05%
Corporate Bonds and Notes	Aa3	N/A	169	0.02%
Corporate Bonds and Notes	A1	N/A	954	0.09%
Corporate Bonds and Notes	A2	N/A	2,617	0.26%
Corporate Bonds and Notes	A3	N/A	301	0.03%
Corporate Bonds and Notes	Baa1	N/A	229	0.02%
Corporate Bonds and Notes	Baa2	N/A	102	0.01%
Guaranteed Investment Contracts	Not Rated	Not Rated	13,716	1.35%
Money Market Mutual Funds	Aaa	N/A	78,977	7.76%
Mortgage Backed Securities - Commercial	Aaa	N/A	89	0.01%
Mortgage Backed Securities - Government	Not Rated	Not Rated	31	0.01%
Mutual Funds - Equity	Not Rated	Not Rated	279,612	27.47%
Mutual Funds - Fixed Income	Not Rated	Not Rated	397,781	39.05%
Cash (with Fiscal Agents)	Not Rated	Not Rated	26	0.01%
Subtotal - Other Investments			<u>1,017,920</u>	<u>100.00%</u>
Total Investments			3,672,536	
Total Deposits			13,375	
Total Cash on Hand			206	
Total Investments, Deposits, and Cash on Hand*			<u>\$ 3,686,117</u>	

*(includes SDCERS Pooled Cash and Investments with the City - \$3,199)

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

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

¹ More than 5% of total investments are with U.S. Agencies whose debt is not backed by full faith and credit of the U.S. Government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2009, the City exceeded the 5% limit of total investments for issuers of various U.S. Agencies. Investments exceeding the 5% limit are referenced in the credit ratings table above. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt.

g. Custodial Credit Risk*Deposits*

At June 30, 2009, the carrying amount of the City's cash deposits was approximately \$18,170, and the bank balance was approximately \$35,849, the difference of which is substantially due to outstanding checks. For the balance of cash deposits in financial institutions, approximately \$16,008 was covered by federal depository insurance and approximately \$19,841 was uninsured. Pursuant to the California Government Code, California banks and savings and loan associations are required to secure the City's deposits not covered by federal depository insurance by pledging government securities as collateral. As such, \$18,793 of the City's deposits are pledged at 110% and held by a bank acting as the City's agent, in the City's name. The City is exposed to custodial credit risk for the remaining \$1,048, which is uninsured and uncollateralized. The amount subject to custodial credit risk includes approximately \$1,048 in deposits relating to San Diego Data Processing Corporation.

The City also has deposits held in escrow accounts with a carrying amount and bank balance of approximately \$10,205. For the balance of deposits in escrow accounts, approximately \$1,851 was covered by federal depository insurance. The remaining balance of \$8,354 was uninsured. Pursuant to the California Government Code, California banks and savings and loans associations are required to secure the City's deposits in excess of insurance by pledging government securities as collateral. As such, \$8,354 of the City's deposits in escrow accounts are collateralized and pledged at 110%.

Investments

The City's investments at June 30, 2009 are categorized as described below:

- Category 1: Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.
- Non-Categorized: Includes investments made directly with another party, real estate, direct investments in mortgages and other loans, open-end mutual funds, pools managed by other governments, annuity contracts, and guaranteed investment contracts.

At June 30, 2009, the City had investments exposed to custodial credit risk. Investments within the Cemetery Perpetuity Fund's portfolio were held by Northern Trust Bank, and were not in the City's name. The following summarizes the investment types and amounts that are exposed to custodial credit risk and are classified as Category 3:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury Bonds and Notes	\$ 494
U.S. Agencies	83
Corporate Bonds and Notes	4,855
Mortgage Backed Securities - Commercial	89
Mortgage Backed Securities - Government	31
Common Stock	2,429
Total	<u>\$ 7,981</u>

h. Restricted Cash and Investments

Cash and investments at June 30, 2009 that are restricted by legal or contractual requirements are comprised of the following:

<u>Nonmajor Governmental Funds</u>	
Reserved for Debt Service	\$ 415,680
Permanent Endowments	15,867
Total Nonmajor Governmental Funds	<u>431,547</u>
<u>Nonmajor Enterprise Funds</u>	
Environmental Services Fund -Funds set aside for landfill site closure and maintenance costs	37,983
Recycling Enterprise Fund - Customer deposits	2,569
Total Nonmajor Enterprise Funds	<u>40,552</u>
<u>Water Utility Enterprise Fund</u>	
Customer deposits	7,317
Interest and redemption funds	256,566
Total Water Utility Enterprise Fund	<u>263,883</u>
<u>Sewer Utility Enterprise Fund</u>	
Interest and redemption funds	231,212
<u>Miscellaneous Agency Funds</u>	
Retention held in escrow	10,205
Total Restricted Cash and Investments	<u>\$ 977,399</u>

Summary of Total Cash and Investments
(In Thousands)

Total Unrestricted Cash and Investments	\$ 6,923,674
Total Restricted Cash and Investments	977,399
Total Cash and Investments	<u>\$ 7,901,073</u>
Total Governmental Activities	\$ 1,752,138
Total Business-Type Activities	1,211,320
Total Fiduciary Activities	4,937,615
Total Cash and Investments	<u>\$ 7,901,073</u>

San Diego City Employees' Retirement System (SDCERS) – Disclosures for Policy and Specific Risks

Summary of Cash and Investments – San Diego City Employees' Retirement System

Cash or Equity in Pooled Cash and Investments with the City of San Diego	\$ 3,199
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	371,736
Investments at Fair Value:	
Short-Term Investments	33,311
Domestic Fixed Income Securities	861,555
International Fixed Income Securities	143,677
Domestic Equity Securities	1,444,848
International Equity Securities	614,246
Directly Owned Real Estate Assets and Real Estate Equity Securities	350,498
Securities Lending Collateral	<u>395,085</u>
Total Cash and Investments for SDCERS	<u><u>\$ 4,218,155</u></u>

Narratives and tables presented in the following sections (i. through r.) are taken directly from the comprehensive annual financial report of the San Diego City Employees' Retirement System, as of June 30, 2009, issued December 8, 2009.

i. Investment Policy

Investments for the pension trust fund are authorized to be made by the Board of Administration of the SDCERS (Board) in accordance with Section 144 of the City Charter and the California State Constitution Article XVI, Section 17. The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board may also invest in additional investments as approved by resolution of the San Diego City Council. These investments include, but are not limited to, bonds, notes and other obligations, real estate investments, common stock, preferred stock, and pooled vehicles. Additionally, investment policies permit SDCERS' Board to invest in financial futures contracts provided the contracts do not leverage SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at fair value each day and must be settled at expiration date. Changes in the fair value of the contracts will result in the recognition of a gain or loss under GASB Statement No. 25.

Investment earnings from the pension trust fund are accounted for in accordance with GASB Statement No. 25. Net investment income includes the net appreciation/depreciation in the fair value of investments, interest income, dividend income, and other income not included in the change in the fair value of investments, less total investment expenses (including investment management/custodial fees and all other significant investment-related costs). SDCERS had realized losses that totaled \$314,900 for the year ended June 30, 2009. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether contingent benefits will be paid each fiscal year.

SDCERS' investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on efficient model portfolios developed from an annual asset allocation study. The returns of fixed income strategies are in general more consistent than equity returns. SDCERS' target asset allocation policy is reviewed annually to reflect changes in capital market assumptions. As of June 30, 2009, SDCERS' target allocation to fixed income strategies was 29%. The fixed income allocation is externally managed and is comprised as follows: 22% to core-plus domestic fixed income (benchmarked to the Barclays Capital Aggregate Bond Index), 4% to non-U.S. fixed income (benchmarked to the Citigroup Non-U.S. Government Bond Index), and 3% to convertible bond securities (benchmarked to the Merrill Lynch Convertible Index, All Qualities).

SDCERS also has a 5% target allocation to an unsecuritized market neutral strategy which is benchmarked to the Merrill Lynch 1-5 year Government/Corporate Index. The market neutral and convertible bond strategies are

intended to minimize interest rate risk, and duration is not relevant in structuring these portfolios. Convertible securities diversify SDCERS' fixed income portfolio and are expected to provide a higher rate of return than traditional fixed income strategies due to their conversion feature. SDCERS' market neutral strategy was added to SDCERS' fixed income strategy in 1998. This strategy uses equity securities held long and sold short with the cash proceeds of the short sales held in a cash account invested in U.S. Government Federal Funds. Both market neutral strategies have a low correlation to fixed income assets and provide additional diversification to the portfolio's fixed income allocation.

A copy of the SDCERS investment policy and additional details on the results of the system's investment activities are available at 401 West A Street, Suite 400, San Diego, CA 92101.

j. Interest Rate Risk

SDCERS does not have a general investment policy that addresses interest rate risk. Each investment manager's specific investment guidelines places limits on each portfolio to manage interest rate risk. SDCERS uses duration to measure how changes in interest rates will affect the value of its fixed income portfolios. Convertible bonds are typically not subject to interest rate risk as convertible bonds are usually positively correlated to interest rate movements compared to other fixed income securities.

The following table displays the durations for SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2009.

**Fixed Income Portfolios (Domestic and International)
Portfolio Duration Analysis as of June 30, 2009**

Type of Security	Effective Duration (in years)	Fair Value ¹ (in thousands)
<u>Collateralized Mortgage Obligations</u>		
Collateralized Mortgage Obligations	7.65	\$ 104,265
<u>Corporates</u>		
Corporate Bonds	4.07	267,080
<u>Government & Agency Obligations</u>		
FHLMC	3.52	61,308
FNMA	2.80	282,624
GNMA I	5.07	15,006
GNMA II	1.29	954
Treasury Strips	18.90	1,762
Government Issues	5.64	118,705
Municipals	11.71	5,545
<u>Asset-Backed Securities</u>		
Other Asset-Backed Securities	1.13	44,281
Total		\$ 901,530

¹ Fair Value does not include convertible bonds, short-term investments, and derivative securities of \$137,013. These securities do not exhibit interest rate risk and duration cannot be calculated.

Source: SDCERS' CAFR as of June 30, 2009

k. Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table on the previous page discloses the degree to which SDCERS' investments are sensitive to interest rate changes due to the remaining term of maturity. The total value of securities, as of June 30, 2009, that are highly sensitive to interest rate changes due to factors other than term to maturity are presented in the table below.

	Fair Value (in thousands)	Percent of Fixed Income Portfolio
Adjustable Rate Notes	\$ 11,133	1.1%
Asset Backed Securities	27,238	2.6%
Floating Rate Notes	66,237	6.4%
Interest Only Strips	1,713	0.2%
Inverse Floating Rate Notes	2,970	0.3%
Range Notes	2,626	0.3%

Source: SDCERS' CAFR as of June 30, 2009

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity, and security selection.

l. Credit Risk

SDCERS employs two core-plus bond managers that invest in a wide variety of fixed income and derivative securities. One of SDCERS' domestic core-plus fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core-plus fixed income manager is limited to U.S. fixed income investments only. The permitted securities and derivatives for the two domestic core-plus fixed income managers include U.S. Government and Agency obligations, collateralized mortgage obligations, U.S. corporate securities, and asset backed securities. Investment guidelines include minimum average portfolio quality of A rating (market value rated); and minimum credit quality at time of purchase of 80% Baa/BBB and 20% B for a domestic core-plus fixed manager; and Ba/BB for core-plus fixed income manager with tactical discretion to invest in non-U.S. fixed income strategies.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks, and straight debt and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average rating of at least BB+.

The permitted securities for SDCERS' international fixed income portfolio include international corporate securities, sovereign debt instruments, and international asset backed securities. SDCERS' international fixed income portfolio has the following credit and market risk parameters: minimum average portfolio quality of A rating (market value weighted); and a minimum credit quality at time of purchase of BBB- or equivalent rating by at least one of the major rating agencies.

The table on the following page identifies the credit quality for SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2009.

**Credit Quality of SDCERS'
Fixed Income Strategies (Domestic and International)
As of June 30, 2009**

S&P Quality Rating	Total Fair Value (in thousands)	Collateralized Mortgage Obligations	Corporates ¹	Government & Agency Obligations ²	Asset-Backed Securities	Short-Term/ Other
U.S. Treasury	\$ 22,140	\$ -	\$ -	\$ 22,140	\$ -	\$ -
AAA	567,928	83,537	29,611	432,671	22,109	-
AA+	25,931	-	10,046	10,926	4,959	-
AA	28,308	-	19,450	8,121	737	-
AA-	15,950	-	15,950	-	-	-
A+	41,504	-	26,692	2,212	-	12,600
A	58,648	313	57,678	657	-	-
A-	21,786	-	21,786	-	-	-
BBB+	14,733	-	13,581	253	899	-
BBB	10,125	-	4,958	1,384	3,783	-
BBB-	16,460	73	11,896	492	3,999	-
BB+	1,484	528	956	-	-	-
BB	5,529	1,485	4,044	-	-	-
BB-	5,152	1,864	2,143	197	948	-
B+	2,066	-	2,066	-	-	-
B	4,247	-	2,923	-	1,324	-
CCC+	1,849	-	1,849	-	-	-
CCC	2,496	1,541	955	-	-	-
CC	6,239	-	6,239	-	-	-
NR	185,968	14,924	138,737	6,851	5,523	19,933
Totals	<u>\$ 1,038,543</u>	<u>\$ 104,265</u>	<u>\$ 371,560</u>	<u>\$ 485,904</u>	<u>\$ 44,281</u>	<u>\$ 32,533</u>

¹ Corporates include convertible bonds from SDCERS' convertible bond manager.

² Includes municipal holdings as well.

Source: SDCERS' CAFR as of June 30, 2009

m. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2009, SDCERS had no single issuer that exceeded 5% of total investments, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments. With respect to the concentration of credit risk by issue, SDCERS' Investment Policy states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

n. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. SDCERS' exposure to custodial credit risk is further discussed in the following paragraphs.

Deposits

SDCERS' is exposed to custodial credit risk for uncollateralized cash/deposits that are not covered by federal depository insurance. At June 30, 2009, the amount of cash/deposits on deposit with SDCERS' custodial bank totaled \$184,200.

Investments

As of June 30, 2009, 100% of SDCERS' investments were held in SDCERS' name. SDCERS is not exposed to custodial credit risk related to these investments.

Securities Lending Collateral

SDCERS is exposed to custodial credit risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of securities on loan collateralized by these non-cash vehicles totaled \$35,000 as of June 30, 2009 and are at risk as the collateral for these loaned securities is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled \$395,085 as of June 30, 2009, is also at risk as it is invested in a pooled vehicle managed by the custodian. The investment characteristics of the collateral pool are disclosed in the Securities Lending Collateral section.

o. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents SDCERS' securities (in thousands) held in a foreign currency as of June 30, 2009.

Foreign Currency Risk ¹
As of June 30, 2009
(All values are in U.S. Dollars)

<u>Local Currency Name</u>	<u>Cash</u>	<u>Equity</u>	<u>Fixed income</u>	<u>Total</u>
Australian Dollar	\$ 689	\$ 17,271	\$ 11,717	\$ 29,677
Brazilian Real	-	6,700	-	6,700
Canadian Dollar	97	11,312	2,570	13,979
Swiss Franc	4	34,855	-	34,859
Danish Krone	4	4,707	14,785	19,496
Euro Currency	989	162,934	69,880	233,803
Pound Sterling	356	116,202	3,647	120,205
Hong Kong Dollar	212	48,001	-	48,213
Indonesian Rupiah	-	1,153	-	1,153
Japanese Yen	1,588	124,209	39,826	165,623
South Korean Won	1	729	-	730
Norwegian Krone	128	121	-	249
New Zealand Dollar	-	605	-	605
Philippine Peso	-	140	-	140
Swedish Krona	103	7,357	4,437	11,897
Singapore Dollar	5	6,953	-	6,958
Taiwan Dollar	37	3,360	-	3,397
South African Rand	-	2,093	-	2,093
Totals	\$ 4,213	\$ 548,702	\$ 146,862	\$ 699,777

¹ The foreign exchange exposure in SDCERS' international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.

Source: SDCERS' CAFR as of June 30, 2009

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. A significant component of the diversification benefit of non-domestic investments comes from foreign currency exposure. As such, SDCERS does not have a policy to hedge against fluctuations in foreign exchange rates. SDCERS' investment managers may hedge currencies at their discretion pursuant to specific guidelines included in their investment management agreements.

p. Derivative Instruments

SDCERS' investment managers, as permitted by specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the Board's Investment Policy Statement. These instruments include futures, options and swaps. By Board policy these investment vehicles may not be used to leverage SDCERS' portfolio. These instruments are used primarily to enhance a portfolio's performance and to reduce its risk or volatility. The notional or contractual amount (in thousands) of

futures contracts as of June 30, 2009 was \$350,600. The fair value (in thousands) of options and swaps included in the short-term investments line on the SDCERS Statement of Plan Net Assets was \$7,900 as of June 30, 2009.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery on a specific financial instrument on a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that counterparty will not pay and generally requires margin payments to minimize such risk.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. SDCERS uses exchange-traded and over-the-counter options. Options are sold and proceeds are received to enhance fixed income portfolio performance. Option contracts sold were predominantly on money market and short-term instruments of less than one-year to maturity. In call option contracts, if interest rates remained steady or declined during the option contract periods, the contracts would expire unexercised. By contrast, in put option contracts, if interest rates rose sufficiently to result in the purchase of the securities on or before the end of the option periods, this would occur at prices attractive to the portfolio manager.

Swap agreements are used to modify investment returns or interest rates on investments. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps could expose investors entering into these types of arrangements to credit risk in the event of non-performance by counterparties.

In January 2009, SDCERS implemented a cash overlay program with the objective of keeping the portfolio performing more closely to its target asset allocations. SDCERS does not have an allocation to cash, but the portfolio will have cash balances held at the investment manager level to settle trades. The overlay program utilizes futures contracts as an inexpensive, highly liquid method of maintaining the portfolio's exposures to the target allocation.

q. Real Estate

SDCERS' target allocation to real estate is 11%. SDCERS' Board established the following portfolio composition target: a minimum of 30% in stable core real estate and a maximum of 70% to enhanced, high return and opportunistic real estate opportunities. No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities pursuant to a policy adopted by the Board in FY 2007. As of June 30, 2009, unfunded capital commitments totaled \$111,300 and real estate investments totaled \$350,498.

r. Securities Lending Collateral

SDCERS has entered into an agreement with its custodial bank, State Street, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages the securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral equal to 102% of the market value of domestic securities on loan and 105% of the market value of international securities on loan. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default.

SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to the State Street on behalf of SDCERS for securities borrowed. State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral in the event a borrower fails to return or pay distributions on a loaned security. SDCERS incurred no losses during the fiscal year resulting from a default of

the borrowers or State Street. Non-cash collateral (securities and letters of credit) cannot be pledged or sold without a borrower default and are therefore not reported as an asset of SDCERS for financial reporting purposes.

Despite lending securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk, and collateral reinvestment risk. During the fiscal year, the two collateral pools that SDCERS was invested in and managed by State Street were impacted by market events and the credit crunch. Market values of securities held in collateral pools declined as liquidity evaporated. However, SDCERS' investments in the collateral pools did not realize any losses. State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations, and exemptions from time to time promulgated and issued under the authority of those laws.

The SDCERS securities lending transactions, collateralized by cash as of June 30, 2009 had a fair value of \$382,500 and a collateral value of \$395,085, which were reported in the assets and liabilities in the accompanying Statements of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. As of June 30, 2009, the securities lending transactions collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of \$35,000 and a collateral value of \$36,800, which were not reported in the assets or liabilities in the accompanying Statements of Plan Net Assets for the Group Trust per GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end for its securities lending activities was \$395,085.

The cash collateral received on lent securities was invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the securities loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. As of June 30, 2009, the investment pool had an average duration of 42.64 days and an average weighted maturity of 317.62 days for U.S. Dollar (USD) denominated collateral. Beginning in fiscal year 2007, the securities lending program was expanded to allow the acceptance of Euro (EUR) denominated collateral. As of June 30, 2008, the Euro collateral pool had an average duration of 35 days and an average weighted maturity of 508 days.

As of June 30, 2009, SDCERS has lent \$417,500 in securities and received collateral of \$36,759 and \$395,085 in securities and cash, respectively from borrowers. SDCERS' securities lending transactions as of June 30, 2009, are summarized in the following table.

Securities Lending as of June 30, 2009

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
US Corporate Bond and Equity (USD)	\$ 255,040	\$ 263,150	\$ -
US Government Agencies (USD)	39,839	40,672	-
Non-US Fixed Income (EUR)	38,307	38,924	-
Non-US Fixed Income (USD)	2,754	2,765	-
Non-US Equity (USD)	46,550	49,574	-
Securities Loaned with Non-Cash Collateral			
US Government Agencies (USD)	11,422	-	11,795
US Corporate Bond and Equity (USD)	124	-	3,011
Non-US Equity (EUR)	-	-	1
Non-US Equity (USD)	23,464	-	21,952
Total	\$ 417,500	\$ 395,085	\$ 36,759

Source: SDCERS' as of June 30, 2009

Discretely Presented Component Units – Disclosures for Policy and Specific Risks

Narratives and tables presented in the following sections (s. through t.) are taken directly from the comprehensive annual financial reports of the San Diego Convention Center Corporation and the San Diego Housing Commission, as of June 30, 2009, respectively.

s. San Diego Convention Center Corporation

Cash deposits and investments for SDCCC were categorized as follows at June 30, 2009:

Cash on hand	\$ 59
Deposits	1,449
Certificates of deposit	1,452
Money market account deposits	1,010
Money market mutual funds	<u>17,786</u>
Total cash and investments	<u>\$ 21,756</u>

Deposits (In Thousands)

On June 30, 2009, the carrying amount of the San Diego Convention Center Corporation's (SDCCC) cash on hand, deposits, certificates of deposit, and money market account deposits was \$3,970 and the bank balance was \$4,029. Of the bank balance, \$2,317 was covered by federal depository insurance. The remaining uninsured balance of \$1,712 was collateralized with the collateral held by an affiliate of the counterparty's financial institution. Neither the money market account deposits nor the certificates of deposit are rated by credit rating agencies. The \$1,452 invested in certificates of deposit bear interest rates from 1.3% to 1.6%, and have maturities of less than one year. SDCCC does not have a formal deposit and investment policy that addresses custodial credit risk.

Investments (In Thousands)

At June 30, 2009, SDCCC had a total investment balance of \$17,786. The total investment balance includes \$17,786 in money market mutual funds. Of the amount invested in money market funds and accounts, \$13,634 was covered by the U.S. Treasury Department's temporary Money Market Fund Guarantee Program. The money market mutual funds are not rated by credit rating agencies. SDCCC does not have a formal deposit and investment policy that addresses credit quality risk and places no limit on the amount that may be invested in any one account or fund. Of the total investments not covered by the Guarantee Program or Federal depository insurance, 16.5% were invested in a Dreyfus money market mutual fund. There were no other investment amounts in any single account or fund that exceeded 5% of total uninsured investments.

t. San Diego Housing Commission

Cash, cash equivalents, and investments at June 30, 2009 consisted of the following:

Deposits	\$ 4,261
Petty cash	12
Certificates of deposit	2,259
Agency Bonds	49,494
Corporate Bonds	7,103
Investment - Other	1
Local agency investment fund	<u>31,328</u>
Total cash and investments	94,458
Restricted cash and cash equivalents	<u>699</u>
Total	<u><u>\$ 95,157</u></u>

Deposits (In Thousands)

The carrying amount of the San Diego Housing Commission's (SDHC) deposits and petty cash was \$4,273 and the bank balance was \$4,737 at June 30, 2009. The bank balances were fully insured and/or collateralized with securities held by the pledging financial institutions in SDHC's name. The California Government Code requires California banks and savings and loan associations to secure SDHC's deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in SDHC's name.

At June 30, 2009, SDHC had a carrying amount and bank balance of \$2,259 in non-negotiable certificates of deposit. The certificates of deposit were either covered by FDIC insurance or 100% collateralized with securities held by pledging financial institutions.

Investments (In Thousands)

As of June 30, 2009, SDHC's investments included corporate bonds, agency bonds, and California Local Agency Investment Fund (LAIF). SDHC had \$7,103 in corporate bonds, which represent an investment in FDIC-guaranteed floating rate corporate debt securities (floaters) explicitly backed by the U.S. government. Unlike fixed rate instruments, the coupon rate on these floating-rate securities resets every 3 months based on the 90 day London Inter-Bank Offer Rate (LIBOR) index plus a margin or basis points. All of SDHC's corporate bonds were rated AAA by Standard & Poor's as of June 30, 2009.

Agency bonds represent the SDHC's investment in Government-Sponsored Enterprises (GSE) Senior Debt bonds and Mortgage-backed Security (MBS) bonds traded on an active secondary market. As of June 30, 2009, SDHC had \$49,494 invested in these AAA rated securities, with a weighted average maturity of 791 days.

SDHC participates in the Local Agency Investment Fund (LAIF). As of June 30, 2009, SDHC had \$31,328 invested with LAIF. The investment in LAIF represents SDHC's equity in the pooled investments of that fund. The average maturity of LAIF investments was 235 days as of June 30, 2009. LAIF had 14.71% of the pool investment funds in structured notes and asset-backed securities.

Policy

In accordance with state statutes and HUD regulations, SDHC has authorized the CFO or their designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in the

Commission Investment Policy. An Investment Committee, consisting of two Commission Board members, monitors the management of funds and compliance with the Commission Investment Policy. There are many factors that can affect the value of investments. Some factors, such as credit risk, custodial risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed income securities. It is the investment policy of SDHC to invest substantially all of its funds in fixed income securities which limits SDHC's exposure to most types of risk.

Interest Rate Risk

In accordance with its investment policy, SDHC manages its interest rate risk by limiting the weighted average maturity of its investment portfolio. This is accomplished by matching portfolio maturities to projected liabilities and by continuously investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained in order to meet ongoing operations.

Credit Risk

SDHC will minimize credit risk by limiting investments to those listed in the investment policy. In addition, SDHC will pre-qualify the financial institutions, broker/dealers, intermediaries, and advisors with which SDHC will do business in accordance with the investment policy. SDHC will diversify the portion of the investment portfolio not invested in U.S. Treasury Bills, Notes, Bonds, and Collateralized Certificates of Deposit to minimize potential losses from any one type of security or issuer.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers. Investments issued or guaranteed by the U.S. government and investments in external investment pools such as LAIF are not considered subject to concentration of credit risk. SDHC may choose to maintain 100% of its investment portfolio in U.S. Treasury Bills, Notes, Bonds, and Collateralized Certificates of Deposit.

Custodial Credit Risk

At June 30, 2009, SDHC did not have any investments exposed to custodial risk. Bonds are purchased through a Merrill Lynch account in SDHC's name. All securities are held in safekeeping by Merrill Lynch and are covered by Securities Investor Protection Corporation (SIPC) and a separate Lloyd's of London policy for a combined aggregate limit of \$600 million.

4. CAPITAL ASSETS (In Thousands)

Capital asset activity for the year ended June 30, 2009 was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases/ Adjustments	Transfers	
GOVERNMENTAL ACTIVITIES:					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 1,755,956	\$ 20,081	\$ (6,587)	\$ (482)	\$ 1,768,968
Construction in Progress	165,880	125,367	(4,149)	(94,357)	192,741
Total Non-Depreciable Capital Assets	1,921,836	145,448	(10,736)	(94,839)	1,961,709
Depreciable Capital Assets:					
Structures and Improvements	1,143,383	13,231	(1,426)	14,600	1,169,788
Equipment	367,004	65,087	(64,151)	2,513	370,453
Infrastructure	3,007,785	56,086	(3,066)	79,746	3,140,551
Total Depreciable Capital Assets	4,518,172	134,404	(68,643)	96,859	4,680,792
Less Accumulated Depreciation For:					
Structures and Improvements	(315,471)	(29,158)	1,426	(97)	(343,300)
Equipment	(233,687)	(34,940)	69,863	(2,302)	(201,066)
Infrastructure	(1,555,533)	(87,395)	383	(65)	(1,642,610)
Total Accumulated Depreciation	(2,104,691)	(151,493)	71,672	(2,464)	(2,186,976)
Total Depreciable Capital Assets - Net of Depreciation	2,413,481	(17,089)	3,029	94,395	2,493,816
Governmental Activities Capital Assets, Net	\$ 4,335,317	\$ 128,359	\$ (7,707)	\$ (444)	\$ 4,455,525
BUSINESS-TYPE ACTIVITIES:					
Non-Depreciable Capital Assets:					
Land, Easements, Rights of Way	\$ 89,988	\$ -	\$ (5)	\$ 3,257	\$ 93,240
Construction in Progress	174,065	202,630	(4,772)	(80,640)	291,283
Total Non-Depreciable Capital Assets	264,053	202,630	(4,777)	(77,383)	384,523
Depreciable Capital Assets:					
Structures and Improvements	1,785,713	5,144	(199,367)	18,871	1,610,361
Equipment	342,574	3,100	56,206	2,111	403,991
Distribution & Collection Systems and Other Infrastructure	3,481,401	54,946	119,275	54,381	3,710,003
Total Depreciable Capital Assets	5,609,688	63,190	(23,886)	75,363	5,724,355
Less Accumulated Depreciation For:					
Structures and Improvements	(362,874)	(36,641)	42,954	103	(356,458)
Equipment	(240,505)	(22,918)	14,027	2,296	(247,100)
Distribution & Collection Systems and Other Infrastructure	(635,444)	(62,419)	(40,801)	65	(738,599)
Total Accumulated Depreciation	(1,238,823)	(121,978)	16,180	2,464	(1,342,157)
Total Depreciable Capital Assets - Net of Depreciation	4,370,865	(58,788)	(7,706)	77,827	4,382,198
Business-Type Activities Capital Assets, Net	\$ 4,634,918	\$ 143,842	\$ (12,483)	\$ 444	\$ 4,766,721

Governmental Activities capital assets net of accumulated depreciation at June 30, 2009 are comprised of the following:

General Capital Assets, Net	\$ 4,329,571
Internal Service Funds Capital Assets, Net	125,954
Total	<u>\$ 4,455,525</u>

Business-Type Activities capital assets net of accumulated depreciation at June 30, 2009 are comprised of the following:

Enterprise Funds Capital Assets, Net	<u>\$ 4,766,721</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government and Support	\$ 5,914
Public Safety - Police	4,904
Public Safety - Fire and Life Safety	2,892
Parks, Recreation, Culture and Leisure	35,067
Transportation	73,761
Sanitation and Health	290
Neighborhood Services	<u>2,152</u>
Subtotal	124,980
Internal Service	<u>26,513</u>
Total Depreciation Expense	<u>\$ 151,493</u>

Business-Type Activities:

Airports	\$ 520
City Store	1
Development Services	267
Environmental Services	3,140
Golf Course	817
Recycling	1,052
Sewer Utility	76,554
Water Utility	<u>39,627</u>
Total Depreciation Expense	<u>\$ 121,978</u>

Discretely Presented Component Units

Capital asset activities for the City's Discretely Presented Component Units for the year ended June 30, 2009 are as follows:

	Discretely Presented Component Unit - San Diego Convention Center Corp.			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>
Depreciable Capital Assets:				
Structures and Improvements	\$ 25,329	\$ 1,097	\$ (160)	\$ 26,266
Equipment	9,317	627	(214)	9,730
Total Depreciable Capital Assets	<u>34,646</u>	<u>1,724</u>	<u>(374)</u>	<u>35,996</u>
Less Accumulated Depreciation For:				
Structures and Improvements	(10,626)	(1,691)	96	(12,221)
Equipment	(6,843)	(735)	207	(7,371)
Total Accumulated Depreciation	<u>(17,469)</u>	<u>(2,426)</u>	<u>303</u>	<u>(19,592)</u>
Capital Assets, Net	<u>\$ 17,177</u>	<u>\$ (702)</u>	<u>\$ (71)</u>	<u>\$ 16,404</u>

	Discretely Presented Component Unit - San Diego Housing Commission			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>
Non-Depreciable Capital Assets:				
Land, Easements, Rights of Way	\$ 29,544	\$ -	\$ -	\$ 29,544
Construction in Progress	11,720	-	(4,719)	7,001
Total Non-Depreciable Capital Assets	<u>41,264</u>	<u>-</u>	<u>(4,719)</u>	<u>36,545</u>
Depreciable Capital Assets:				
Structures and Improvements	64,273	-	4,499	68,772
Equipment	2,463	162	220	2,845
Total Depreciable Capital Assets	<u>66,736</u>	<u>162</u>	<u>4,719</u>	<u>71,617</u>
Less Accumulated Depreciation For:				
Structures and Improvements	(7,628)	(1,942)	-	(9,570)
Equipment	(939)	(425)	-	(1,364)
Total Accumulated Depreciation	<u>(8,567)</u>	<u>(2,367)</u>	<u>-</u>	<u>(10,934)</u>
Total Depreciable Capital Assets - Net of Depreciation	<u>58,169</u>	<u>(2,205)</u>	<u>4,719</u>	<u>60,683</u>
Capital Assets, Net	<u>\$ 99,433</u>	<u>\$ (2,205)</u>	<u>\$ -</u>	<u>\$ 97,228</u>

5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (IN THOUSANDS)

a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2009 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2009
Arbitrage Liability				\$ 533
Compensated Absences				74,446
Liability Claims				273,979
Capital Lease Obligations				89,519
<u>Contracts Payable:</u>				
Contract Payable to SDSU Foundation, dated December 1991	variable*	---	\$ 1,598	1,598
Amendment to Contract Payable to SDSU Foundation, dated January 1995	variable*	---	117	117
Contract Payable to Western Pacific Housing, Inc., dated April 2004	5.0%	---	3,000	<u>3,000</u>
Total Contracts Payable				<u>4,715</u>
<u>Notes Payable:</u>				
Note Payable to Price Charities, dated April 2001	5.0	2032	5,115	2,506
Note Payable to Price Charities, dated May 2005	8.0	2025	2,100	2,100
Amendment to Note Payable to Price Charities, dated February 2006	8.0	2025	180	<u>180</u>
Total Notes Payable				<u>4,786</u>
<u>Loans Payable:</u>				
International Gateway Associates, LLC, dated October 2001	10.0	2032	1,876	1,788
PCCP/SB Las America, LLC, dated August 2005	10.0	2036	1,247	1,222
Centerpoint, LLC, dated April 2006	5.5	2021	5,246	4,969
Bank of America, N.A. Line of Credit, dated October 2006	variable*	2009	8,530	8,530
California Housing Finance Agency dated October, 2006	3.0	2017	1,250	1,250
California Energy Resources Conservation and Development Commission, dated January 2007	4.5	2021	302	302
California Energy Resources Conservation and Development Commission, dated March 2007	3.95	2019	2,154	1,760
San Diego National Bank, Line of Credit, dated July 2007 City Heights Housing Area	4.05	2011	1,298	1,298
San Diego National Bank, Line of Credit, dated July 2007 City Heights Non-Housing Area	6.42	2011	2,011	2,011
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Housing Area	2.58	2011	2,635	2,635
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Non-Housing Area	1.0 - 5.49	2011	6,804	11,100
San Diego National Bank, Line of Credit, dated July 2007 North Bay Housing Area	4.05	2011	2,255	2,255
San Diego National Bank, Line of Credit, dated July 2007 North Park Non-Housing Area	1.42 - 4.05	2011	3,695	<u>5,695</u>
Total Loans Payable				<u>44,815</u>
Section 108 Loans Payable				<u>33,532</u>

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2009</u>
<u>General Obligation Bonds:</u>				
Public Safety Communications Project, Series 1991	5.0 - 8.0**	2012	\$ 25,500	\$ 6,315
Total General Obligation Bonds				<u>6,315</u>
<u>Revenue Bonds / Lease Revenue Bonds / COPs:</u>				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625**	2010	66,570	2,770
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45**	2027	68,425	56,275
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation, Series 1996 A	4.0 - 5.6**	2011	33,430	6,685
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996 B	4.0 - 6.0**	2022	11,720	8,050
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25**	2028	205,000	168,065
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.49**	2026	12,105	9,860
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75**	2018	30,515	11,850
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10**	2018	7,630	2,930
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0**	2032	25,070	22,280
Centre City Parking Revenue Bonds, Series 2003 B	3.0 - 5.30**	2027	20,515	17,570
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.0 - 4.375**	2023	15,255	12,120
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 2003	1.0 - 4.0**	2024	17,425	8,655
Public Facilities Financing Authority Ballpark Lease Revenue Refunding Bonds, Series 2007 A	5.0 - 5.25**	2032	156,560	149,390
Public Facilities Financing Authority Lease Revenue Bonds, Series 2009 A	variable*	2019	103,000	103,000
Total Revenue Bonds / Lease Revenue Bonds / COPs				<u>579,500</u>
<u>Special Assessment / Special Tax Bonds:</u>				
Otay Mesa Industrial Park Limited Obligation Improvement Bonds, Issued May 1992	5.5 - 7.95**	2013	2,235	250
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375**	2021	59,465	39,650
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2000 A	4.75 - 6.375**	2031	56,020	52,000
Santaluz Special Tax Bonds, Improvement Area No.3, Series 2000 B	4.5 - 6.2**	2031	4,350	4,020
City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds	4.25 - 5.8**	2018	8,850	6,210
Piper Ranch Limited Obligation Improvement Bonds, Issued January 2004	2.5 - 6.2**	2034	5,430	4,310
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2004 A	1.7 - 5.5**	2031	5,000	4,500
Santaluz Special Tax Bonds, Improvement Area No.4, Series 2004 A	1.65 - 5.5**	2034	9,965	9,450
Liberty Station Special Tax Bonds, Series 2006 A	5.0 - 5.75**	2037	16,000	15,630
Liberty Station Special Tax Bonds, Series 2008 A	3.74 - 6.3**	2037	3,950	3,885
Black Mountain Ranch Villages Special Tax Bonds Series 2008 A	3.125-6.0**	2038	12,365	12,365
Total Special Assessment / Special Tax Bonds				<u>152,270</u>

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2009
Tax Allocation Bonds:				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75**	2014	\$ 1,400	\$ 580
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0**	2020	1,200	750
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0**	2016	12,970	6,355
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125**	2019	25,680	25,200
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	6.25**	2014	11,360	11,360
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	3.1 - 4.75**	2025	13,610	11,705
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8**	2029	5,690	5,060
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	5.75 - 6.4***	2029	10,141	8,982
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6**	2025	6,100	4,810
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35**	2025	21,390	18,190
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8**	2022	15,025	13,110
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875**	2031	13,000	11,200
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9**	2031	7,000	6,035
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	4.93 - 5.55****	2027	58,425	55,795
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0**	2027	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5 - 5.0**	2029	31,000	11,980
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875 - 6.5**	2034	4,955	4,955
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5 - 4.25**	2014	865	410
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5 - 6.125**	2028	7,145	6,045
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75 - 5.0**	2034	5,360	5,360
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65 - 5.1**	2022	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25 - 5.45**	2022	4,530	4,300
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49 - 7.74**	2022	8,000	6,565
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	3.5 - 5.25**	2030	101,180	93,410
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2.26 - 4.58**	2011	9,855	3,035
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2.26 - 6.18**	2030	27,785	25,035

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2009</u>
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2.26 - 6.28**	2030	\$ 8,905	\$ 8,035
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	4.25 - 5.25**	2033	76,225	75,025
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	5.66 - 6.2**	2032	33,760	32,880
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	3.74 - 6.3**	2021	69,000	69,000
Total Tax Allocation Bonds				<u>534,547</u>
<u>Tobacco Settlement Asset-Backed Bonds:</u>				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	7.125**	2023	105,400	<u>95,380</u>
<u>Pooled Financing Bonds:</u>				
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 A	5.95 - 6.65**	2038	17,230	16,340
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 B	4.0 - 5.25**	2038	17,755	<u>17,120</u>
Total Pooled Financing Bonds				<u>33,460</u>
Total Bonds Payable				<u>1,401,472</u>
Net Other Postemployment Benefits Obligation				73,504
Net Pension Obligation				<u>147,665</u>
Total Governmental Activities Long-Term Liabilities				<u>\$ 2,148,966</u>

* Additional information on the variable rate contracts payable with the SDSU Foundation, the loan payable line of credit from Bank of America, and the PFFA Lease Revenue Bonds, Series 2009 A are discussed further on the following page.

** Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

*** The City Heights Redevelopment Tax Allocation Bonds, Series 1999 B, are capital appreciation bonds, which mature from fiscal year 2011 through 2029. The balance outstanding at June 30, 2009 does not include accreted interest of \$7,695.

**** The Centre City Redevelopment Tax Allocation Bonds, Series 2001 A, partially include capital appreciation bonds, which mature from fiscal year 2015 through 2027. The balance outstanding at June 30, 2009 does not include accreted interest of \$6,987.

Arbitrage Rebate Liability is calculated via third party providers in accordance with the provisions of the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations effective as of July 1, 1993, as amended.

Liability claims are primarily liquidated by the Self Insurance (Internal Service) Fund and Enterprise Funds. Compensated absences are generally liquidated by the general fund and certain internal service funds. Pension liabilities are paid out of the operating funds based on a percentage of payroll.

Public safety general obligation bonds are secured by a pledge of the full faith and credit of the City or by a pledge of the City to levy ad valorem property taxes without limitation. Open space general obligation bonds are backed by Environmental Growth Fund 2/3 franchise fees.

Revenue bonds are secured by a pledge of specific revenue generally derived from fees or service charges related to the operation of the project being financed. Certificates of Participation (COPs) and lease revenue bonds provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Special assessment/special tax bonds are issued by the City to provide funds for public improvements in/and or serving special assessment and Mello-Roos districts created by the City. The bonds are secured by assessments and special taxes levied on the properties located within the assessment districts and the community facilities districts, and are payable solely from the assessments and special taxes collected. The assessments and the special taxes, and any bonds payable from them, are secured by a lien on the properties upon which the assessments and the special taxes are levied. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

Section 108 loans are the loan guarantee provisions of the Community Development Block Grant (CDBG) program. Section 108 loans provide the community with a source of financing for economic development, housing rehabilitation, public facilities, and capital improvement and infrastructure projects.

San Diego State University Foundation executed an Agreement for Processing a Redevelopment Plan and Land Use Entitlements with RDA which allows for reimbursement of expenses incurred by the Foundation, in assisting in the preparation and processing of the Redevelopment Plan and Land Use Entitlements in the College Area. The agreement is a variable rate obligation of RDA. The unpaid principal bears interest at the prime rate and is fixed on a quarterly basis, using the prime rate established on the first banking day of each calendar quarter. Interest calculations are made on the quarterly weighted average of the principal balance and are made at the end of the quarter based upon the rate fixed for that quarter. The effective interest rate as of June 30, 2009 is 3.25 percent.

Loans Payable includes a loan agreement with Centerpoint, LLC that was for the purpose of constructing affordable housing and retail space pursuant to the terms of a Disposition and Development Agreement and the first and second implementation agreements. On December 29, 2008 a third implementation agreement was executed that converted the project from the sale of residential dwelling units to rental residential dwelling units. Due to the modification of the size of the dwelling units to be developed and the corresponding reduction in the development costs, the amount of the loan was reduced from \$5,245 to \$4,969. The corresponding liability has been reduced in the Statement of Net Assets.

Loans Payable includes a line of credit executed by RDA with Bank of America, N.A. on October 31, 2006. The line of credit is to be used to refinance the North Park Theatre, to pay sums of settlement of eminent domain actions relating to the North Park Redevelopment Area and for other redevelopment activities in the North Park Redevelopment Area. The tax-exempt portion of the line of credit has an effective interest rate of 3.23 percent, the taxable portion has an effective interest rate of 4.75 percent as of June 30, 2009, and the effective interest rate will reset on October 31, annually.

Loans Payable also includes six separate non-revolving secured three-year term lines of credit executed by RDA with San Diego National Bank dated July 26, 2007. Four lines of credit are for affordable housing in North Park, City Heights, North Bay and Naval Training Center (NTC) Redevelopment Project Areas. Two lines of credit are for non-housing or general purposes for City Heights and NTC Redevelopment Project Areas. Each advance taken from the lines of credit has a fixed rate that is set on the day of the advance to be equal to either the United States Three-Year Treasury Constant Maturities Index plus one and nine-tenths percentage point or the One-Month LIBOR Rate plus one and one-tenth percentage point and that rate remains constant during the entire period such advance is outstanding.

PFFA Lease Revenue Bonds, Series 2009A were issued for the purpose of financing various capital improvement projects. The Series 2009A bonds are secured from base rental payments and bear interest at a rate of 3.89 percent through June 1, 2010. Thereafter the interest rate will be fixed to equal the purchaser's internal cost of funds rate plus a fixed spread of 3.0 percent, provided that in no event will the interest rate exceed 12 percent, and the new rate will remain constant until the final maturity date of December 1, 2018.

Tobacco Settlement Asset-Backed Bonds are limited obligations of the Tobacco Settlement Revenue Funding Corporation, which is a separate legal California nonprofit public benefit corporation established by the City of San Diego. The Corporation purchased from the City the rights to receive future tobacco settlement revenues due to the City. The Tobacco Settlement Asset-Backed Bonds are payable from and secured solely by pledged tobacco settlement revenues.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2009, including interest payments to maturity, are as follows:

Year Ended June 30,	Capital Lease Obligations		Contracts Payable		Notes Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 15,963	\$ 3,551	\$ -	\$ -	\$ -	\$ -	\$ 8,708	\$ 1,616
2011	15,475	2,661	-	-	-	-	25,180	650
2012	15,915	2,056	-	-	-	-	195	351
2013	14,294	1,438	-	-	-	-	205	341
2014	10,152	933	-	-	-	-	216	330
2015-2019	13,413	1,827	-	-	-	-	1,264	1,467
2020-2024	4,307	531	-	-	-	-	480	1,177
2025-2029	-	-	-	-	-	-	772	884
2030-2034	-	-	-	-	-	-	1,045	412
2035-2039	-	-	-	-	-	-	229	35
Unscheduled*	-	-	4,715	1,868	4,786	1,767	6,521	-
Total	\$ 89,519	\$ 12,997	\$ 4,715	\$ 1,868	\$ 4,786	\$ 1,767	\$ 44,815	\$ 7,263

* The contracts payable to SDSU Foundation in the amount of \$1,715, the contract payable to Western Pacific Housing, Inc. in the amount of \$3,000, the notes payable to Price Charities of \$4,786, the loan payable to Centerpoint, LLC in the amount of \$4,969, the loan payable to California Housing Finance Agency in the amount of \$1,250, and the loan payable to the California Energy Resources Conservation and Development Commission in the amount of \$302 do not have repayment schedules. Annual payments on the San Diego State University debt is based on the availability of tax increment, net of the low-moderate and taxing agency set-asides, as well as project area administration costs. Annual payments on the Western Pacific Housing, Inc., and Price Charities debt are based on available tax increment. Annual payments on the Centerpoint, LLC debt are based upon future receipts of unallocated tax increment or other available sources. Annual payments on the California Housing Agency are deferred for the term of the loan. Annual payments on the California Energy and Resources Conservation and Development Commission will not begin until project completion.

Year Ended June 30,	Section 108 Loans		General Obligation Bonds		Revenue Bonds / COPs		Special Assessment / Special Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 2,457	\$ 1,685	\$ 1,975	\$ 353	\$ 21,955	\$ 29,735	\$ 5,130	\$ 8,408
2011	2,595	1,579	2,100	219	29,776	27,720	5,490	8,152
2012	2,724	1,460	2,240	74	27,567	26,402	5,860	7,870
2013	2,863	1,329	-	-	28,870	25,094	6,155	7,561
2014	3,016	1,186	-	-	30,227	23,719	6,430	7,224
2015-2019	13,023	3,659	-	-	163,510	96,248	36,755	30,530
2020-2024	6,158	1,036	-	-	124,740	60,620	29,515	20,969
2025-2029	696	21	-	-	117,650	25,611	28,415	13,088
2030-2034	-	-	-	-	35,205	3,736	21,765	4,470
2035-2039	-	-	-	-	-	-	6,755	707
Total	<u>\$ 33,532</u>	<u>\$ 11,955</u>	<u>\$ 6,315</u>	<u>\$ 646</u>	<u>\$ 579,500</u>	<u>\$ 318,885</u>	<u>\$ 152,270</u>	<u>\$ 108,979</u>

Year Ended June 30,	Tax Allocation Bonds			Tobacco Asset-Backed Bonds		Pooled Financing Bonds	
	Principal	Unaccrued Appreciation	Interest	Principal	Interest	Principal	Interest
2010	\$ 19,054	\$ 2,163	\$ 26,620	\$ 3,800	\$ 6,796	\$ 680	\$ 1,883
2011	19,948	2,243	25,727	4,000	6,525	770	1,846
2012	20,884	2,317	24,749	4,400	6,240	825	1,805
2013	24,143	2,388	23,612	4,600	5,927	860	1,762
2014	25,704	2,455	22,327	5,000	5,599	900	1,718
2015-2019	144,897	12,014	90,577	30,900	22,101	5,280	7,821
2020-2024	134,019	8,824	52,561	42,680	8,765	5,725	6,247
2025-2029	102,468	2,181	22,801	-	-	6,880	4,470
2030-2034	43,430	-	4,500	-	-	7,895	2,155
2035-2039	-	-	-	-	-	3,645	445
Subtotal	534,547	34,585	293,474	95,380	61,953	33,460	30,152
Add:							
Accrued Appreciation through June 30, 2009	14,682	-	-	-	-	-	-
Total	<u>\$ 549,229</u>	<u>\$ 34,585</u>	<u>\$ 293,474</u>	<u>\$ 95,380</u>	<u>\$ 61,953</u>	<u>\$ 33,460</u>	<u>\$ 30,152</u>

* The Tobacco Asset-Backed Bond Principal Debt Service requirements are based upon expected Turbo Principal payments.

c. Change in Long-Term Liabilities

Additions to governmental activities long-term debt for contracts, notes and loans payable may differ from proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, due to funding received in prior fiscal years being converted from short-term to long-term debt as a result of developers extending the terms of the obligation.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2009. The effect of bond accretion, bond premiums, discounts, and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Governmental Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	\$ -	\$ 533	\$ -	\$ 533	\$ -
Compensated Absences	74,825	62,642	(63,021)	74,446	34,912
Liability Claims	232,448	84,863	(43,332)	273,979	43,663
Capital Lease Obligations	61,262	40,758	(12,501)	89,519	15,963
Contracts Payable	2,615	2,100	-	4,715	-
Notes Payable	5,662	-	(876)	4,786	-
Loans Payable	34,777	10,483	(445)	44,815	8,708
Section 108 Loans Payable	35,896	-	(2,364)	33,532	2,457
General Obligation Bonds	8,580	-	(2,265)	6,315	1,975
Revenue Bonds / COPs	498,950	103,000	(22,450)	579,500	21,955
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(4,235)	-	203	(4,032)	(203)
Net Revenue Bonds/COP's	494,715	103,000	(22,247)	575,468	21,752
Special Assessment / Special					
Tax Bonds	144,805	12,365	(4,900)	152,270	5,130
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(534)	(129)	53	(610)	(53)
Net Special Assessment Bonds	144,271	12,236	(4,847)	151,660	5,077
Tax Allocation Bonds	548,643	-	(14,096)	534,547	19,054
Interest Accretion	12,837	2,080	(235)	14,682	-
Balance with Accretion	561,480	2,080	(14,331)	549,229	19,054
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	5,494	-	(116)	5,378	116
Net Tax Allocation Bonds	566,974	2,080	(14,447)	554,607	19,170
Tobacco Settlement Asset-Backed Bonds	99,370	-	(3,990)	95,380	3,800
Pooled Financing Bonds	34,115	-	(655)	33,460	680
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(125)	-	17	(108)	(17)
Net Pooled Financing Bonds	33,990	-	(638)	33,352	663
Net Other Postemployment Benefits Obligation	28,872	44,632	-	73,504	-
Net Pension Obligation	141,734	5,931	-	147,665	-
Total	\$ 1,965,991	\$ 369,258	\$ (170,973)	\$ 2,164,276	\$ 158,140

d. Defeasance and Redemption of Debt

As of June 30, 2009, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Amount</u>
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	\$ 2,975
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	<u>1,520</u>
Total Defeased Bonds Outstanding	<u>\$ 4,495</u>

e. Long-Term Pledged Liabilities

Governmental long-term pledged liabilities as of June 30, 2009 are comprised of the following:

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
<u>Pledged CDBG Revenue:</u>				
Section 108 Loans Payable		\$ 34,763	\$ 3,534	\$ 3,534
Total Pledged CDBG Revenue		<u>34,763</u>	<u>3,534</u>	<u>3,534</u>
<u>Pledged Developer Revenue:</u>				
Regional Transportation Center Redevelopment Project (Section 108)	2021	<u>2,663</u>	<u>285</u>	<u>285</u>
Total Pledged Developer Revenue		<u>2,663</u>	<u>285</u>	<u>285</u>
<u>Pledged Net Operating Revenue (Parking):</u>				
Centre City Parking Revenue Bonds, Series 1999 A	2026	<u>16,065</u>	<u>957</u>	<u>953</u>
Centre City Parking Revenue Bonds, Series 2003 B	2027	<u>26,879</u>	<u>1,508</u>	<u>1,390</u>
Total Pledged Net Operating Revenue (Parking)		<u>42,944</u>	<u>2,465</u>	<u>2,343</u>
<u>Pledged Special Assessment / Special Tax Revenue:</u>				
Otay Mesa Industrial Park Limited Obligation Improvement Bonds, Issued May 1992	2013	<u>292</u>	<u>72</u>	<u>71</u>
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	2021	<u>52,117</u>	<u>4,371</u>	<u>4,147</u>
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2018	<u>13,651</u>	<u>2,330</u>	<u>1,882</u>
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	2018	<u>3,424</u>	<u>599</u>	<u>470</u>
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2000 A	2031	<u>96,349</u>	<u>4,368</u>	<u>4,287</u>
Santaluz Special Tax Bonds, Improvement Area No.3, Series 2000 B	2031	<u>7,325</u>	<u>316</u>	<u>337</u>
City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds	2018	<u>7,899</u>	<u>966</u>	<u>732</u>
Piper Ranch Limited Obligation Improvement Bonds, Issued January 2004	2034	<u>8,311</u>	<u>345</u>	<u>317</u>
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2004 A	2031	<u>7,615</u>	<u>377</u>	<u>370</u>
Santaluz Special Tax Bonds, Improvement Area No.4, Series 2004 A	2034	<u>17,221</u>	<u>625</u>	<u>692</u>
Liberty Station Special Tax Bonds, Series 2006 A	2037	<u>31,193</u>	<u>1,149</u>	<u>1,554</u>
Liberty Station Special Tax Bonds, Series 2008 A	2037	<u>7,760</u>	<u>256</u>	<u>347</u>
Black Mountain Ranch Villages Special Tax Bonds Series 2008 A	2038	<u>25,169</u>	<u>358</u>	<u>986</u>
Total Pledged Special Assessment / Special Tax Revenue		<u>278,326</u>	<u>16,132</u>	<u>16,192</u>

(continued on next page)

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
<u>Pledged Tax Increment Revenue:</u>				
<u>Contracts</u>				
Contract Payable to SDSU Foundation, dated December 1991	---	\$ 3,095	-	\$ -
Amendment to Contract Payable to SDSU Foundation, dated January 1995	---	233	-	-
Contract Payable to Western Pacific Housing, Inc., dated April 2004	---	3,476	-	-
<u>Notes</u>				
Note Payable to Price Charities, dated April 2001	2032	4,274	1,045	1,045
Note Payable to Price Charities, dated May 2005	2025	2,100	-	-
Amendment to Note Payable to Price Charities, dated February 2006	2025	180	-	-
<u>Loans</u>				
International Gateway Associates, LLC, dated October 2001	2032	4,776	199	199
PCCP/SB Las America, LLC, dated August 2005	2036	3,571	132	132
Centerpoint, LLC, dated April 2006	2021	4,969	-	-
Bank of America, N.A. Line of Credit, dated October 2006	2009	8,626	330	330
San Diego National Bank, Line of Credit, dated July 2007 City Heights Housing Area	2011	1,419	74	74
San Diego National Bank, Line of Credit, dated July 2007 City Heights Non-Housing Area	2011	2,255	163	163
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Housing Area	2011	2,748	55	55
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Non-Housing Area	2011	11,651	317	317
San Diego National Bank, Line of Credit, dated July 2007 North Bay Housing Area	2011	2,407	93	93
San Diego National Bank, Line of Credit, dated July 2007 North Park Non-Housing Area	2011	5,952	140	140
Naval Training Center Civic, Arts, and Cultural Center (Section 108)	2025	8,062	509	509

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
Bonds				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	2014	\$ 732	\$ 145	\$ 145
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	2020	1,018	91	91
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	2016	7,778	1,116	1,110
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	2019	32,987	1,276	1,209
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	2014	13,154	710	3,083
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	2025	17,179	794	780
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	2029	8,497	430	418
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	2029	31,130	571	543
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	2025	7,215	445	441
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	2025	27,376	1,458	1,406
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	2022	18,806	1,353	1,340
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	2031	19,804	893	834
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	2031	10,676	479	448
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	2027	109,162	2,567	2,473
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	2027	5,355	153	153
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2029	21,107	3,971	3,886
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	2034	10,371	316	316
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2014	452	92	92
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	2028	9,975	546	546
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	2034	11,189	259	259

(continued on next page)

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	2022	\$ 9,487	\$ 310	\$ 306
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	2022	6,135	327	309
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	2022	10,252	798	770
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	2030	146,086	6,855	6,855
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2011	3,155	1,965	1,965
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2030	41,891	2,230	2,152
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2030	13,570	723	698
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	2033	125,477	4,356	4,268
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	2032	61,393	2,642	2,617
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 A	2038	32,499	1,409	1,409
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 B	2038	31,113	1,164	1,164
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	2021	95,878	2,800	9,927
Total Pledged Tax Increment Revenue		<u>1,010,693</u>	<u>46,301</u>	<u>55,070</u>
<u>Pledged Tobacco Settlement Revenue:</u>				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	2023	\$ 157,333	\$ 11,056	\$ 10,100
Total Pledged Tobacco Settlement Revenue		<u>157,333</u>	<u>11,056</u>	<u>10,100</u>
Total Pledged Revenue		<u>\$ 1,526,722</u>	<u>\$ 79,773</u>	<u>\$ 87,524</u>

6. **BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (In Thousands)**

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2009 are comprised of the following:

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2009</u>
Compensated Absences				\$ 12,671
Liability Claims				32,853
<u>Loans Payable:</u>				
Loans Payable to San Diego County Water Authority	-	-	\$ 100	100
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80%**	2020	10,606	6,301
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80**	2022	6,684	4,613
Loans Payable to State Water Resources Control Board, issued March 30, 2001	1.80**	2022	33,720	23,262
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2022	7,742	5,340
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2021	860	553
Loans Payable to State Water Resources Control Board, issued June 11, 2001	1.80**	2021	2,525	1,623
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.99**	2020	3,767	2,459
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.80**	2023	8,068	5,942
Loans Payable to State Water Resources Control Board, issued December 14, 2005	1.89**	2024	10,093	8,257
Loans Payable to Department of Health Services, issued July 6, 2005	2.51**	2026	21,525	18,491
Loans Payable to State Water Resources Control Board, issued October 15, 2006	1.99**	2024	3,858	3,306
Loans Payable to State Water Resources Control Board, issued February 28, 2007	1.89**	2026	11,068	10,079
Total Loans Payable				<u>90,326</u>

(continued on next page)

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Fiscal Year Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 2009</u>
<u>Bonds Payable:</u>				
Sewer Revenue Bonds, Series 1995	3.9 - 6.0*	2025	\$ 350,000	\$ 43,850
Sewer Revenue Bonds, Series 1997 A	3.7 - 5.375*	2027	183,000	22,565
Sewer Revenue Bonds, Series 1997 B	3.7 - 5.375*	2027	67,000	8,260
Water Certificate of Undivided Interest, Series 1998	4.0 - 5.375*	2029	385,000	141,320
Sewer Revenue Bonds, Series 1999 A	3.5 - 5.125*	2029	203,350	67,020
Sewer Revenue Bonds, Series 1999 B	3.5 - 5.125*	2029	112,060	37,080
Subordinated Water Revenue Bonds, Series 2002	2.0 - 5.0*	2033	286,945	272,846
Senior Sewer Revenue Bonds, Series 2009 A	2.0-5.375*	2039	453,775	453,775
Senior Sewer Revenue Refunding Bonds Series 2009 B	3.0-5.5*	2025	634,940	634,940
Water Revenue Refunding Bonds, Series 2009 A	2.5-5.25*	2039	157,190	157,190
Water Revenue Bonds, Series 2009 B	2.5-5.75*	2040	328,060	328,060
Total Bonds Payable				<u>2,166,906</u>
Estimated Landfill Closure and Postclosure Care				19,336
Net Other Postemployment Benefits Obligation				19,767
Net Pension Obligation				29,474
Pollution Remediation Obligation				<u>620</u>
Total Business-Type Activities Long-Term Liabilities				<u>\$ 2,371,953</u>

* Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

** Effective rate

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2009, including interest payments to maturity, are as follows:

Year Ended June 30	Loans Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2010	\$ 5,653	\$ 1,780	\$ 58,741	\$ 97,033
2011	5,765	1,670	63,915	103,683
2012	5,878	1,557	66,420	101,173
2013	5,992	1,443	69,275	98,325
2014	6,109	1,326	72,485	95,112
2015-2019	32,384	4,792	417,635	420,395
2020-2024	25,072	1,677	485,090	307,757
2025-2029	3,373	89	470,265	183,672
2030-2034	-	-	220,205	96,243
2035-2039	-	-	221,720	39,781
2040-2044	-	-	21,155	582
Unscheduled*	100	-	-	-
Total	<u>\$ 90,326</u>	<u>\$ 14,334</u>	<u>\$ 2,166,906</u>	<u>\$ 1,543,756</u>

* The loan payable to the San Diego County Water Authority in the amount of \$100 does not have an annual repayment schedule. The payment is due if funding for the projects for which the loan was received becomes available from other sources.

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2009. The effect of bond premiums, discounts and deferred amounts on refunding are reflected as adjustments to long-term liabilities.

	Business-Type Activities				Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Arbitrage Liability	\$ 586	\$ -	\$ (586)	\$ -	\$ -
Compensated Absences	13,355	11,949	(12,633)	12,671	6,315
Liability Claims	50,239	(13,794)	(3,592)	32,853	3,501
Capital Lease Obligations	166	-	(166)	-	-
Revenue Notes Payable	430,830	-	(430,830)	-	-
Loans Payable	95,875	-	(5,549)	90,326	5,653
Revenue Bonds Payable	1,425,445	1,573,965	(832,504)	2,166,906	58,741
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(6,619)	39,748	7,951	41,080	2,142
Net Revenue Bonds Payable	1,418,826	1,613,713	(824,553)	2,207,986	60,883
Estimated Landfill Closure/Postclosure Care	18,429	907	-	19,336	-
Net Other Postemployment Benefits Obligation	8,921	10,846	-	19,767	-
Net Pension Obligation	31,342	-	(1,868)	29,474	-
Pollution Remediation Obligation	-	620	-	620	-
Totals	\$ 2,068,569	\$ 1,624,241	\$ (1,279,777)	\$ 2,413,033	\$ 76,352

d. Defeasance and Redemption of Debt

PFFA issued Water Revenue Bonds, Series 2009A in the amount of \$157,190 and Series 2009B in the amount of \$328,060. The bond proceeds were used to fully redeem outstanding Subordinated Water Notes, Series 2007A and Subordinated Water Notes, Series 2008A and for partial redemption of the Water Certificates of Undivided Interest, Series 1998. The Water 2007A and 2008A Notes have been redeemed and the corresponding liabilities have been removed from the Statement of Net Assets. The redemption transaction for the Water 2007A Notes resulted in a total economic loss of approximately \$11,161 and a cash flow cost of approximately \$21,558. The redemption transaction for the Water 2008A Notes resulted in a total economic loss of approximately \$40,412 and a cash flow cost of approximately \$92,955. The partial refunding of \$94,165 from the remaining outstanding Water Certificates of Undivided Interest, Series 1998 resulted in a total economic gain of approximately \$5,580 and a cash flow savings of approximately \$8,741. All of the Notes and Certificates that were redeemed or refunded from the Water Revenue Bonds, Series 2009A and 2009B were called or redeemed at a date prior to the end of the fiscal year, and accordingly, there is no defeased debt balance outstanding as of June 30, 2009.

PFFA issued Senior Sewer Revenue Bonds, Series 2009A in the amount of \$453,775 and Series 2009B in the amount of \$634,940. The bond proceeds were used to fully redeem and refund outstanding Subordinated Sewer Revenue Notes, Series 2007 and Sewer Revenue Bonds, Series 1993. The bond proceeds were also used for a partial redemption of the Sewer Revenue Bonds, Series 1995, Series 1997A, Series 1997B, Series 1999A and Series 1999B. The Subordinated Sewer Notes, Series 2007 were fully redeemed while the Sewer Revenue Bonds, Series 1993, carry a defeased balance in an escrow fund, listed below. Both liabilities have been removed

from the Statement of Net Assets. The redemption transaction for the Sewer 2007 Notes resulted in a total economic loss of approximately \$23,013 and a cash flow cost of approximately \$44,084. The redemption transaction for the Sewer Revenue Bonds, Series 1993 resulted in a total economic gain of approximately \$8,457 and a cash flow savings of approximately \$13,951. The partial redemption of the Sewer Revenue Bonds, Series 1995 resulted in a total economic gain of approximately \$11,086 and a cash flow savings of approximately \$18,287. The partial redemption of the Sewer Revenue Bonds, Series 1997A and Series 1997B resulted in a total economic gain of approximately \$10,954 and a cash flow savings of approximately \$18,190. The partial redemption of the Sewer Revenue Bonds, Series 1999A and Series 1999B resulted in a total economic gain of approximately \$7,933 and a cash flow savings of approximately \$13,085. The 2007 Notes were fully redeemed and the partial refunding of the Series 1995, 1997 and 1999 bonds, from the Sewer Revenue Bonds, Series 2009A and Series 2009B, were all called or redeemed at a date prior to the end of the fiscal year, and accordingly, there is no defeased debt balance outstanding as of June 30, 2009.

As of June 30, 2009, principal amount payable from the escrow fund established for the defeased bond is as follows:

<u>Defeased Bonds</u>	<u>Balance</u>
Sewer Revenue Bonds, Series 1993	<u>\$ 160,220</u>

e. Long-Term Pledged Liabilities

Business-type activities long-term pledged liabilities as of June 30, 2009 are comprised of the following:

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
<u>Pledged Net Sewer Systems Revenue:</u>				
<u>Loans</u>				
Loans Payable to State Water Resources Control Board, issued February 9, 2000	2020	\$ 7,004	\$ 637	\$ 637
Loans Payable to State Water Resources Control Board, issued February 9, 2000	2022	5,216	401	401
Loans Payable to State Water Resources Control Board, issued March 30, 2001	2022	26,320	2,025	2,025
Loans Payable to State Water Resources Control Board, issued May 17, 2001	2022	6,038	465	465
Loans Payable to State Water Resources Control Board, issued May 17, 2001	2021	619	52	52
Loans Payable to State Water Resources Control Board, issued June 11, 2001	2021	1,819	151	151
Loans Payable to State Water Resources Control Board, issued October 3, 2002	2020	2,763	251	251
Loans Payable to State Water Resources Control Board, issued October 3, 2002	2023	6,777	484	484
Loans Payable to State Water Resources Control Board, issued December 14, 2005	2024	9,561	637	637
Loans Payable to State Water Resources Control Board, issued October 15, 2006	2024	3,858	258	258
Loans Payable to State Water Resources Control Board, issued February 28, 2007	2026	11,883	699	699

<u>Type of Pledged Revenue</u>	<u>Fiscal Year Maturity Date</u>	<u>Pledged Revenue to Maturity</u>	<u>Debt Principal & Interest Paid</u>	<u>Pledged Revenue Recognized</u>
<u>Bonds and Notes</u>				
Sewer Revenue Bonds, Series 1993	2023	\$ -	\$ 16,319	\$ 16,316
Sewer Revenue Bonds, Series 1995	2025	78,930	23,585	23,581
Sewer Revenue Bonds, Series 1997 A	2027	43,889	12,179	12,177
Sewer Revenue Bonds, Series 1997 B	2027	16,066	4,458	4,457
Sewer Revenue Bonds, Series 1999 A	2029	126,138	13,207	12,352
Sewer Revenue Bonds, Series 1999 B	2029	69,789	7,308	7,118
Subordinated Sewer Revenue Notes, Series 2007	2009	-	11,192	11,190
Senior Sewer Revenue Bonds, Series 2009 A	2039	858,509	-	-
Senior Sewer Revenue Refunding Bonds Series 2009 B	2025	911,622	-	-
Total Pledged Net Sewer Systems Revenue		<u>2,186,801</u>	<u>94,308</u>	<u>93,251</u>
<u>Pledged Net Water Systems Revenue:</u>				
<u>Loans</u>				
Loans Payable to Department of Health Services, issued July 6, 2005	2026	22,703	1,376	1,376
<u>Bonds and Notes</u>				
Water Certificate of Undivided Interest, Series 1998	2029	256,934	21,354	20,002
Subordinated Water Revenue Bonds, Series 2002	2033	424,199	18,037	17,200
Subordinated Water Revenue Notes, Series 2007 A	2009	-	2,301	2,301
Subordinated Water Revenue Notes, Series 2008 A	2010	-	4,551	6,532
Water Revenue Refunding Bonds, Series 2009 A	2039	262,608	-	-
Water Revenue Bonds, Series 2009 B	2040	661,977	-	-
Total Pledged Net Water Systems Revenue		<u>1,628,421</u>	<u>47,619</u>	<u>47,411</u>
Total Pledged Revenues		<u>\$ 3,815,222</u>	<u>\$ 141,927</u>	<u>\$ 140,662</u>

7. DISCRETELY PRESENTED COMPONENT UNITS LONG-TERM DEBT (In Thousands)

Discretely presented component units long-term debt as of June 30, 2009 is comprised as follows:

San Diego Convention Center Corporation

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2009	Due Within One Year
Compensated Absences				\$ 1,214	\$ 1,214
Capital Leases			\$ 3,942	1,394	863
Note Payable to San Diego					
Unified Port District, dated 1999	0.00%	2011	10,000	1,500	1,000
Total Long-Term Liabilities				<u>\$ 4,108</u>	<u>\$ 3,077</u>

Annual requirements to amortize long-term debt as of June 30, 2009, are as follows:

Capital Lease		Note Payable	
Fiscal Year	Amount	Fiscal Year	Amount
2010	\$ 931	2010	\$ 1,000
2011	543	2011	500
Total minimum lease payments	1,474	Total	<u>\$ 1,500</u>
Less: amount representing interest	(80)		
Present value of minimum lease payments	<u>\$ 1,394</u>		

San Diego Housing Commission

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2009	Due Within One Year
Compensated Absences				\$ 1,351	\$ 1,351
Note Payable to Chase, dated June 1995	Variable	2012	\$ 4,725	3,274	161
Note Payable to State of California (RHCP)	0.0	2014	1,405	1,405	-
Note Payable to State of California (RHCP)	0.0	2015	3,149	3,149	-
Note Payable to US Bank, dated November 2006	Variable	2012	20,550	19,245	241
Total Notes Payable				<u>27,073</u>	<u>402</u>
Total Long-Term Liabilities				<u>\$ 28,424</u>	<u>\$ 1,753</u>

The interest rate for the Chase obligation as of June 30, 2009 was 3.01%. The variable rate in accordance with the loan agreement is equal to .65 times the sum of the Variable Index Rate plus 3%. The Variable Index Rate is defined as the most recently available monthly weighted average cost of funds for 11th District Savings Institutions published by the Federal Home Loan Bank of San Francisco.

The interest rate for the US Bank obligation as of June 30, 2009 was 7.54%. The variable interest rate in accordance with the loan agreement is 2.25% plus LIBOR.

The Commission entered into an Interest Rate Swap Agreement with US Bank (the Swap Provider) to reduce the impact of changes in interest rate. Under the terms of the Swap Agreement, the Commission has agreed to pay interest to the Swap Provider at a fixed rate of 5.29% plus 2.25% exclusive of any fees, add-ons or other trustee or bank charges, while the Swap Provider has agreed to make the Commission's required monthly mortgage payment. The notional amount of the Swap Agreement is \$20,006. The Swap Agreement expires at maturity of the mortgage in 2011.

Pursuant to SFAS No. 133, derivative instruments not meeting the criteria for hedge accounting are recorded at fair value on the statement of net assets with any change in fair value reflected in the statement of activities in the period of change. The Commission recorded a liability for the fair value of the interest rate swap as of June 30, 2009 in the amount of \$1,736. During the year ended June 30, 2009, a loss in fair value of \$831 has been realized and is included in the statement of activities.

Annual requirements to amortize such long-term debt as of June 30, 2009 to maturity are as follows:

Year Ending June 30	Principal	Interest
2010	\$ 402	\$ 1,563
2011	416	1,540
2012	21,701	488
2013	-	-
2014	1,405	-
2015-2019	3,149	-
Total	<u>\$ 27,073</u>	<u>\$ 3,591</u>

8. SHORT-TERM NOTES PAYABLE (In Thousands)

The City issues Tax and Revenue Anticipation Notes (TRANs) in advance of property tax collections, depositing the proceeds into the General Fund. These notes are necessary to meet the cash requirements of the City prior to the receipt of property taxes.

Short-term debt activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Tax and Revenue Anticipation Notes	<u>\$ 116,000</u>	<u>\$ 135,000</u>	<u>\$ (251,000)</u>	<u>\$ -</u>

The \$116,000 (FY08) TRANs issue, which was a 13 month note obligation, had an interest rate of 3.90% and was repaid on August 1, 2008.

The \$135,000 (FY09) TRANs issue had an average effective interest rate of 2.68% and was repaid on April 30, 2009.

9. JOINT VENTURE and JOINTLY GOVERNED ORGANIZATIONS (In Thousands)San Diego Medical Services Enterprise, LLC

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. San Diego Medical Services Enterprise, LLC (SDMSE) is a joint venture that is reported within the General Fund, in accordance with GASB 14.

SDMSE was organized on May 2, 1997 to provide emergency medical services and medical transportation services to the citizens of San Diego. Operations began July 1, 1997 under an initial 5 year agreement that was extended on July 1, 2002 and again on July 1, 2005 for an additional three year period. On July 1, 2008 operations were extended until December 31, 2009 under a separate extension agreement and may be extended an additional six months if necessary. In addition, the City Council has authorized the Mayor to re-negotiate and execute a new five year agreement with SDMSE for ambulance services. The San Diego City Attorney is currently reviewing the proposed extension agreement and related SDMSE agreements to determine whether any changes to these agreements may be appropriate.

The SDMSE partners are the City of San Diego and Rural Metro of San Diego, Inc., a wholly owned subsidiary of Rural Metro Corporation (a publicly traded corporation). The SDMSE governing board of managers is comprised of five members, three of whom are appointed by the City; currently one of the City appointments is vacant.

The maximum funds which the City is required to contribute to the costs of SDMSE operations are limited to an aggregate of \$8,450 during the term of the third amended agreement. This aggregate includes a \$650 annual subsidy and any other amounts to be paid to the City since 1997 under the original contract, and any losses the City is required to cover under the extended contract, excluding any amount the City contributes for Medicare fee reimbursements. Cumulatively, the City has paid annual subsidies totaling \$5,700 as of June 30, 2009. Effective in fiscal year 2006, the City was no longer required to pay the \$650 annual subsidy and the Medicare fee reimbursements shall not exceed \$250 per fiscal year. Net assets of SDMSE are pro-rated to each partner based on a 50/50 split. In accordance with the operating agreement, profit and loss for each fiscal year is allocated equally to the members, subject to an aggregate limitation on loss to the City of \$8,450 (equal to the amount of subsidies discussed above). For the fiscal year ended June 30, 2009, SDMSE reported a net income of \$3,185, a member distribution of \$3,500, and ending net assets of \$3,647.

Under the terms of an operating agreement between Rural/Metro of San Diego, Inc. and SDMSE, Rural/Metro of San Diego, Inc. has made available a line-of-credit in the initial amount of \$3,500 bearing an interest rate of 9.5%. SDMSE did not have an outstanding balance, nor did it borrow on the line-of-credit at June 30, 2009.

Complete financial statements can be requested from San Diego Medical Services Enterprise, LLC, 8401 East Indian School Road, Scottsdale, Arizona 85251.

San Diego Workforce Partnership

The City of San Diego and the County of San Diego jointly govern the San Diego Workforce Partnership (Consortium). The Consortium's Board of Directors consists of two members of the City Council, two members from the County Board of Supervisors, and one member of a charitable organization. The purpose of the Consortium is to provide regional employment and training services in order to develop and create job opportunities throughout San Diego County. The Consortium is empowered to make applications for and receive grants from governmental or private

sources. The City does not appoint a majority of the Board, is not able to impose its will on the Consortium, and the Consortium is not fiscally dependent on the City. Therefore, it is the City's conclusion that the Consortium is a Governmental Organization with a jointly appointed board and not a component unit of the City. However, in the event the Consortium incurs a liability it cannot financially handle, the City and the County have agreed to share in the payment of those obligations.

Complete financial statements can be requested from San Diego Workforce Partnership, Inc. 3910 University Avenue, Suite 400, San Diego, CA 92105.

San Diego Geographic Information Source (SanGIS)

SanGIS was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are: to create and maintain a geographic information system; to market and license digital geographic data and software; to provide technical services; and to publish geographical and land-related information.

Complete financial statements can be requested from SanGIS, 5469 Kearny Villa Road, Suite 102, San Diego, CA 92123.

10. LEASE COMMITMENTS (In Thousands)

The City leases various properties and equipment. Leased property having elements of ownership are recorded as capital leases and reported as capital assets in the government-wide financial statements, along with a corresponding capital lease obligation. Leased property that does not have elements of ownership is reported as an operating lease and is expensed when paid.

Operating Leases

The City's operating leases consist primarily of rental property occupied by City departments. The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2009:

Year Ended June 30	Amount
2010	\$ 12,642
2011	12,122
2012	12,332
2013	12,189
2014	7,617
2015-2019	4,818
2020-2024	245
Total	<u>\$ 61,965</u>

Rent expense as related to operating leases was \$12,719 for the year ended June 30, 2009.

Capital Leases

The City has entered into various capital leases for equipment and structures. These capital leases have maturity dates ranging from August 1, 2008 through October 1, 2023, and interest rates ranging from 2.63% to 7.94%. A schedule of future minimum lease payments under capital leases as of June 30, 2009 is provided in Notes 5 and 6. The value of all capital leased assets as of June 30, 2009 for governmental assets is \$109,792 net of accumulated depreciation of \$58,551, and business-type assets of \$1,357, net of accumulated depreciation of \$9,684. These amounts are categorized by major asset class in the table below.

	Gross Value	Depreciation	Net Book Value
<u>Governmental</u>			
Equipment	\$ 134,184	\$ (56,708)	\$ 77,476
Structures & Improvement	4,889	(1,843)	3,046
Construction in Progress	29,270	-	29,270
Total Governmental	<u>\$ 168,343</u>	<u>\$ (58,551)</u>	<u>\$ 109,792</u>
<u>Business-Type</u>			
Equipment	\$ 11,041	\$ (9,684)	\$ 1,357
Total Business-Type	<u>\$ 11,041</u>	<u>\$ (9,684)</u>	<u>\$ 1,357</u>

Lease Revenues

The City has operating leases for certain land, buildings, and facilities with tenants and concessionaires. Leased capital asset carrying values of approximately \$76,591, as well as depreciation, are reported in Note 4 and are consolidated with non-leased assets. Minimum annual lease revenues are reported in the following schedule:

Year Ended June 30	Amount
2010	\$ 33,813
2011	33,027
2012	32,128
2013	30,975
2014	30,062
2015-2019	138,749
2020-2024	124,203
2025-2029	118,584
2030-2034	110,230
2035-2039	100,732
2040-2044	93,506
2045-2049	66,178
2050-2054	12,334
2055-2059	4,840
2060-2064	1,100
Total	<u>\$ 930,461</u>

This amount does not include contingent rentals, which may be received under certain leases of property on the basis of percentage returns. Rental income as related to operating leases was \$81,301 for the year ended June 30, 2009, which includes contingent rentals of \$46,748.

11. DEFERRED COMPENSATION PLAN (In Thousands)

The City, San Diego Convention Center Corporation (SDCCC), San Diego Data Processing Corporation (SDDPC), and San Diego Housing Commission (SDHC) each offer their employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. These plans, available to eligible employees, permit them to defer, pre-tax, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of plan participants and their beneficiaries. The deferred compensation plans are not considered part of the City of San Diego's financial reporting entity.

12. PENSION PLANS (In Thousands)

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

DEFINED BENEFIT PLAN**a. Plan Description**

San Diego City Employees' Retirement System ("SDCERS"), as authorized by Article IX of the City Charter, is a public employee retirement system established in fiscal year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the Port of San Diego (the "Port"), and the San Diego County Regional Airport Authority (the "Airport"). As of July 1, 2007, the assets of the three separate plans and trusts are pooled in the SDCERS Group Trust. These plans are administered by the SDCERS Board (the "Board") to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval as well as a majority vote by members. As of January 1, 2007, benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code.

The plans cover all eligible employees of the City, the Port, and the Airport. All City employees working half-time or greater and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City CAFR per GASB 14; however, the financial statements of SDCERS Pension trust do include the Port and Airport activity and are reported in the trust and agency section of the CAFR. The information disclosed in this note however, relates solely to the City's participation in SDCERS. City employment classes participating in the Plan are elected officers, general and safety (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

City of San Diego Plan Membership as of June 30, 2009 (actual member count)

	General	Safety	Total by Classification
Active Members	5,825	2,449	8,274
Terminated Members	2,298	528	2,826
Retirees, Disabled and Beneficiaries	4,428	2,943	7,371
Total Members, as of June 30, 2009	12,551	5,920	18,471

Source: SDCERS' CAFR as of June 30, 2009

As a defined benefit Plan, retirement benefits are determined primarily by a member's class, age at retirement, number of years of creditable service, and the member's final compensation based on the highest salary earned over a consecutive one-year period. The Plan provides cost of living adjustments of 2% to retirees, which is factored into the actuarial assumptions. Increases in retirement benefits due to cost of living adjustments do not require voter approval. The Plan requires ten years of service at age 62, or 20 years of service at age 55 for general members (50 for safety members), which could include certain service purchased or service earned at a reciprocating government entity, to vest for a benefit. Typically, retirement benefits are awarded at a rate of 2.5%

of the employee's one-year high annual salary per year of service at age 55 for general members, and 3% for Safety members starting at the age of 50. The actual percentage of final average salary per year served component of the calculation rises as the employee's retirement age increases and depends on the retirement option selected by the employee. General Plan percentage of final average salary per year served is a maximum of 2.8% for general members and 3% for safety members.

On July 28, 2008, the City Council approved R-303977 which presents modified defined contribution and defined benefit Plans for all non-safety City employees hired on or after July 1, 2009 (these changes were subsequently codified into the Municipal Code on June 25, 2009 with Council's approval of O-19874). The new defined benefit Plan includes modified percentages used to determine annual retirement allowance (depending on employees' age at retirement), a pensionable salary calculation used to determine retirement allowances based on a 3-year average, and a maximum annual retiree benefit of 80% of employees' pensionable salary. Additionally, the new defined contribution Plan includes mandatory employee contributions to SPSP (as well as City match) of 1% and the introduction of mandatory employee contribution to a retiree medical trust Plan (as well as City match) of 0.25%. See SDMC Section 24.04 for additional information.

Deferred Retirement Option Program (DROP)

The City also has a Deferred Retirement Option Program (DROP) where participants continue to work for the City and receive a regular paycheck. SDCERS' members electing to participate in DROP must agree to participate in the program for a specific period, up to a maximum of five years. A DROP participant must agree to end employment with the City on or before the end of the selected DROP participation period. A SDCERS member's decision to enter DROP is irrevocable.

Upon entering the program, the DROP participant stops making contributions to SDCERS and stops earning creditable service. Instead, amounts equivalent to the participant's retirement benefit plus earnings and additional contributions are credited to an interest bearing individual account held in the participant's name. On November 21, 2008, the SDCERS Board changed the DROP interest credit rate to 7.75% from 8% to mirror the newly adopted investment return assumption adopted by the Board on September 19, 2008. On February 20, 2009 the Board changed the DROP interest rate again. Effective July 1, 2009, DROP participation interest will be 3.54% and DROP annuity interest will be 5.0%. The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. Participants select the form of the distribution of the DROP account when they leave employment and begin retirement. The distribution is made as a single lump sum or in 240 equal monthly payments, or as otherwise allowed by applicable provisions of the Internal Revenue Code. Outstanding liabilities for DROP are shown on the Statement of Fiduciary Net Assets in the basic financial statements. During the period of participation, the participant continues to receive most of the employer offered benefits available to regular employees with exception to earning creditable service, as previously discussed.

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the DROP program due to the benefit changes negotiated with the July 1, 2005 Memoranda of Understanding (MOU). However, SDCERS has asserted that due to delays in codification of benefit changes into the Municipal Code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, there has been no change in the status of this case [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate in DROP when they are eligible for a service retirement.

Purchase of Service Credits

Article 4 Division 13 of the City's Municipal Code allows Plan members to purchase years of Creditable Service for use in determining retirement allowances. To purchase Creditable Service, a Member must elect to pay and thereafter pay, in accordance with such election before retirement, into the Retirement Fund an amount, including interest, determined by the Board. No Member will receive Creditable Service under this Division for any service for which payment has not been completed pursuant to this Division before the effective date of the Member's retirement. After review of the purchase of service program, SDCERS' actuary concluded that the service credit pricing structure that was in place prior to November 2003 did not reflect the full cost in the price then charged to SDCERS members. The pricing shortfall of approximately \$146,000, which is included in the Unfunded Actuarial Accrued Liability (UAAL), is reported in this note as of the most recent valuation date and in the RSI of these financial statements for the two years prior to the most recent valuation date. On November 13, 2008, a court ruling stated that the Board's decision to amortize the underpaid purchase of service credits, for certain employees who had yet to retire as of November 20, 2007, through the City's existing unfunded actuarial liability is unlawful and contrary to the Municipal Code and City Charter. Judgment was entered in favor of the City on December 12, 2008 which finalized the November 13, 2008 ruling. However, SDCERS submitted an appeal to this ruling which is currently pending. The amount of the potential benefit to the City is not known as of the issuance of this report. Additionally, the service credit pricing structure used after November 2003 does cover the full projected cost to the System when members purchased the service credits.

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the Purchase of Service Credit program due to the benefit changes negotiated with the July 1, 2005 MOU. However, SDCERS has asserted that due to delays in codification of benefit changes into the municipal code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, there has been no change in the status of this case [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate the Purchase of Service Credit Program at the full cost to the participant.

Corbett Settlement Benefits and Retirement Factors

In 1998, a lawsuit was filed by retired employees who alleged that the City's definition of compensation subject to the computation of retirement benefits improperly excluded the value of certain earnings. The City and SDCERS settled in May of 2000, which is known as the Corbett Settlement. This settlement provided for a flat increase of 7% in benefits payable to eligible members who retired prior to July 1, 2000, payable annually. The settlement also provided a 10% benefit increase and allows for two options in calculating the service retirement allowance for employees active at the time of the settlement and who joined the Retirement System before July 1, 2000 and who retired after July 1, 2000.

The options for calculating the service retirement allowance are outlined in the San Diego Municipal Code sections 24.0402 and 24.0403 which can be obtained at City of San Diego City Clerks Office 202 C Street, San Diego, CA 92101 or online at www.sandiego.gov.

On July 1, 2002, the City Council increased the retirement factors used for calculating retirement allowances; this action was related to MP-2 (as discussed later in this note). As a result of the Corbett Settlement and other benefit actions taken by the City Council, the service retirement factors for general members (non-safety and non-legislative) range from 2.0% at age 55 to 2.8% at age 65. The service retirement factors for Safety Members (Fire, Police and Lifeguard) range from 2.2% at age 50 to 3.0% at age 50 depending on the Corbett Settlement

option selected. Finally, the City also maintains an Elected Officer's Retirement Plan where members are eligible to receive 3.5% of their final average salary per year of creditable service. Depending on the number of years of service, participants of the Elected Officer's Retirement Plan can retire earlier than the age of 55; however, their retirement allowance is reduced by 2.0% for each year under the age of 55.

Preservation of Benefit Arrangement

On March 19, 2001, the City Council adopted Ordinance O-18930, adding SDMC sections 24.1601 through 24.1608, establishing the Preservation of Benefit (POB) arrangement. The POB arrangement is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m), which was created by Congress to allow the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). On October 28, 2008, the IRS issued a private letter ruling to SDCERS approving the qualified status of the QEBA. No additional payments or repayments are required as a result of the Compliance Statement. As provided in SDMC section 24.1606 and required by federal tax law, the POB arrangement is unfunded within the meaning of the federal tax laws. The City may not pre-fund the POB arrangement to cover future liabilities beyond the current year as it can with an IRC section 401(a) pension plan. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis. As of issuance of this report, actuarial liabilities related to retired member benefits that exceeded §415 limits are included in the RSI for the City's core pension Plan for valuation years up to and including fiscal year 2005. In the fiscal year 2006 actuarial valuation, the estimated actuarial accrued liability related to excess benefits for eligible active members of the system, amounting to approximately \$22,800, was removed from the Plan's Actuarial Liabilities (this liability is estimated to be approximately \$30,400 in the fiscal year 2007 actuarial valuation). Additionally, the liability for retired members of the POB arrangement, amounting to approximately \$6,400, has been excluded from the fiscal year 2007 actuarial valuation. Estimates related to the actuarial liability for benefits that exceed IRS §415 limits were calculated using actuarial assumptions consistent with those used to perform actuarial valuations for the City's core pension Plan and also pursuant to the Compliance Statement, dated December 20, 2007, and Tax Determination Letter provided by the IRS during Voluntary Correction Program discussions.

In Fiscal Year 2009, approximately \$1,300 in benefits were paid by the City for the POB arrangement. The number of participants in any given year for the POB arrangement is determined by the number of Plan participants who exceed the current year's IRS §415(b) limitations as calculated by SDCERS' actuary. The maximum annual payment for the calendar year 2009 was \$195 and is adjusted downward depending on the age of the participant when benefits began. In fiscal year 2009, the City's ARC was approximately \$4,004; however, the City contributed approximately \$1,210 to the POB arrangement, and therefore, the remaining \$2,794, which represents future liabilities, is included in the City's Net Pension Obligation (NPO). According to the valuation for the fiscal year ended June 30, 2009, the AAL related to the POB arrangement is approximately \$7,400, all of which is unfunded. Additionally, financial statements for the Preservation of Benefits arrangement are included in the Trust & Agency section of this report.

b. Summary of Significant Accounting Policies – Pension

Basis of Accounting - The pension trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Plan.

Method Used to Value Investments - SDCERS investments are stated at fair value. The SDCERS custodial agent

provides market values of invested assets with the exception of the fair value of directly owned real estate assets which are provided by the responsible investment manager and independent third party appraisal firms. Investment income is recognized in accordance with GASB 25 and is stated net of investment management fees and related expenses.

c. **Contributions and Reserves - Disclosure Related to Long - Term Contracts and Other Agreements**

Funding Contracts: Union Agreements

The City has historically picked up a portion of the employee's retirement contributions. The fiscal year 2006 MOUs and the changes to current and future employee benefits therein were introduced to the City Council in June 2005, and the changes in benefit eligibility were approved by Council Resolution 300600.

The agreement in the MOUs (agreements with the police union were not reached) was to reduce the amount of individual employees' pension contributions which are paid for by the City, effective fiscal year 2006. The agreements with labor unions resulted in the reduction of City offset of the employee pension contribution by 3% for the Municipal Employees' Association (MEA), the International Association of Fire Fighters Local 145, and the Deputy City Attorney Association (DCAA) and a unilaterally imposed reduction of 3.2% for the San Diego Police Officers Association (POA). In addition, the American Federation of State and County Municipal Employees (AFSCME) Local 127 negotiated a 1.9% salary reduction in lieu of a City "pick up" contribution reduction and a benefit freeze.

The agreements with the bargaining units explicitly indicate that savings to the City must be used to help address its UAAL within the timeframe of the respective contracts. The labor contract with Local 127 states that "By June 30, 2008, if the City has not dedicated a total of \$600,000,000 or more to the UAAL reduction, including the amount received by leveraging employee salary reduction and pension contribution monies, the AFSCME salary reduction monies with interest will revert to SDCERS Employee Contribution Rate Reserve for benefit of Local 127 unit members to defray employee pension contributions."

Upon the conclusion of the fiscal year ended June 30, 2008, the City had contributed approximately \$143,300 through contributions in excess of the ARC for fiscal years 2006 through 2008, and therefore, was not able to meet the outstanding commitment in its entirety. As such, the City reached agreements with both MEA and Local 127. The MEA settlement required the City to return prior year savings to MEA members of approximately \$6,078 and eliminated 2% of the employee pick-up. The Local 127 settlement required the City to return prior year savings to Local 127 members of approximately \$4,786 as well as eliminate the 1.9% salary reduction.

Funding Commitments Related to Legal Settlements

The City employer contributions for fiscal years 1996 – 2003 were not based on the full actuarial rates. Instead, employer contributions were less than the full actuarial rates in accordance with agreements between the City and SDCERS, commonly referred to as Manager's Proposal 1 (MP-1) and Manager's Proposal 2 (MP-2). In September 2006, the City entered into a settlement of McGuigan v. City of San Diego (the "McGuigan Settlement") related to the underfunding by the City of the pension system. Under the McGuigan Settlement, the City is obligated to pay into SDCERS \$173,000 no later than June 8, 2011. An additional requirement of the McGuigan Settlement is that the City provides SDCERS real property collateral totaling \$100,000 (Non-Depreciable Capital Assets – Land). These amounts are to be returned upon the full payment of the settlement. The City provided the real property collateral at the time of the settlement; subsequently, the City provided a

cumulative amount of approximately \$144,000¹ of additional payments to SDCERS in an attempt to meet the terms of the McGuigan Settlement. This leaves an outstanding obligation resulting from the McGuigan Settlement of approximately \$35,722, including interest as of June 30, 2009. The McGuigan Settlement was partially funded through the securitization of future tobacco revenue, transfers of actual tobacco revenue receipts, additional employee "pick up" savings, and City contributions made in addition to the ARC.

d. **Funding Policy and Contribution Rates**

City Charter Article IX Section 143 requires employees and employers to contribute to the retirement Plan. The Charter section, which was amended in fiscal year 2005, stipulates that funding obligations of the City shall be determined by the Board of SDCERS and are not subject to modification by the City. The section also stipulates that under no circumstances may the City and Board enter into any multi-year funding agreements that delay full funding of the retirement Plan. The Charter requires that employer contributions be substantially equal to employee contributions (SDCERS' legal counsel has opined that this requirement applies to the normal cost contribution only). Pursuant to the Charter, City employer contribution rates, adjusted for payment at the beginning of the year, are actuarially determined rates and are expressed as a fixed annual required contribution as well as percentages of annual covered payroll. The entire expense of SDCERS' administration is charged against the earnings and Plan assets of SDCERS.

The following table shows the City's contribution rates (weighted average of each employee group) for fiscal year 2009, based on the valuation ended June 30, 2007, expressed as percentages of active payroll:

	Employer Contribution Rates	
	General Members	Safety Members
Normal Cost*	9.89%	18.41%
Amortization Payment*	13.86%	24.23%
Normal Cost Adjusted for Amortization Payment*	23.75%	42.64%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	22.85%	41.03%

* Rates assume that contributions are made uniformly during the Plan year.

Normal Cost = The actuarial present value of pension plan benefits allocated to the current year by the actuarial cost method.

Amortization Payment = The portion of the pension plan contribution which is designed to pay interest on and to amortize the unfunded actuarial accrued liability.

Members are required to contribute a percentage of their annual salary to the Plan on a biweekly basis. Rates vary according to entry age. For fiscal year 2009, the City employee contribution rates as a percentage of annual covered payroll averaged 10.06% for general members and 12.69% for safety members. A portion of the employee's share, depending on the employee's member class, is paid by the City (commonly referred to as the Employee Offset). In fiscal year 2009, the amount paid by the City ranges from 1.4% to 5.89% of covered payroll for general members and the rate for safety Plan members ranges from 2.4% to 4.3%. Employee contributions paid by the City, amounting to approximately \$20,317 in fiscal year 2009, are made from the City's operating budget. The amount paid on behalf of the employees has been renegotiated through the meet and confer process which ultimately reduced the amount of the employee contribution paid by the City.

¹ This amount includes a contribution in addition to the ARC of approximately \$700 in fiscal year 2009.

On September 2, 2008, Council approved O-19781 which amended Chapter 2, Article 4, Division 15 of the San Diego Municipal Code. The intent of the amendment was to eliminate the concept of "Surplus Earnings" (earnings in excess of those earned using the assumed actuarial rate of return) which was the historical term for the funds used to pay for supplemental and contingent benefits. In accordance with these revised SDMC sections, annual distributions of these benefits are paid from Plan assets and take place in priority order. The Plan assets are distributed to various SDCERS system reserves, SDCERS budget, and contingent benefits. The order of distribution and a more detailed discussion of each distribution follows: First, Plan assets are used to credit interest, at a rate determined by the SDCERS Board, which is currently 7.75%, to the Employer and Employee Contribution Reserves and 3.54% to DROP member accounts. Second, Plan assets are used to fund the SDCERS Annual Budget. Third, Plan assets are distributed for supplemental or contingent payments or transfers to reserves. These items include in a priority order: 1) Annual Supplement Benefit Payment ("13th Check") paid to retirees generally equal to approximately \$30 (whole dollars) times the number of years of employment. 2) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (Corbett Settlement payments not paid in any one year accrue to the next year and remain an obligation of SDCERS until paid). 3) Crediting interest to the Reserve for Supplemental Cost of Living Adjustment ("COLA").

e. **Funded Status and Funding Progress**

The following table summarizes the Plan's funding status as of the most recent valuation date:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2008	\$ 4,660,346	\$ 5,963,550	\$ 1,303,204	78.15%	\$ 535,774	243.24%

The actuarial assumptions used for the fiscal year 2008 valuation include an Entry Age Normal actuarial funding method, an Expected Value of Assets smoothing method, a UAAL that is amortized over several different periods, a 7.75% earnings assumption, a 4.0% projected salary increase rate with an additional merit component based on member class and years of service, a 2% annual cost-of-living adjustment and a 4% inflation rate. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

f. **Annual Pension Cost and Net Pension Obligation**

Annual Pension Costs

Beginning with the valuation dated June 30, 2007, the normal cost (i.e. the actuarial present value of pension Plan benefits allocated to the current year) and the UAAL amortization cost (i.e. the portion of the pension Plan payment designed to amortize the UAAL) were determined using the Entry Age Normal (EAN) actuarial cost method (as opposed to the previously used Projected Unit Credit method), the result of which caused the UAAL used in the determination of the fiscal year 2009 ARC to increase by approximately \$252,200. The following are the principal actuarial assumptions used for the fiscal year 2007 valuation (additional assumptions were used regarding a variety of other factors):

- a) An 8.0% investment rate of return, net of administrative expenses.**

- b) Projected salary increases of at least 4.25% per year.**
- c) An assumed annual cost-of-living adjustment that is generally 2% per annum and compounded. In addition, there is a closed group of special safety officers whose annual adjustment is equal to inflation (4.25% per year).

**Both (a) and (b) included an inflation rate of 4.25%.

The actuarial value of assets was determined using a methodology that smoothes the effects of short-term volatility in the market value of investments over a five-year period. In fiscal year 2007, the SDCERS Board approved a different asset smoothing method by marking the actuarial value of assets to market value in the fiscal year 2006 actuarial valuation, the result of which caused the UAAL to decrease by approximately \$183,800. The method used by the actuary in fiscal year 2005 was not a commonly used method. The expected actuarial value asset smoothing method commenced with the fiscal year 2007 valuation. Additionally, pursuant to the Gleason Settlement, the UAAL was being amortized over a fixed 30-year closed period for the fiscal years 2006, 2007, and 2008. However, for valuations effective June 30 2007, SDCERS' Board of Administration decided to use a 20-year closed amortization schedule with no negative amortization.

The following table shows the City's annual pension cost ("APC") and the percentage of APC contributed for the fiscal year ended June 30, 2009 and two preceding years (in thousands):

Fiscal Year Ended June 30	APC	Percentage Contributed	Net Pension Obligation
2007	\$ 169,762	99.63%	\$ 195,356
2008	145,077	114.82%	173,852
2009	167,529	97.66%	177,767

Net Pension Obligation

Net Pension Obligation (NPO) is the cumulative difference, since the effective date of GASB 27 (fiscal year 1998, with a 10-year look back), between the annual pension cost and the employer's contributions to the Plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt. As of June 30, 2009, the City's NPO is approximately \$177,767 and is reported in accordance with GASB 27. See table above.

The change to NPO is derived by first calculating the City's Annual Required Contribution ("ARC"). The ARC is calculated by actuarially determining the cost of pension benefits accrued during the year (normal cost) as well as the annual amount needed to amortize the UAAL (amortization cost) as reported by the actuary, in accordance with the amortization period and method selected. The ARC is then increased by interest accruing on any outstanding NPO (NPO Interest) and then reduced by the amortization of the UAAL that is related to the NPO (ARC Adjustment).

The following shows the calculation for NPO based on the actuarial information provided to the City (in thousands):

ARC [Fiscal Year 2009]	\$ 165,704
Interest on NPO	13,895
ARC Adjustment	<u>(12,070)</u>
Annual Pension Cost	167,529
Contributions [Fiscal Year 2009]	<u>(163,614)</u>
Change in NPO	3,915
NPO Beginning of Year [July 1, 2008]	173,852
NPO End of Year [June 30, 2009]	<u><u>\$ 177,767</u></u>

Components of the NPO and actions taken to address the Pension Liability

Multiple components have contributed to the City's NPO dating back to fiscal year 1988, including the use of pension assets to pay for costs related to retiree healthcare and employee contribution offset liabilities. Additionally, benefit increases resulting from the Corbett Settlement, which were initially considered contingent, were excluded from the actuarially determined ARC and the City's contributions for the fiscal years 1996-2003 were less than the ARC as a result of MP-1 and MP-2.

As part of the agreements with the labor unions, several benefits were altered or eliminated for all employees hired on or after July 1, 2005, including the Deferred Retirement Option Plan (DROP), the 13th Check, the option to purchase years of service credits ("air-time"), and retiree healthcare benefits; however, the retirement formula generally remains 2.5% at 55 for general members and 3.0% at 50 for safety members.

DEFINED CONTRIBUTION PLANS

a. Supplemental Pension Savings Plan - City

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan ("SPSP"). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare ("SPSP-M"). The SPSP and SPSP-M Plans were merged into a single plan ("SPSP") on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90") requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act ("FICA") effective July 1, 1991, the City established the Supplemental Pension Savings Plan-Hourly ("SPSP-H"). These supplemental plans are defined contribution plans administered by Wachovia Corporation to provide pension benefits for eligible employees. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general retirement members and lifeguard members of the City's safety retirement members participate in the plan. Eligible employees may participate from the date of employment.

The following table details plan participation as of June 30, 2009:

<u>Plan</u>	<u>Participants</u>
SPSP	8,323
SPSP – H	4,355

The SPSP Plan requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the Plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis which is also matched by City contributions.

Under the SPSP Plan, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's cost.

In fiscal year 2009, the City and the covered employees contributed approximately \$23,746 and \$22,643, respectively. As of June 30, 2009, the fair value of plan assets totaled approximately \$489,344. SPSP is considered part of the City of San Diego's financial reporting entity and is reported as a pension and employee savings trust fund.

b. **401(k) Plan - City**

The City established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wachovia Corporation to provide pension benefits for eligible employees. Employees are eligible to participate from date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions, and may also elect to contribute to their 401(k) account through the City's Employees' Flexible Benefits Program.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed approximately \$22,246 during the fiscal year ended June 30, 2009. There is no City contribution towards the 401(k) Plan.

As of June 30, 2009, the fair value of plan assets totaled approximately \$220,022. The 401(k) Plan is considered part of the City's financial reporting entity and is reported as a pension and employee savings trust fund.

c. **Pension Plan - Centre City Development Corporation (CCDC)**

CCDC has a Money Purchase Pension Plan covering all full-time permanent employees (the "CCDC Plan"). The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each year, CCDC contributes semi-monthly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service. CCDC's total payroll (excluding benefits) in fiscal year 2009 was approximately \$3,964. CCDC contributions were calculated using the base salary amount of approximately \$3,784. CCDC made the required 8% contribution amounting to approximately \$278 (net of forfeitures) for fiscal year 2009.

In addition, CCDC has a Tax Deferred Annuity Plan covering all full-time permanent employees. The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan by the employer and the employees, plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 16% of the total semi-monthly compensation for eligible employees. CCDC's contributions for each employee are fully vested at time of contribution. The Tax Deferred Annuity Plan includes

amounts deposited by employees prior to CCDC becoming a contributor to the CCDC Plan. CCDC made the required 16% contribution amounting to approximately \$610 for fiscal year 2009.

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected. The City does not hold these assets in a trustee or agency capacity for CCDC; therefore, these assets are not reported within the City's basic financial statements.

d. **Pension Plan - San Diego Convention Center Corporation (SDCCC)**

SDCCC's Money Purchase Pension Plan (the "SDCCC Plan") became effective January 1, 1986. The SDCCC Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the SDCCC Plan plus investment earnings less allowable plan expenses. The SDCCC Plan covers employees not otherwise entitled to a retirement/pension plan provided through a collective bargaining unit agreement. Employees are eligible at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on the hire date (or any subsequent Plan year) during which they complete 1,000 hours of service.

A plan year is defined as a calendar year. SDCCC's balance for each eligible employee is vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and SDCCC Plan expenses are allocated in accordance with Plan provisions. A trustee bank holds the SDCCC Plan assets. The City does not act in a trustee or agency capacity for the SDCCC plan; therefore, these assets are not reported within the City's basic financial statements.

For the year ended June 30, 2009, pension expenditures for the SDCCC Plan amounted to \$1,378. SDCCC records pension expenditures during the fiscal year based upon estimated covered compensation.

e. **Pension Plan - San Diego Data Processing Corporation (SDDPC)**

SDDPC administers a Money Purchase Pension Plan (the "SDDPC Plan") covering substantially all employees. The SDDPC Plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC contributions for each employee are fully vested after four years of continuing service. The City does not act in a trustee or agency capacity for the SDDPC Plan; therefore, these assets are not reported within the City's basic financial statements. In fiscal year 2009, SDDPC made the required 20% contribution, amounting to approximately \$4,023.

SDDPC also administers a Tax Sheltered Annuity Plan, a voluntary defined contribution plan covering all employees of SDDPC who are eligible for membership as defined by the plan document. There are no employer contributions to this plan.

f. **Pension Plan - San Diego Housing Commission (SDHC)**

SDHC provides pension benefits for all its full-time employees through a defined contribution plan (the "SDHC Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of their employment. SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service. SDHC's contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce the SDHC's current-period contribution requirement. SDHC's covered payroll in

fiscal year 2009 was approximately \$12,166. SDHC made the required 14% contribution, amounting to approximately \$1,703 and plan members contributed \$67 for fiscal year 2009. The City does not act in a trustee or agency capacity for the SDHC Plan; therefore, these assets are not reported within the City's basic financial statements.

g. **Pension Plan - Southeastern Economic Development Corporation (SEDC)**

SEDC has a 403(b) Tax Sheltered Annuity Plan (Defined Contribution Plan) covering all full-time permanent employees (the "SEDC Plan"). The first six months of the current fiscal year, July 1, 2008 to December 31, 2008, the plan was administered by James Kerr & Associates, Inc with Morgan Stanley Dean Witter as the investment advisor. Under this plan, SEDC contributed a monthly amount equal to 12% of the employees' base salary, or 15% of management employees' base salary. This plan terminated on December 31, 2008. All assets of the plan were transferred to a new 403(b) Tax Sheltered Annuity Plan, effective January 1, 2009. This plan is currently administered by VLP Corporate Services, LLP with Merrill Lynch as the investment advisor. Employees are eligible on their date of employment, and SEDC contributes an amount equal to 12% of all employees' salaries. SEDC's total payroll in fiscal year 2009 was approximately \$813 and SEDC made the required 403(b) contribution totaling \$96 for fiscal year 2009. SEDC Plan members contributed an additional \$14.

13. OTHER POSTEMPLOYMENT BENEFITS (In Thousands)

a. Plan Description

The City provides postemployment healthcare benefits to qualifying general, safety and legislative members, as provided for in San Diego Municipal Code (SDMC) Sections 24.1201 through 24.1204. The Other Postemployment Benefit Plan (the "OPEB Plan") is a single-employer plan, administered by SDCERS, and includes approximately 5,400¹ retirees, 8,900¹ active employees and 600¹ terminated vested members as of June 30, 2009. Postemployment healthcare benefits are primarily for health eligible retirees who were actively employed on or after October 5, 1980 and were otherwise entitled to retirement allowances. Health eligible retirees can obtain health insurance coverage with the plan of their choice, including any City sponsored, union sponsored, or privately secured health plan. In fiscal year 2009, health eligible retirees who were also eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$8.4 per year, in addition to reimbursement/payment for Medicare Part B premiums, limited to approximately \$1.2 per year. Health eligible retirees who are not eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$8.9 per year. Reimbursements for health eligible retirees are adjusted annually based upon the projected increase for National Health Expenditures by the Centers for Medicare and Medicaid Services. Annual adjustments may not exceed 10% for any plan year. Non-health eligible employees who retired or terminated prior to October 6, 1980 and who are otherwise eligible for retirement allowances are also eligible for reimbursement/payment of healthcare benefits limited to a total of \$1.2 per year. Reimbursements for non-health eligible retirees are not subject to annual adjustments.

As of July 1, 2005, the City's postemployment healthcare benefit plan is closed to new entrants. However, SDCERS has asserted that due to delays in codification of benefit changes into the Municipal Code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, there has been no change in the status of this case [refer to Note 18 for additional information].

Effective July 1, 2009, the City has agreed to establish a trust vehicle for a defined contribution plan to fund retiree medical benefits for employees who are excluded from the current plan. This defined contribution plan requires a mandatory employee contribution of 0.25% of gross salary with a corresponding 0.25% match by the City. Legislative and Safety members are ineligible for this plan. Additionally, as part of the agreements with the labor unions, the new definition of "health-eligible retiree" states that employees must have 10 years of service with the City to receive 100% of the retiree health benefit and five years of service to receive 50% of the retiree health benefit.

b. Summary of Significant Accounting Policies

Basis of Accounting - The postemployment healthcare trust funds use the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the OPEB Plan.

Method Used to Value Investments - CalPERS investments are stated at fair value. Certain construction projects and alternative investments are reported at cost, which approximates market value. Mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals.

¹ Reported as a whole number.

c. Contributions and Reserves

In accordance with SDMC Section 24.1204, postemployment healthcare benefits are to be paid by the City, directly, from any source available to it other than the Pension Plan. Members of the OPEB Plan do not have contribution requirements related to their own coverage; however, retirees are required to pay for the benefits of their beneficiaries (amounts vary based on coverage elections). In fiscal year 2009, the City contributed \$25,587 to the Post-Employment Healthcare Benefit Plan, which is administered by SDCERS.

In addition to current retirees and beneficiaries, the OPEB Plan includes active and terminated vested members, and therefore, the City also pre-funds future expenses related to postemployment healthcare benefits through an investment trust administered by CalPERS. The CalPERS Employers Retirement Benefits Trust (CERBT) requires the City to pre-fund in an amount not less than \$5 annually. An ARC for the OPEB Plan is calculated by the City's actuary on an annual basis. City management plans to continue funding current year postemployment healthcare benefits from the pay-as-you-go trust established with SDCERS until the City is able to pay the ARC in full. Additionally, City management intends to pre-fund the CERBT with up to \$25,000 on an annual basis, which is also outlined in the City's Five Year Financial Outlook. All contributions to the CERBT become trust assets.

The City contributed approximately \$23,911 to the CERBT in fiscal year 2009. As of June 30, 2009, the balance in the CERBT was approximately \$41,497. This balance is inclusive of all contributions to the plan as well as investment losses and administrative expenses amounting to approximately \$12,499 and \$45, respectively.

d. Funded Status and Funding Progress

The following table summarizes the OPEB Plan's funding status as of the most recent valuation date:

Schedule of Funded Status						
Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/09	\$ 41,497	\$ 1,359,377	\$ 1,317,880	3.05%	\$ 549,012	240.05%

The schedules presented as required supplementary information following the notes to the financial statements present information regarding the funding status and employer contributions for the current and preceding fiscal years. The Schedule of Funding Progress is intended to present information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions is intended to present trend information about the amounts contributed to the OPEB Plan by employers in comparison to the ARC determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation. Additionally, actuarial calculations reflect a long-term perspective and include methods and assumptions that are designed to reduce short-term volatility of actuarial accrued liabilities and the actuarial value of assets. The following table summarizes the more significant actuarial methods and assumptions used to calculate the ARC for the fiscal year 2009 (actuarial valuation for the fiscal year ended June 30, 2007) as well as for the most current actuarial valuation (ended June 30, 2009):

<u>Description</u>	<u>Method/Assumption</u>
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	30 years, open
Actuarial Asset Valuation Method	Fair Value
Discount Rate	6.69%*
Inflation Rate	N/A**
Projected Payroll Increases	N/A**
Health Care Cost Trend Rate	10% grading down 0.5% each year to 5%

* Determined as a blended rate based on the City's partial contributions to the Plan.

** Postemployment healthcare benefits are not based on inflation or payroll, but rather are determined based on the Health Care Cost Trend Rate.

Source: Buck Consultants

e. Other Postemployment Benefit Cost and Net OPEB Obligation (NOPEBO)

The following table presents the annual OPEB cost, the percentage of annual OPEB cost contributed during the fiscal year, and the net OPEB obligation at the end of fiscal year 2009 as well as for the preceding fiscal year:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
06/30/08	\$ 91,346	58.63%	\$ 37,793
06/30/09	105,583	46.88%	93,878

As the administrator of the OPEB Plan, the City implemented GASB Statements 43 and 45 in fiscal year 2008 and elected to report a zero net OPEB obligation at the beginning of the transition year. The following table shows the calculation of the City's net OPEB obligation of the OPEB Plan for the fiscal year ended June 30, 2009 (based on the valuation ended June 30, 2007):

ARC [Fiscal Year 2009]	\$ 104,475
Interest on NOPEBO	2,548
ARC Adjustment	(1,440)
Annual OPEB Cost	105,583
Contributions [Fiscal Year 2009]	(49,498)
Change in NOPEBO	56,085
NOPEBO Beginning of Year [July 1, 2008]	37,793
NOPEBO End of Year [June 30, 2009]	\$ 93,878

14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (In Thousands)

Interfund Working Capital Advance (WCA) balances are the result of loans between funds that are expected to be repaid in excess of one year. The majority of the advances, approximately \$7,359, are advances from the Housing and Urban Development (HUD) Section 108 grant funds to RDA. Interfund WCA balances at June 30, 2009 are as follows:

Contributing Fund (Receivable)	Benefitting Fund (Payable)	
	NonMajor Governmental	
NonMajor Governmental	\$	7,959

Interfund receivable and payable balances are the result of loans between funds that are expected to be repaid during the next fiscal year, as well as amounts due for services provided. \$5,980 represents amounts owed to SDDPC for data processing services provided to the City but not paid for until July 2009, and \$3,604 represents a deficit in the Subdivision Fund which is covered by Development Services. Interfund receivable/payable balances at June 30, 2009 are as follows:

Contributing Fund (Receivable)	Benefitting Fund (Payable)						Total
	General Fund	Non Major Governmental	Internal Service	Sewer Utility	Water Utility	Non major Enterprise	
General Fund	\$ -	\$ -	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500
Nonmajor Governmental	-	-	26	-	-	-	26
Nonmajor Enterprise	-	3,604	5	-	-	-	3,609
Internal Service	2,095	2,389	281	510	558	147	5,980
Total	\$ 2,095	\$ 5,993	\$ 1,812	\$ 510	\$ 558	\$ 147	\$ 11,115

The Sewer Utility Fund has an interfund loan receivable of \$3,487, and the Black Mountain Ranch FBA Fund, a capital projects fund, has a corresponding interfund payable of \$3,487 for advanced FBA project funding. The Sewer Fund agreed to finance the Carmel Valley Trunk Sewer project to facilitate earlier construction, of which a portion was deemed the responsibility of the Carmel Valley area developers and is intended to be reimbursed in fiscal year 2010 from FBA Fund assessment revenue.

PFFA issued pooled financing bonds, Series 2007 A and B for the purpose of making loans to RDA to be used for financing and refinancing redevelopment activities in the Southcrest, Central Imperial, and Mount Hope Redevelopment Project Areas. The PFFA debt service fund has an interfund loan receivable of \$33,460 and the Redevelopment Agency Fund has an aggregate interfund loan payable of \$33,460. Since these loans are between governmental funds, the interfund receivable and payable are eliminated through the government-wide conversion.

Interfund transfers result from the transfer of assets without the expectation of repayment. Transfers are most commonly used to (1) move revenues from the fund in which it is legally required to collect them into the fund which is legally required to expend them, including TOT, Storm Drain, and TransNet funds collected in said funds but legally spent within the General Fund, (2) utilize unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations, and (3) move tax revenues collected in the special revenue funds to capital projects and debt service funds to pay for the capital projects and debt service needs during the fiscal year.

Interfund transfer balances for the year ended June 30, 2009 are as follows:

Contributing Fund	Benefiting Fund							Total
	General Fund	Nonmajor Governmental	Sewer Utility	Water Utility	Nonmajor Enterprise	Internal Service	Governmental Capital Asset Transfers	
General Fund	\$ -	\$ 26,031	\$ -	\$ -	\$ 2,196	\$ 1,847	\$ -	\$ 30,074
Nonmajor Governmental	105,059	190,654	1,238	186	421	702	-	298,260
Sewer Utility	-	998	-	33	-	26	2,552	3,609
Water Utility	-	477	-	-	-	99	53	629
Nonmajor Enterprise	2,131	333	-	-	30	33	-	2,527
Internal Service	4,136	171	616	406	246	5	232	5,812
Governmental Capital Asset Transfers	-	-	-	3,257	-	3,174	-	6,431
Total	\$ 111,326	\$ 218,664	\$ 1,854	\$ 3,882	\$ 2,893	\$ 5,886	\$ 2,837	\$ 347,342

15. RISK MANAGEMENT (In Thousands)

The City is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City has established various self-insurance programs and maintains contracts with various insurance companies to manage excessive risks.

The City maintains an excess liability insurance policy in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to \$50,000. The City's self-insurance retention amount is \$4,000.

The City offers a cafeteria-style flexible benefits plan. For Municipal Employees' Association (MEA) and Local-127 represented employees, this plan requires employees to choose a health plan unless covered elsewhere, and also a life insurance plan. It also gives employees the option of obtaining dental insurance, vision insurance, or catastrophic care insurance. For all other employees, the benefits plan is the same, with the exception that \$50 of City-paid life insurance is automatically provided outside of the flexible benefit credit. Employees can place remaining flexible benefit dollars into IRS qualified dental/medical/vision and childcare reimbursement accounts, into their 401(k), and/or take as cash.

The City is self-insured for workers' compensation and long-term disability (LTD). All operating funds of the City participate in both these programs and make payments to the Self Insurance Fund. Each fund contributes an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the Self Insurance Fund.

Public liability, workers' compensation, and long-term disability estimated liabilities as of June 30, 2009 are determined based on results of independent actuarial evaluations and include amounts for claims incurred but not reported and adjustment expenses. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the Self Insurance Fund, Sewer Utility Fund, and Water Utility Fund.

A reconciliation of total liability claims, for all three funds, showing current and prior year activity is presented below:

	Public Liability	Workers' Comp & Long- Term Disability	Total
Balance, July 1, 2007	\$ 104,244	\$ 175,798	\$ 280,042
Claims and Changes in Estimates	35,902	17,167	53,069
Claim Payments	(28,043)	(22,381)	(50,424)
Balance, June 30, 2008	112,103	170,584	282,687
Claims and Changes in Estimates	57,357	13,711	71,069
Claim Payments	(25,588)	(21,336)	(46,924)
Balance, June 30, 2009	<u>\$ 143,873</u>	<u>\$ 162,959</u>	<u>\$ 306,832</u>

The City, in collaboration with CSAC-EIA, maintains an "All Risk" policy which includes flood and earthquake coverage for scheduled locations for amounts up to \$25,000 per occurrence under the primary policy, with a \$25 deductible. Limits include coverage for business interruption losses for designated lease-financed locations. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member are mutually subject to the same loss. Limits and coverage may be adjusted periodically in response to the requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace.

Earthquake coverage is provided for designated buildings/structures and certain designated City lease-financed locations in the amount of \$60,000, including coverage for business interruption caused by earthquake at certain designated locations. Earthquake coverage is subject to a deductible of 5% of total values per unit per occurrence, subject to a \$100 minimum. The City's earthquake coverage is purchased jointly and shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an individual earthquake occurrence. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

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

During fiscal year 2009, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, the settlements have not exceeded insurance coverage.

See Contingencies, Note 18, for additional information.

16. FUND BALANCE / NET ASSETS (DEFICIT) (In Thousands)

Development Services (Enterprise) has a net deficit of approximately (\$8,785), due to a drop in workload activity caused by the deteriorating economy. The department reduced their work force by 27 full time equivalents (FTE) in the three months prior to the end of fiscal year 2009, but the adjustment did not correct the structural deficit between revenues and expenditures. A user fee increase was approved by the City Council on October 27, 2009 per Resolution R-305326. Based upon the projected workload decline for the current fiscal year, the Development Services Department has reduced an additional 48 FTEs to correct the revenue/expenditure deficit. Further reductions will be made as required to respond to revenue deficits.

The Self Insurance Fund (Internal Service) has a net deficit of approximately (\$164,372), which represents unfunded estimated claims and claim settlements related to Public Liability, Workers' Compensation, and Long-Term Disability. It is anticipated that individual claim settlements will be funded through future user charges, subsequent to the filing of a claim and prior to its settlement. In addition to user charges, in January 2008 the Mayor's office presented a five-year financial outlook to the City Council, including a proposal to fund the Self Insurance Fund. As part of this proposal, during fiscal year 2009, \$10,000 was contributed to the Public Liability Fund and \$5,000 to the Workers' Compensation Fund. On November 13, 2007, the City Council also approved the formal City Reserve Policy. This policy contains a "Risk Management Reserve Policy" for the self insurance funds. Both the Public Liability and Worker's Compensation funds shall maintain dedicated reserves equal to 50% of the outstanding claims. This is to be achieved no later than fiscal year 2014. However, due to the continued decline in the economy, and a reduction in General Fund revenues, the City may reassess this reserve policy during fiscal year 2010. The Long-Term Disability fund reserve was set to be \$12,000 by fiscal year 2012 as recommended in the actuarial valuation report.

Publishing Services (Internal Service) has a net deficit of (\$674), due to a decline in work production and outdated pricing for services which are not fully cost recoverable. Publishing Services has restructured their rates to ensure full cost recovery. In Fiscal Year 2009, after the implementation of the revised rates, the net deficit decreased by \$76.

17. COMMITMENTS (In Thousands)

As of June 30, 2009, the City's business-type activities contractual commitments are as follows:

Airports	\$ 1,849
Environmental Services	5,205
Sewer Utility	91,639
Water Utility	92,938
Other	<u>2,051</u>
Total Contractual Commitments	<u>\$ 193,682</u>

These contractual commitments are to be financed with existing reserves and future service charges. The Sewer and Water Utility Funds intend to finance their contractual commitments with financing proceeds secured by system revenues, in addition to existing reserves and future service charges.

Consent Decree

On April 2, 2001, two environmental groups filed suit against the City alleging that the Municipal System's collection system was deficient as a result of sewer spills from December 1996 to the time of the filing. The complaint sought injunctive relief to prevent illegal discharges, a compliance schedule to upgrade the Municipal System's collection system, and civil penalties of \$27.5 per day for each day of violation. The City contested the plaintiffs' claims.

The U.S. Environmental Protection Agency (EPA) and the State also filed suits against the City alleging the same collection system violations, seeking unspecified penalties and injunctive relief for collection system improvements. All three cases were consolidated. On March 16, 2005, the City settled the State lawsuit for \$1,200. Of this total, \$1,000 funded three supplemental environmental projects to benefit the local environment, and \$200 was deposited in the State's Cleanup and Abatement Account.

The EPA, the City, and the environmental groups reached an agreement on additional requirements to reduce sewer spills, which are set forth in a Consent Decree (the "Consent Decree"). The Consent Decree requires increased sewer spill response and tracking, increased root control, replacement or rehabilitation of 250 miles of pipeline, a canyon economic and environmental analysis, pump station and force main upgrades, and entails court supervision of these upgrades at least through June 2013. The estimated average annual cost of this commitment is \$117,000 per year in capital projects and \$48,700 per year in operational maintenance to the sewer system (based on the projected expenditures for wastewater collections for fiscal year 2009); however, the costs for bidding, constructing and completing the required work will fluctuate depending on variables such as changes in the cost of materials and labor. No civil penalty payment was required, though stipulated penalties ranging from \$375 (in whole dollars) to \$20,000 (in whole dollars) per occurrence are included for subsequent violations of the Consent Decree. The Consent Decree was approved by the Court on October 9, 2007, settling all remaining issues in the case.

Four sewer rate increases were approved for fiscal year 2007 through fiscal year 2010 to partially fund the obligations of the Consent Decree. However, additional rate increases will be necessary (likely beginning in year 2011) to completely fund the Consent Decree. The City funds the Capital Projects in the Consent Decree through the issuance of notes and bonds which are repaid with sewer system revenues.

Agreement Relative to Modified Permit for the Point Loma Wastewater Treatment

In December 2008, the Environmental Protection Agency (EPA) released its tentative decision to approve the City's request to renew a modified permit for the Point Loma Wastewater Treatment Plant. Point Loma initially received a modified permit (also known as a waiver) in 1995, which was renewed in 2002. The City entered into an agreement with the environmental organizations to support the waiver and the City promised to conduct a study to identify opportunities to maximize recycling wastewater for non-potable and potable uses for an amount not to exceed \$2,000,000 (in whole dollars). This request is the City's second renewal. In June 2009, the State of California's Regional Water Quality Control Board concurred with the EPA and concluded the public hearing process by unanimously approving the modified permit. On October 7, 2009 the California Coastal Commission voted 8 to 4 to approve the modified permit with the condition that the City come back in 2 years with the Recycled Water Study. The City is evaluating the specifics of the condition and will return to the California Coastal Commission in February 2010 for further discussion and adoption of findings. During this time, the present modified permit will be administratively continued. Point Loma will continue to operate under the provisions of the modified permit that was adopted in 2002, in full compliance with the Clean Water Act section 301(h), as modified by the Ocean Pollution Reduction Act.

California Department of Public Health Compliance Order

In 1994, the City of San Diego entered into a compliance agreement with the State of California Department of Public Health (DPH) with the approval of City Council, after the DPH Drinking Water Field Operations Branch conducted a sanitary survey of the City's water system. This agreement required the City to correct operational deficiencies and begin necessary capital improvements. The City was notified in January of 1997 that it was not in compliance with this agreement. At that time, the DPH issued a compliance order. The January 1997 Compliance Order was last amended in May of 2007 (Amendment 11), and included additional items that were not in the original Compliance Order. The DPH Compliance Order will remain in effect until the required projects are completed.

Presently, the Water Department is meeting all of the requirements of the DPH Compliance Order, including the ongoing obligation to provide DPH with quarterly progress reports. On February 26, 2007, the City authorized an increase in water rates and charges to continue funding projects mandated in the DPH Compliance Order as well as other Capital Improvement Program projects. In addition, on October 8, 2007, November 17, 2008, and November 17, 2009, the City authorized "pass-through" rate increases to account for the higher cost of water purchased from the San Diego County Water Authority. The 2007 and 2008 pass-through rate increases took effect on January 1, 2008 and January 1, 2009, respectively. The November 2009 pass-through increase is scheduled to take effect on January 1, 2010. All three pass-through rate increases will help preserve the funds previously committed to DPH Compliance Order projects. In conjunction with the November 17, 2008 approval of the January 1, 2009 pass-through rate increase, the City also approved a rate increase to cover the cost of an indirect potable reuse demonstration project. This increase also took effect January 1, 2009 and is anticipated to sunset on July 1, 2010 at which time sufficient revenue is expected to have been generated to offset the costs of the project.

The DPH has authority to impose civil penalties if the City fails to meet Compliance Order deadlines, although DPH has not imposed such penalties to date. Violation of the DPH Compliance Order may be subject to judicial action, including civil penalties specified in the California Health and Safety Code, Section 116725. Section 116725 penalties for violating a schedule of compliance for a primary drinking water standard can go as high as \$25,000 (in whole dollars) per day for each violation. For violations of other standards, such as turbidity, the penalties can reach \$5,000 (in whole dollars) per day. There are a number of additional enforcement tools prescribed by law, including mandatory water conservation, litigation and service connection moratoriums.

The costs for bidding, constructing and completing the required work will fluctuate depending on variables such as changes in the cost of materials and labor. As of June 2009, the Water Department's DPH Compliance Order project and DPH related project costs approximate:

<u>Total Projects</u>	<u>FY09 Actuals</u>	<u>FY10 - FY11</u>	<u>FY12 - FY19</u>	<u>TOTAL</u>
DPH & EPA Requirements	\$ 126,355	\$ 131,212	\$ 216,279	\$ 473,846
DPH Related Projects	19,150	98,633	296,286	414,069

These commitments are to be financed with existing net assets, present and future revenues, and financing proceeds secured by system revenues.

Convention Center Dewatering

The City is responsible for the disposition and monitoring of the quality of groundwater from the parking structure at the San Diego Convention Center located adjacent to San Diego Bay. The Convention Center includes a subterranean parking garage, which is subject to infiltration of groundwater, much of which originates from the bay. This groundwater must be continually pumped from the parking structure to prevent it from being inundated. Approximately 500,000 gallons of groundwater is pumped daily from the parking structure. Until March 26, 2008, this water was discharged into San Diego Bay. The City held a National Pollutant Discharge Elimination System (NPDES) permit for the discharge, issued by the Regional Water Quality Control Board (RWQCB). Monthly groundwater discharge sample results have not met the standards dictated by the NPDES permit since the end of calendar year 2005. This triggered the implementation of work to cease effluent violations within 27 months (from the end of March 2008), pursuant to an order of the RWQCB.

To achieve compliance with groundwater discharge requirements, the City retained an engineering consultant in fiscal year 2006 to review all previous work and develop the most cost-effective engineering solution to achieve compliance. The consultant's final report was received in August 2007. This report determined that the most cost effective method to comply with the RWQCB Order in the near term was to divert the discharge from the bay to the sewer system.

The City of San Diego established the diversion to the sewer effective March 26, 2008 in compliance with the RWQCB Order. The City requested permission from the EPA to make diversion of the groundwater into the sewer system permanent. The EPA granted the City's request on December 3, 2009. The City is now requesting concurrence from the State Water Resources Control Board ("SWRCB"), which must also approve the permanent diversion as a condition of funding it received from the EPA and passed through to the City.

18. CONTINGENCIES (In Thousands)**FEDERAL AND STATE GRANTS**

The City recognizes as revenue grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the City's Federal grant programs are audited in accordance with the requirements of the Federal Single Audit Act of 1984, the Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget Circular A-133, these programs may be subject to financial and compliance audits by the reimbursing agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Single Audit for fiscal year 2008 was completed by Macias Gini & O'Connell LLP. The Single Audit for fiscal year 2009 is in process.

The Office of the Inspector General (OIG) audited the City's Community Development Block Grant (CDBG) program, specifically CDBG loans to RDA, and on December 30, 2008, OIG issued its audit report to HUD, Office of Community Planning and Development (OPD). In addition to other findings, OIG determined that the City failed to execute loan agreements and repayment schedules for the CDBG loans issued to RDA that include a principal balance of \$63,000 and an accumulated interest of approximately \$76,000 totaling \$139,202 in loans outstanding. The OIG audit report recommended that HUD require the City to execute written interagency agreements and loan agreements with RDA for these outstanding loan amounts. The City is currently in discussions with HUD on the audit findings and any actions HUD may require of the City, including the possible repayment by the City of certain CDBG funds and that HUD could forgive a portion of the accumulated interest so that repayment of the loans would not adversely impact RDA project areas. Depending on the outcome of the City's negotiations with HUD, repayment of the loans by RDA could impact RDA's liquidity. These loans are reported as a component of loans payable and accrued interest payable to the City in the long-term liabilities footnote of the Redevelopment Agency Financial Statements with an "unscheduled" maturity date. These loans do not appear in the City's CAFR as they represent interfund loans between two governmental funds in which repayment is not expected in a reasonable amount of time. Therefore, these loans are reported as interfund transfers in the fund level statements, and then eliminated as interfund activity in the government wide statements per GASB 34.

CONTINUING DISCLOSURE OBLIGATIONS

The City, in connection with all bond offerings since the effective date (July 1995) of the continuing disclosure requirements of SEC Rule 15c2-12, has contractually obligated itself to provide annual financial information, including audited financial statements, within certain specified time periods (generally nine months) after the end of each fiscal year. During fiscal year 2009, the City has met its contractual obligations to provide to the national repositories the audited financial statement for the fiscal year ended 2008 and certain annual financial information and operating data for fiscal year ended 2008 on a timely basis. Previously, the City failed to file required annual reports and the audited financial statements by the filing dates for the fiscal years ended 2003 through 2007. Each required annual report and the audited financial statements were subsequently filed. As of fiscal year 2009, there are no annual reports pending to be filed.

SEC ACTIONS

In November 2006, the Securities and Exchange Commission (SEC) entered an Order sanctioning the City of San Diego for committing securities fraud by failing to disclose, in 2002 and 2003, material information about its pension and retiree health care obligations in connection with disclosures relating to the sale of its municipal bonds. To settle the action, the City agreed to cease and desist from future securities fraud violations and to retain an independent

consultant for three years to foster compliance with its disclosure obligations under the federal securities laws. The SEC's investigation with respect to the City's misleading disclosures may be ongoing as to individuals and other entities that may have violated the federal securities laws.

The SEC Order sanctioning the City of San Diego for committing securities fraud is available at: www.sec.gov

Changes to the City Charter to enhance the independence of both the City Auditor and the Audit Committee were approved with the passage of Proposition C (Prop C) in the June 3, 2008 election. These amendments included a restructured Audit Committee consisting of two Councilmembers, one being chair, and three public members. The public members must have at least ten years of professional auditing or accounting experience, and are appointed by the City Council.

INDEPENDENT CONSULTANT'S REPORTS

The Independent Consultant required by the SEC Order has several specific mandates. Among these are annual reviews, for a three year period, of the City's policies, procedures and internal controls regarding financial disclosures. The Independent Consultant is also required to make recommendations concerning the City's policies, procedures and internal controls and to assess the City's adoption and implementation of these recommendations

On April 24, 2009 the Independent Consultant issued his second annual report to the City of San Diego which was presented to the City Council on July 20, 2009. This report described his review and assessment of the City's policies, procedures and internal controls regarding the City's financial and other disclosures; the hiring of internal personnel and external experts for disclosure functions and; training programs focused on compliance and disclosure obligations. His complete report and recommendations is available at: www.sandiego.gov (included with the July 20, 2009 Audit Committee materials.)

On September 30, 2009 the Mayor sent a response to the Independent Consultant's second annual report to the Securities and Exchange Commission. This response is available at: www.sandiego.gov.

STATUS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

The plan to improve the City's internal controls over financial reporting includes the implementation of an enterprise resource planning (ERP) system during fiscal year 2010 to improve the way the City manages finances and the processes and internal controls involved in the City's accounting and human resources functions. As of June 30, 2009, setup work for the internal controls module called Governance, Risk and Compliance (GRC) has been completed within our ERP system. The GRC system for monitoring and testing access and process controls was activated with the new ERP system on July 1, 2009. The City has an 18 month internal controls plan in place that addresses the remediation of internal control weaknesses over financial reporting through more robust process documentation, further access and process control development within GRC, internal control testing, and employee training.

LITIGATION AND REGULATORY ACTIONS

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City has received approximately 2,300 notices of claims in fiscal year 2009.

The estimate of the liability for unsettled claims has been reported in the Government-wide Statement of Net Assets and the proprietary funds financial statements. The liability was estimated by categorizing the various claims and supplemented by information provided by the City Attorney with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information.

Significant individual lawsuits are described below.

SDCERS v. City of San Diego

In 1996 and 2002, SDCERS, the City, and various labor unions entered into agreements wherein the City's contribution to the pension system was less than the actuarially required contribution, while also increasing pension benefits. SDCERS has filed a complaint claiming the benefits are legal and should continue to be paid by the City. The City Attorney filed a cross-complaint alleging the benefits were not legal; however, that case was dismissed in January 2007. SDCERS filed a compulsory cross-complaint against the City, seeking damages in an amount equivalent to what the City should have contributed to the pension system in the absence of the funding relief granted by earlier management agreements MP-1 and MP-2. The City does not currently have an estimate of the range, if any, potential loss in the event of an adverse ruling.

City v. SDCERS

On October 15, 2007, the City filed a lawsuit concerning the effective date of certain benefit changes arising from the 2005 MOU entered into between the City and four of its collective bargaining units. The City contends the effective date of the benefit changes is July 1, 2005; however, the defendants contend the effective date is February 16, 2007 when the Municipal Code change was codified by O-19567. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$5,000.

Ernest Abbit, etc. v. City of San Diego

Residents of the De Anza Mobilehome Park filed a lawsuit alleging violations of the California Mobilehome Residency laws for management abuses and individual tort claims. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$19,000.

Joseph Aglio, etc v. City of San Diego

This complaint was filed by the firm Tatro & Zamoyski, representing a separate class of residents of the De Anza Mobilehome Park that were previously excluded from the Ernest Abbit case above due to settlements entered into with the City or because they were evicted. The claims are identical to the Ernest Abbit case. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$16,000.

Colony Hills Homeowners Association, Wayne Akeson, et al. v. City of San Diego

On August 6, 2006, a lawsuit arose following a water main break which caused flooding along a private street in the Colony Hills Homeowners Association in La Jolla. Claimants allege the water main failure caused soil subsidence, hillside failure, road failure and diminished property values of forty homes. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$45,000.

Janet Wood v. City of San Diego

This case against the City claims that women and unmarried retirees receive less benefits than others. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$2,000.

Frazier, Patricia, et al v. City of San Diego

This is an action by former City employees who are now defendants to a civil action by the SEC. Plaintiffs seek a declaratory judgment in the form of an order from the courts for the City to defend and indemnify Plaintiffs. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$3,000.

San Diego Police Tow operators v. City of San Diego

This case was brought by the towing companies under contract with the City, and alleges that the City is charging them "franchise fees" that exceed the amount permitted to be charged under the California Vehicle Code. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$14,000.

California Restaurant Management System Inc. v. City of San Diego

The California Restaurant Management System filed a class action lawsuit seeking refunds of sewer collection fees paid by "Food Service Establishments" as defined by the City's wastewater department. The Plaintiff alleges that the City failed to properly calculate the proportional impact of Food Service Establishments' use of the sewer system in determining sewer rates from 1994-2004. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$5,000.

Richard S. Pearson v. Mission and PB Drive, LLP and City of San Diego

Mission and PB Drive, LLP (MPB) is currently building a mixed-use, residential-commercial development on property which shares a common border with Pearson's residential property in Pacific Beach. The City owns a six foot drainage easement along the common border of the Pearson and MPB properties. MPB sued Pearson for trespass and nuisance. Pearson then filed a cross-complaint against MPB for nuisance, trespass and to quiet title to easement/declaratory relief/prescriptive easement. Pearson then amended his cross-complaint to bring the City into the lawsuit claiming nuisance, breach of contract, implied contractual indemnity, invasion of privacy and quiet title to easement/declaratory relief/prescriptive easement. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$2,500.

Betty Jones v. City of San Diego

This case concerns an allegation of personal injury due to a trip and fall in a City park. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$2,000.

Grande North at Santa Fe Place Home Owner's Association v. BOSA Development; City of San Diego

This case alleges property damage from hydrogen sulfide gas escaping from sewer lines. The damage includes the venting and plumbing throughout the multiple unit high rise condominium project. In the event of an adverse ruling, the liability facing the City is estimated to be in the range of \$0 - \$10,000.

Significant regulatory actions are described below (Other regulatory actions are described in Note 17 Commitments).

POLLUTION REMEDIATION OBLIGATIONS

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean ups. This Statement is effective for this fiscal year ended June 30, 2009.

Significant Pollution Remediation Events are discussed below:

California Regional Water Quality Board Administrative Proceeding

This matter involves a tentative cleanup and abatement order by the Regional Water Quality Control Board (RWQCB) which when made effective will require remediation of polluted bay sediments near historic shipyards on San Diego Bay. The City has been named as a "Discharger" in the tentative order along with other entities which include shipyard operators, the local electric utility SDG&E, and the U.S. Navy. The basis for the City being named is pollution flowing from its storm water conveyance system into the bay and Chollas Creek, which empties into the bay at the site. The discharges causing the polluted sediment are alleged to have occurred from 1915 to present. The order was originally issued in 2005 and was stayed by the Board in 2006; the stay was lifted in April 2008 after the RWQCB staff revised and reissued the tentative order. The proceeding was then stayed again in June 2008 while the parties pursued mediation. The Board has extended the mediation stay several times, at this time indefinitely, as the parties continue to actively pursue a settlement in confidential mediation. It is anticipated that a mediated settlement will be presented for public consideration and adoption by the RWQCB in late 2009 or early 2010, and that the RWQCB staff and Dischargers will be in accord with this possible settlement proposal. It is uncertain whether intervening environmental groups will subscribe to a proposed settlement and a contested hearing before the RWQCB and litigation remain possible results. The total cost of the cleanup is estimated to be between \$900 and \$122,000 (industrial shipbuilders urge the low end, environmental groups urge cleanup levels that would cost at the high end) – but those are the far ends of the spectrum and the cost of the actual total cleanup will likely be in the \$40,000 to \$80,000 range, subject to post-remedial monitoring, plus an additional \$6,000 to \$9,000 in site investigation, assessment costs, and RWQCB oversight costs. The order will include post-remedial monitoring requirements which, depending on monitoring results and trends, may lead to further cleanup orders. The parties will address allocation of all of these costs in mediation; however there exist many variables which make accurate estimation of the City's likely share of the total costs impossible at this time. Issues of allocation among the parties will be determined using principles established in the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), as interpreted in existing case law. CERCLA principles will be the basis of discussion in further mediation, and absent a settlement on allocation, those principles will be at issue in litigation. In this case there are a myriad of factual inputs relative to the CERCLA principles of allocation. Disputes over those facts and the weight they should be given, the number of Discharger parties, the confidential nature of the mediation, and the exposure to the possibility of litigation all preclude the City from publishing more a specific projected outcome in this matter at this time.

California Regional Water Quality Board (Board) Administrative Civil Liability Complaint

This matter involves a sewage spill into Lake Hodges in August 2007. The allegation from the Board is that the City violated the Clean Water Act and its NPDES permit. The penalty approved by the Board's staff, on 11/18/09, is \$620 with an additional amount also due Santa Fe Irrigation for \$60 as a result of the same spill. The \$620 liability has been accrued in the Water Utility fund level financial statements.

County Department of Environmental Health (DEH) Unauthorized Release Cases

The City owns Underground Storage Tank Systems (UST) at various locations, including but not limited to: Airports, Fleet Division, and Fire and Rescue Divisions. The City has been named as a responsible party by the DEH in 23 cases located at 11 UST sites. The nature of the pollution involves soil and groundwater contamination by the UST's. The City has been able to utilize the State's UST Cleanup Fund to obtain reimbursement for a vast majority of the site assessment and mitigation costs. An estimate of the City's Pollution Liability has been calculated using a variety of methods and assumptions including but not limited to: soil borings; monitoring wells; lateral and vertical extent of impacts being defined; treatment; attenuation monitoring; and, soil and vapor sampling. The liability for each site ranges from \$0 to \$1,000, all but two estimates are under \$300. Given that the vast majority of all costs are paid out of the State's UST Cleanup Fund, and the majority of the estimates are of relatively small amounts, the estimates are expensed when incurred throughout the year in the responsible fund and no liability is accrued in the financial statements.

19. THIRD PARTY DEBT (In Thousands)

The City has authorized the issuance of certain conduit revenue private activity bonds, in its name, to provide tax exempt status because it believes a substantial public benefit will be achieved through the use of the proceeds. Aside from the fact that these bonds have been issued in the City's name, the City has no legal obligation to make payment on these bonds and has not pledged any City assets as a guarantee to the bondholders. The following describes the outstanding third party debt:

Mortgage and Revenue Bonds

Single family mortgage revenue bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-family housing revenue bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low income.

As of June 30, 2009, the status of all third party bonds issued is as follows (in thousands):

	Original Amount	Balance June 30, 2009
Mortgage Revenue	<u>\$ 15,700</u>	<u>\$ 7,320</u>

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans, certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In reliance upon the opinion of bond counsel, City officials have determined that these bonds are not payable from any revenues or assets of the City, and neither the full faith nor credit of the taxing authority of the City, the state, or any political subdivision thereof is obligated to the payment of principal or interest on the bonds. In essence, the City is acting as a conduit for the private property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's government-wide statement of net assets.

20. CLOSURE AND POST CLOSURE CARE COST (In Thousands)

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

The \$19,336 reported as landfill closure and post closure care liability at June 30, 2009 represents the cumulative amount reported to date based on the use of 76% of the estimated capacity of the landfill. The remaining life of the landfill is approximately eight years, based on the estimated closing date of 2017.

The City will recognize the remaining estimated cost of closure and post closure care of \$6,112 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at June 30, 2009. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The City is in compliance with these requirements and at June 30, 2009, cash or equity in pooled cash and investments of \$37,983 was held for this purpose. This is reported as restricted assets on the statement of net assets in the Environmental Services Fund. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be paid by charges to future landfill users or from other sources.

21. OPERATING AGREEMENTS (In Thousands)San Diego Data Processing Corporation and Automated Regional Justice Information System

SDDPC has a yearly information technology services contract agreement with a joint powers agency known as the Automated Regional Justice Information System ("ARJIS") whose main purpose is to pursue development of computerized law enforcement systems in the region.

Under the agreement, SDDPC provides information technology services to ARJIS at rates which, on an annual basis, are equivalent to those charged to other governmental agency clients. Included in SDDPC's services revenue is approximately \$3,689 related to ARJIS for the year ended June 30, 2009.

City of San Diego and Padres L.P.

On February 1, 2000, the City entered into a Joint Use and Management Agreement (Agreement) with the San Diego Padres baseball team (Padres) governing the rights and duties of the City and Padres with respect to the use and operation of the new Petco Park Ballpark Facility (Facility). The Facility was completed and operational in April 2004 and the City and Padres jointly own the facility. The Padres have a 30% divided interest based upon the original Facility cost estimate of \$267,500 (or \$80,250), and the City owns 70%, which is capitalized on the City's books. The City and the Padres have agreed upon the schedule of items and components that constitute the Padres' divided ownership, and the value of that divided ownership may vary from (but does not exceed) 30% due to the calculation of cost overruns for the Facility. Following termination of any occupancy agreement for the Facility, the Padres' ownership interest will automatically transfer to the City. Under the terms of the Agreement, the Padres are responsible for Facility operation and management, including maintenance, repairs and security required to preserve its condition. The City is responsible for paying certain expenses associated with the operation and maintenance of the Facility, up to a maximum of \$3,500 per year, subject to certain inflationary adjustments.

For information pertaining to the operating agreement with San Diego Medical Services Enterprises, LLC please refer to Note 9, Joint Ventures and Jointly Governed Organizations.

22. SUBSEQUENT EVENTS (In Thousands)

On July 1, 2009, the City issued the fiscal year 2009-2010 Tax and Revenue Anticipation Notes in the amount of \$125,000 to meet the annual general fund cash flow needs of the City. The fiscal year 2008-2009 Tax Revenue Anticipation Note was repaid on April 1, 2009.

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2010 and \$350 million in fiscal year 2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. RDA's share of this revenue shift is approximately \$55,649 in fiscal year 2010 and \$11,457 in fiscal year 2011. Payments are to be made by May 10 of each respective fiscal year. RDA intends to fund these payments with a combination of tax increment to be collected in fiscal year 2010 and 2011 and carryover funds from the current year.

On July 28, 2009 the State passed its 2009-2010 budget. This budget and related legislation contained provisions requiring California cities, counties, and special districts to lend property tax revenues to the State. The State is not required to repay the borrowed amounts until June 30, 2013. For the City, the borrowed amount totals \$35,815. As part of the State budget actions, local agencies were provided the opportunity to receive the monies being borrowed by the State up front through a securitization program offered by the California Statewide Communities Development Authority ("CSCDA"), a joint powers authority. The City elected to participate in the program offered by CSCDA, and on October 19, 2009 the City Council approved Resolution R-305333, authorizing the applicable participation documents. The securitization was executed on November 19, 2009, and payments to the City will be made in two equal installments on January 15, 2010 and May 3, 2010. Under the program, there is no impact to the City's Fiscal Year 2009-2010 budget.

On July 30, 2009, RDA issued \$13,930 of Subordinate Tax Allocation Bonds for the purpose of repaying certain outstanding obligations and to finance redevelopment activities relating to the North Park Redevelopment Project area. The Series 2009A bonds are payable solely from and secured by a pledge of tax revenues and are subordinate to the prior liens of the outstanding North Park Redevelopment Project Tax Allocation Bonds, Series 2000, Series 2003A and Series 2003B. The bond issuance is structured as term bonds and has an interest rate that ranges from 6.0% to 7.0%, with a final maturity date of November 1, 2039.

On September 11, 2009 the City Council approved the *"Improper Influence of Outside Professionals and Obstruction of the City Auditor"* Ordinance #19895. This ordinance makes it unlawful for any elected official, officer or employee of the City, or anyone acting under their direction, to take any action to coerce or fraudulently influence, manipulate or mislead the City Auditor or any member of his or her staff in the conduct of an audit with the specific intent of obstructing such audit or rendering any report materially misleading. Municipal Code Section 22.0711 has been updated with this new ordinance language and can be accessed at sandiego.gov.

On September 25, 2009, the Related Companies (Plaintiffs) filed a lawsuit against RDA, the City, and CCDC, contending they breached a negotiating agreement entered into with Plaintiffs. Plaintiffs claim a development agreement acceptable to Plaintiffs wrongfully failed to be executed by RDA, the City, and CCDC under the pretext that CCDC's president had a financial interest in Plaintiffs' sister company while CCDC's president resided in Florida. Plaintiffs claim they lost millions of dollars in pre-development investment expenditures as a result of the breach of the negotiating agreement. No estimate of the amount or range of potential loss may be made at this time.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate AB 26 4x, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. The CRA filed the lawsuit on October 20, 2009. The lawsuit asserts that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserts impairment of contract and gift of public funds arguments. While the State made adjustments in AB 26 4x to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional.

On November 30, 2009, RDA terminated its Disposition and Development Agreement (DDA) with CentrePoint LLC for the development of a mixed-use development project within the Crossroads Project Area. Pursuant to the DDA, RDA's contribution was in the form of a developer loan of \$5,245 to be repaid from the Crossroads Low and Moderate Income Housing Fund to subsidize 47 affordable units. The loan amount was later reduced to \$4,969 pursuant to the third implementation agreement with CentrePoint LLC. Termination of the agreement will result in recognition of revenue for the loan payable balance of \$4,969 and removal of the long term liability in the government-wide financial statements.

On December 9, 2009, the RDA Board approved the principal terms of a settlement agreement with San Diego State University Foundation (Foundation) on a complaint for specific performance alleging that the RDA breached an agreement requiring them to sell certain property to the plaintiff. The settlement provides that the RDA contractual obligation of \$1,715 and accrued interest of \$1,613 payable to the Foundation will be reduced to the sum of \$750. Additionally, RDA will transfer fee title of the property to the Foundation by Grant Deed.

Required Supplementary Information (Unaudited)
June 30, 2009

PENSION TRUST FUNDS

Schedule of Funding Progress

The following table shows the funding progress of the City's pension trust funds for the last three fiscal years (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2006	\$ 3,981,932	\$ 4,982,700	\$ 1,000,768	79.92%	\$ 534,103	187.37%
6/30/2007 *	4,413,411	5,597,653	1,184,242	78.84%	512,440	231.10%
6/30/2008	4,660,346	5,963,550	1,303,204	78.15%	535,774	243.24%

Source: Cheiron, Inc.

* The actuarial accrued liability was calculated using the Entry Age Normal (EAN) method beginning in fiscal year 2007. Prior to fiscal year 2007, the Projected Unit Credit (PUC) method was used.

OPEB TRUST FUND

Schedule of Funding Progress

The following table shows the funding progress of the City's OPEB trust fund for the last two fiscal years (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2008	\$ 29,637	\$ 1,235,707	\$ 1,206,070	2.40%	\$ 556,857	216.59%
6/30/2009	41,497	1,359,377	1,317,880	3.05%	549,012	240.05%

Schedule of Contributions from Employer and Other Contributing Entities

The following table shows contributions to the City's OPEB trust fund for the last two fiscal years (in thousands):

Fiscal Year	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2008	\$ 91,645	\$ 53,553	58.44%
6/30/2009	104,475	49,498	47.38%

Source: Buck Consultants

REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND

GENERAL FUND

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

General fund revenues are derived from such sources as: Taxes; Licenses and Permits; Fines, Forfeitures, and Penalties; Use of Money and Property; Aid from Other Governmental Agencies; Charges for Current Services; and Other Revenue.

Current expenditures and encumbrances are classified by the functions of: General Government and Support; Public Safety–Police; Public Safety–Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; and Debt Service Principal and Interest. Appropriations are made from the fund annually.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property Tax	\$ 411,142	\$ 396,620	\$ 398,743	\$ 2,123
Sales Tax	230,196	223,618	212,918	(10,700)
Transient Occupancy Tax	90,629	82,189	73,765	(8,424)
Other Local Taxes	78,537	76,977	72,432	(4,545)
Licenses and Permits	32,687	32,240	31,249	(991)
Fines, Forfeitures and Penalties	34,215	34,216	32,467	(1,749)
Revenue from Use of Money and Property	54,019	52,351	42,252	(10,099)
Revenue from Federal Agencies	15,724	15,701	4,268	(11,433)
Revenue from Other Agencies	9,283	8,423	8,915	492
Charges for Current Services	135,582	131,016	133,117	2,101
Other Revenue	29,334	26,858	5,296	(21,562)
TOTAL REVENUES	1,121,348	1,080,209	1,015,422	(64,787)
EXPENDITURES				
Current:				
General Government and Support	279,818	269,270	249,134	20,136
Public Safety - Police	406,503	398,601	391,774	6,827
Public Safety - Fire and Life Safety and Homeland Security	186,752	197,166	196,329	837
Parks, Recreation, Culture and Leisure	125,464	123,904	120,573	3,331
Transportation	83,016	78,455	75,562	2,893
Sanitation and Health	100,903	90,630	81,462	9,168
Neighborhood Services	22,183	21,621	19,416	2,205
Debt Service:				
Principal Retirement	-	818	818	-
Interest	2,979	3,173	3,106	67
TOTAL EXPENDITURES	1,207,618	1,183,638	1,138,174	45,464
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(86,270)	(103,429)	(122,752)	(19,323)
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	2,746	2,746	6,267	3,521
Transfers from Other Funds	69,347	71,334	105,059	33,725
Transfers to Proprietary Funds	(6,150)	(4,043)	(4,043)	-
Transfers to Other Funds	(24,688)	(26,031)	(26,031)	-
Net Loss from Joint Venture	-	-	(157)	(157)
TOTAL OTHER FINANCING SOURCES (USES)	41,255	44,006	81,095	37,089
NET CHANGE IN FUND BALANCE	(45,015)	(59,423)	(41,657)	17,766
Fund Balance Undesignated at July 1, 2008.....	75,339	75,339	75,339	-
Reserved for Encumbrances at July 1, 2008.....	43,853	43,853	43,853	-
Reserved for Minority Interest in Joint Venture at July 1, 2008	-	-	1,981	1,981
Reserved for Minority Interest in Joint Venture at June 30, 2009	-	-	(1,824)	(1,824)
Designated for Subsequent Years' Expenditures at July 1, 2008.....	862	862	862	-
Designated for Subsequent Years' Expenditures at June 30, 2009	-	-	(207)	(207)
FUND BALANCE UNDESIGNATED AT JUNE 30, 2009.....	\$ 75,039	\$ 60,631	\$ 78,347	\$ 17,716

The accompanying note is an integral part of the Required Supplementary Information

Note to Required Supplementary Information Year Ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Budgetary Data

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

- **General Fund**
- **Special Revenue Funds:**
 - City of San Diego:
 - Acquisition, Improvement and Operation
 - Environmental Growth Funds:
 - Two-Thirds Requirement
 - One-Third Requirement
 - Police Decentralization
 - Public Transportation
 - Qualcomm Stadium Operations
 - Special Gas Tax Street Improvement
 - Street Division Operations
 - Transient Occupancy Tax
 - Underground Surcharge
 - Zoological Exhibits
 - Other Special Revenue
 - Centre City Development Corporation
 - Southeastern Economic Development Corporation
- **Debt Service Funds:**
 - City of San Diego:
 - Public Safety Communications Project
 - San Diego Open Space Park Facilities District #1
- **Capital Projects Funds:**
 - City of San Diego:
 - TransNet

Public hearings are then conducted to obtain citizen comments on the proposed budget. During the month of July the budget is legally adopted through passage of an appropriation ordinance by the City Council. Budgets are prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. The City budget is prepared excluding unrealized gains or losses resulting from the change in fair value of investments, proceeds from capital leases, and net income from joint venture.

The legal level of budgetary control for the City's general fund is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval except as delegated in the Annual Appropriation Ordinance.

Reported budget figures are as originally adopted or subsequently amended plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. Appropriations lapse at year-end to the extent that they have not been expended or encumbered, except for those of a capital nature, which continue to subsequent years.

The following is a reconciliation of the net change in fund balance prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2009 (in thousands):

	General Fund
Net Change in Fund Balances - GAAP Basis	\$ (10,389)
Add (Deduct):	
Encumbrances Outstanding, June 30, 2009	(32,071)
Reserved for Advances, June 30, 2009	-
Designated for Unrealized Gains, June 30, 2009	(1,943)
Reserved for Advances, June 30, 2008	9
Designated for Unrealized Gains, June 30, 2008	<u>2,737</u>
Net Change in Fund Balances - Budgetary Basis	<u>\$ (41,657)</u>

b. Encumbrances

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

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

SUPPLEMENTARY INFORMATION - GENERAL FUND

**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PROPERTY TAX					
One Percent Property Tax Allocation	\$ -	\$ -	\$ -	\$ 396,620	\$ (396,620)
Current Year - Secured	118,156	-	118,156	-	118,156
Current Year Supplemental - Secured	6,613	-	6,613	-	6,613
Current Year - Unsecured	8,952	-	8,952	-	8,952
Current Unsecured Supplemental Roll	203	-	203	-	203
Homeowners' Exemptions - Secured	2,685	-	2,685	-	2,685
Homeowners' Exemptions - Unsecured	2	-	2	-	2
Prior Years' - Secured	9,114	-	9,114	-	9,114
Prior Years' - Unsecured	(147)	-	(147)	-	(147)
In-Lieu Vehicle License Fees	175	-	175	-	175
Interest and Penalties on Delinquent Taxes	2,026	-	2,026	-	2,026
Escapes - Secured	200	-	200	-	200
Escapes - Unsecured	141,517	-	141,517	-	141,517
Other Property Taxes	106,946	-	106,946	-	106,946
State Secured Unitary	2,301	-	2,301	-	2,301
TOTAL PROPERTY TAX	398,743	-	398,743	396,620	2,123
SALES TAX	212,918	-	212,918	223,618	(10,700)
TRANSIENT OCCUPANCY TAX	73,765	-	73,765	82,189	(8,424)
OTHER LOCAL TAXES					
Franchises	67,840	-	67,840	70,525	(2,685)
Property Transfer Tax	4,592	-	4,592	6,452	(1,860)
TOTAL OTHER LOCAL TAXES	72,432	-	72,432	76,977	(4,545)
LICENSES AND PERMITS					
General Business Licenses	9,243	-	9,243	10,589	(1,346)
Refuse Collection Business Licenses	868	-	868	1,800	(932)
Other Regulatory Business Licenses	2,704	-	2,704	1,360	1,344
Rental Unit Tax	7,001	-	7,001	6,775	226
Parking Meter Revenue	7,440	-	7,440	7,614	(174)
Street and Curb Permits	104	-	104	96	8
Other Licenses and Permits	3,889	-	3,889	4,006	(117)
TOTAL LICENSES AND PERMITS	31,249	-	31,249	32,240	(991)
FINES, FORFEITURES AND PENALTIES					
California Vehicle Code Violations	27,615	-	27,615	29,906	(2,291)
Other City Ordinance Code Violations	4,852	-	4,852	4,310	542
TOTAL FINES, FORFEITURES AND PENALTIES	32,467	-	32,467	34,216	(1,749)
REVENUE FROM USE OF MONEY AND PROPERTY					
Interest on Investments	(407)	791	384	8,780	(8,396)
Balboa Park Rents and Concessions	621	-	621	612	9
Mission Bay Park Rents and Concessions	28,049	-	28,049	29,932	(1,883)
Other Rents and Concessions	13,198	-	13,198	13,027	171
TOTAL REVENUE FROM USE OF MONEY AND PROPERTY ...	41,461	791	42,252	52,351	(10,099)
REVENUE FROM FEDERAL AGENCIES	4,268	-	4,268	15,701	(11,433)

Continued on Next Page

**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUE FROM OTHER AGENCIES					
State Motor Vehicle License Fees	\$ 4,650	\$ -	\$ 4,650	\$ 6,030	\$ (1,380)
Local Relief	151	-	151	210	(59)
Tobacco Revenue	14	-	14	452	(438)
State Grants	4,100	-	4,100	1,731	2,369
TOTAL REVENUE FROM OTHER AGENCIES	8,915	-	8,915	8,423	492
CHARGES FOR CURRENT SERVICES					
Administrative Services to Other Agencies	329	-	329	476	(147)
Cemetery Revenue	820	-	820	811	9
Engineering Services	455	-	455	759	(304)
Fire Services	17,625	-	17,625	12,857	4,768
Library Revenue	1,103	-	1,103	1,366	(263)
Miscellaneous Recreation Revenue	5,332	-	5,332	4,680	652
Other Services	358	-	358	411	(53)
Paramedic Services	161	-	161	162	(1)
Planning and Miscellaneous Filing Fees	103	-	103	162	(59)
Police Services	5,295	-	5,295	3,448	1,847
Swimming Pools Revenue	1,036	-	1,036	1,198	(162)
Services Rendered to Other Funds for:					
General Government and Financial	44,756	-	44,756	59,273	(14,517)
Engineering	45,210	-	45,210	34,570	10,640
Park Design	1,486	-	1,486	1,559	(73)
Miscellaneous Services	9,048	-	9,048	9,284	(236)
TOTAL CHARGES FOR CURRENT SERVICES	133,117	-	133,117	131,016	2,101
OTHER REVENUE					
Other Refunds of Prior Years' Expenditures	377	-	377	336	41
Repairs and Damage Recoveries	582	-	582	250	332
Sale of Personal Property	167	-	167	121	46
Miscellaneous Revenue	4,170	-	4,170	26,151	(21,981)
TOTAL OTHER REVENUE	5,296	-	5,296	26,858	(21,562)
TOTAL REVENUES	1,014,631	791	1,015,422	1,080,209	(64,787)
TRANSFERS FROM PROPRIETARY FUNDS					
Enterprise Funds:					
City of San Diego:					
Golf Course	2,131	-	2,131	2,131	-
Recycling	-	-	-	615	(615)
Internal Service Funds:					
City of San Diego:					
Fleet Services	1,592	-	1,592	-	1,592
Self Insurance	2,207	-	2,207	-	2,207
Miscellaneous Internal Service	337	-	337	-	337
TOTAL TRANSFERS FROM PROPRIETARY FUNDS	6,267	-	6,267	2,746	3,521

**GENERAL FUND
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSFERS FROM OTHER FUNDS					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement, & Operations	10	-	10	-	\$ 10
Environmental Growth Fund	9,595	-	9,595	11,137	(1,542)
Police Decentralization	111	-	111	-	111
Special Gas Tax Street Improvement	28,393	-	28,393	24,452	3,941
Street Division Operations	16	-	16	-	16
Transient Occupancy Tax	21,881	-	21,881	19,019	2,862
Stadium	6	-	6	-	6
Zoological Exhibits	125	-	125	-	125
Other Special Revenue-Budgeted	7,753	-	7,753	7,149	604
Grants	836	-	836	-	836
Other Special Revenue-Unbudgeted	14,304	-	14,304	-	14,304
Redevelopment Agency	2,239	-	2,239	870	1,369
Capital Projects Funds:					
City of San Diego:					
Capital Outlay	6,066	-	6,066	-	6,066
TransNet	7,807	-	7,807	8,332	(525)
Other Construction	5,545	-	5,545	-	5,545
Permanent Funds:					
Cemetery Perpetuity	372	-	372	375	(3)
TOTAL TRANSFERS FROM OTHER FUNDS	105,059	-	105,059	71,334	33,725
NET LOSS FROM JOINT VENTURE	(157)	-	(157)	-	(157)
TOTAL REVENUE AND TRANSFERS	\$ 1,125,800	\$ 791	\$ 1,126,591	\$ 1,154,289	\$ (27,698)

**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
GENERAL GOVERNMENT AND SUPPORT					
Departmental:					
Mayor					
Salaries and Wages	\$ 492	\$ -	\$ 492	\$ 494	\$ 2
Non-Personnel	271	5	276	282	6
Total Mayor	763	5	768	776	8
Office of the Assistant COO					
Salaries and Wages	63	-	63	115	52
Non-Personnel	28	-	28	66	38
Total Office of the Assistant COO	91	-	91	181	90
City Council District 1					
Salaries and Wages	515	-	515	515	-
Non-Personnel	390	-	390	391	1
Total City Council District 1	905	-	905	906	1
City Council District 2					
Salaries and Wages	483	-	483	483	-
Non-Personnel	320	-	320	320	-
Total City Council District 2	803	-	803	803	-
City Council District 3					
Salaries and Wages	555	-	555	555	-
Non-Personnel	401	-	401	401	-
Total City Council District 3	956	-	956	956	-
City Council District 4					
Salaries and Wages	568	-	568	568	-
Non-Personnel	440	-	440	440	-
Total City Council District 4	1,008	-	1,008	1,008	-
City Council District 5					
Salaries and Wages	500	-	500	500	-
Non-Personnel	354	-	354	354	-
Total City Council District 5	854	-	854	854	-
City Council District 6					
Salaries and Wages	521	-	521	521	-
Non-Personnel	375	-	375	375	-
Total City Council District 6	896	-	896	896	-
City Council District 7					
Salaries and Wages	589	-	589	589	-
Non-Personnel	401	-	401	401	-
Total City Council District 7	990	-	990	990	-
City Council District 8					
Salaries and Wages	530	-	530	530	-
Non-Personnel	423	-	423	423	-
Total City Council District 8	953	-	953	953	-
Council Administration					
Salaries and Wages	952	-	952	952	-
Non-Personnel	715	44	759	759	-
Total Council Administration	1,667	44	1,711	1,711	-
Office of the IBA					
Salaries and Wages	958	-	958	958	-
Non-Personnel	518	-	518	518	-
Total Office of the IBA	1,476	-	1,476	1,476	-

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 492	\$ -	\$ 492	\$ 494	\$ 2
-	-	-	1	1	271	5	276	283	7
-	-	-	1	1	763	5	768	777	9
-	-	-	-	-	63	-	63	115	52
-	-	-	-	-	28	-	28	66	38
-	-	-	-	-	91	-	91	181	90
-	-	-	-	-	515	-	515	515	-
-	-	-	-	-	390	-	390	391	1
-	-	-	-	-	905	-	905	906	1
-	-	-	-	-	483	-	483	483	-
-	-	-	-	-	320	-	320	320	-
-	-	-	-	-	803	-	803	803	-
-	-	-	-	-	555	-	555	555	-
1	-	1	1	-	402	-	402	402	-
1	-	1	1	-	957	-	957	957	-
-	-	-	-	-	568	-	568	568	-
-	-	-	-	-	440	-	440	440	-
-	-	-	-	-	1,008	-	1,008	1,008	-
-	-	-	-	-	500	-	500	500	-
-	-	-	-	-	354	-	354	354	-
-	-	-	-	-	854	-	854	854	-
-	-	-	-	-	521	-	521	521	-
-	-	-	-	-	375	-	375	375	-
-	-	-	-	-	896	-	896	896	-
-	-	-	-	-	589	-	589	589	-
-	-	-	-	-	401	-	401	401	-
-	-	-	-	-	990	-	990	990	-
-	-	-	-	-	530	-	530	530	-
-	-	-	-	-	423	-	423	423	-
-	-	-	-	-	953	-	953	953	-
-	-	-	-	-	952	-	952	952	-
43	-	43	78	35	758	44	802	837	35
43	-	43	78	35	1,710	44	1,754	1,789	35
-	-	-	-	-	958	-	958	958	-
-	-	-	-	-	518	-	518	518	-
-	-	-	-	-	1,476	-	1,476	1,476	-

Continued on Next Page

**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
General Government and Support Departmental (Continued):					
City Attorney					
Salaries and Wages	\$ 23,145	\$ -	\$ 23,145	\$ 23,145	\$ -
Non-Personnel	13,443	184	13,627	13,627	-
Total City Attorney	<u>36,588</u>	<u>184</u>	<u>36,772</u>	<u>36,772</u>	<u>-</u>
City Comptroller					
Salaries and Wages	6,482	-	6,482	6,482	-
Non-Personnel	4,725	147	4,872	4,872	-
Total City Comptroller	<u>11,207</u>	<u>147</u>	<u>11,354</u>	<u>11,354</u>	<u>-</u>
City Auditor					
Salaries and Wages	1,024	-	1,024	1,059	35
Non-Personnel	568	758	1,326	1,619	293
Total City Auditor	<u>1,592</u>	<u>758</u>	<u>2,350</u>	<u>2,678</u>	<u>328</u>
City Clerk					
Salaries and Wages	2,331	-	2,331	2,331	-
Non-Personnel	1,854	22	1,876	2,026	150
Total City Clerk	<u>4,185</u>	<u>22</u>	<u>4,207</u>	<u>4,357</u>	<u>150</u>
Office of the CIO					
Salaries and Wages	-	-	-	-	-
Non-Personnel	24,291	300	24,591	24,827	236
Total Office of the CIO	<u>24,291</u>	<u>300</u>	<u>24,591</u>	<u>24,827</u>	<u>236</u>
Engineering and Capital Projects Administration					
Salaries and Wages	1,706	-	1,706	1,990	284
Non-Personnel	1,842	3	1,845	1,999	154
Total Engineering and Capital Projects Administration	<u>3,548</u>	<u>3</u>	<u>3,551</u>	<u>3,989</u>	<u>438</u>
Field Engineering					
Salaries and Wages	10,633	-	10,633	10,639	6
Non-Personnel	6,726	299	7,025	7,122	97
Total Field Engineering	<u>17,359</u>	<u>299</u>	<u>17,658</u>	<u>17,761</u>	<u>103</u>
Public Buildings and Parks					
Salaries and Wages	4,220	-	4,220	4,222	2
Non-Personnel	2,394	312	2,706	2,706	-
Total Public Buildings and Parks	<u>6,614</u>	<u>312</u>	<u>6,926</u>	<u>6,928</u>	<u>2</u>
Project Implementation and Technical Services					
Salaries and Wages	6,410	-	6,410	7,370	960
Non-Personnel	4,497	73	4,570	4,825	255
Total Project Implementation and Technical Services	<u>10,907</u>	<u>73</u>	<u>10,980</u>	<u>12,195</u>	<u>1,215</u>
Budget and Management Services					
Salaries and Wages	2,133	-	2,133	2,145	12
Non-Personnel	1,738	2	1,740	1,741	1
Total Budget and Management Services	<u>3,871</u>	<u>2</u>	<u>3,873</u>	<u>3,886</u>	<u>13</u>
City Treasurer					
Salaries and Wages	6,011	-	6,011	6,333	322
Non-Personnel	6,615	678	7,293	7,384	91
Total City Treasurer	<u>12,626</u>	<u>678</u>	<u>13,304</u>	<u>13,717</u>	<u>413</u>
Financing Services					
Salaries and Wages	1,383	-	1,383	1,611	228
Non-Personnel	900	7	907	1,135	228
Total Financing Services	<u>2,283</u>	<u>7</u>	<u>2,290</u>	<u>2,746</u>	<u>456</u>
General Services - Administration					
Salaries and Wages	451	-	451	581	130
Non-Personnel	262	-	262	328	66
Total General Services - Administration	<u>713</u>	<u>-</u>	<u>713</u>	<u>909</u>	<u>196</u>

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,145	\$ -	\$ 23,145	\$ 23,145	\$ -
274	146	420	460	40	13,717	330	14,047	14,087	40
274	146	420	460	40	36,862	330	37,192	37,232	40
-	-	-	-	-	6,482	-	6,482	6,482	-
75	-	75	398	323	4,800	147	4,947	5,270	323
75	-	75	398	323	11,282	147	11,429	11,752	323
-	-	-	-	-	1,024	-	1,024	1,059	35
-	-	-	-	-	588	758	1,326	1,619	293
-	-	-	-	-	1,592	758	2,350	2,678	328
-	-	-	-	-	2,331	-	2,331	2,331	-
30	7	37	72	35	1,884	29	1,913	2,098	185
30	7	37	72	35	4,215	29	4,244	4,429	185
-	-	-	-	-	-	-	-	-	-
333	-	333	336	3	24,624	300	24,924	25,163	239
333	-	333	336	3	24,624	300	24,924	25,163	239
-	-	-	-	-	1,706	-	1,706	1,990	284
4	-	4	6	2	1,846	3	1,849	2,005	156
4	-	4	6	2	3,552	3	3,555	3,995	440
-	-	-	-	-	10,633	-	10,633	10,639	6
2	-	2	35	33	6,728	299	7,027	7,157	130
2	-	2	35	33	17,361	299	17,660	17,796	136
-	-	-	-	-	4,220	-	4,220	4,222	2
7	70	77	103	26	2,401	382	2,783	2,809	26
7	70	77	103	26	6,621	382	7,003	7,031	28
-	-	-	-	-	6,410	-	6,410	7,370	960
-	-	-	-	-	4,497	73	4,570	4,825	255
-	-	-	-	-	10,907	73	10,980	12,195	1,215
-	-	-	-	-	2,133	-	2,133	2,145	12
-	-	-	-	-	1,738	2	1,740	1,741	1
-	-	-	-	-	3,871	2	3,873	3,886	13
-	-	-	-	-	6,011	-	6,011	6,333	322
580	929	1,509	1,519	10	7,195	1,607	8,802	8,903	101
580	929	1,509	1,519	10	13,206	1,607	14,813	15,236	423
-	-	-	-	-	1,383	-	1,383	1,611	228
1	-	1	18	17	901	7	908	1,153	245
1	-	1	18	17	2,284	7	2,291	2,764	473
-	-	-	-	-	451	-	451	581	130
-	-	-	-	-	262	-	262	328	66
-	-	-	-	-	713	-	713	909	196

Continued on Next Page

**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
General Government and Support Departmental (Continued):					
Station 38					
Salaries and Wages	\$ 507	\$ -	\$ 507	\$ 507	\$ -
Non-Personnel	278	2	280	281	1
Total Station 38	<u>785</u>	<u>2</u>	<u>787</u>	<u>788</u>	<u>1</u>
Facilities Maintenance					
Salaries and Wages	5,546	-	5,546	5,546	-
Non-Personnel	7,996	112	8,108	8,181	73
Total Facilities Maintenance	<u>13,542</u>	<u>112</u>	<u>13,654</u>	<u>13,727</u>	<u>73</u>
General Services-Contracts Division					
Salaries and Wages	343	-	343	345	2
Non-Personnel	826	193	1,019	1,023	4
Total General Services-Contracts Division	<u>1,169</u>	<u>193</u>	<u>1,362</u>	<u>1,368</u>	<u>6</u>
Human Resources					
Salaries and Wages	1,049	-	1,049	1,049	-
Non-Personnel	747	19	766	766	-
Total Human Resources	<u>1,796</u>	<u>19</u>	<u>1,815</u>	<u>1,815</u>	<u>-</u>
Personnel					
Salaries and Wages	3,219	-	3,219	3,482	263
Non-Personnel	2,077	168	2,245	2,268	23
Total Personnel	<u>5,296</u>	<u>168</u>	<u>5,464</u>	<u>5,750</u>	<u>286</u>
Real Estate Assets					
Salaries and Wages	2,344	-	2,344	2,344	-
Non-Personnel	1,361	3	1,364	1,483	119
Total Real Estate Assets	<u>3,705</u>	<u>3</u>	<u>3,708</u>	<u>3,827</u>	<u>119</u>
Ethics Commission					
Salaries and Wages	608	-	608	608	-
Non-Personnel	340	7	347	347	-
Total Ethics Commission	<u>948</u>	<u>7</u>	<u>955</u>	<u>955</u>	<u>-</u>
Business Administration					
Salaries and Wages	1,072	-	1,072	1,072	-
Non-Personnel	808	15	823	824	1
Total Business Administration	<u>1,880</u>	<u>15</u>	<u>1,895</u>	<u>1,896</u>	<u>1</u>
Purchasing and Contracting/Contracts Processing					
Salaries and Wages	2,394	-	2,394	2,463	69
Non-Personnel	1,442	1	1,443	1,750	307
Total Purchasing and Contracting/Contracts Processing	<u>3,836</u>	<u>1</u>	<u>3,837</u>	<u>4,213</u>	<u>376</u>
Business Office					
Salaries and Wages	630	-	630	901	271
Non-Personnel	538	2	540	581	41
Total Business Office	<u>1,168</u>	<u>2</u>	<u>1,170</u>	<u>1,482</u>	<u>312</u>
Community and Legislative Services					
Salaries and Wages	2,138	-	2,138	2,138	-
Non-Personnel	1,834	6	1,840	1,843	3
Total Community and Legislative Services	<u>3,972</u>	<u>6</u>	<u>3,978</u>	<u>3,981</u>	<u>3</u>
Economic Growth Services					
Salaries and Wages	308	-	308	308	-
Non-Personnel	312	-	312	325	13
Total Economic Growth Services	<u>620</u>	<u>-</u>	<u>620</u>	<u>633</u>	<u>13</u>
Office of Ethics and Integrity					
Salaries and Wages	550	-	550	550	-
Non-Personnel	360	-	360	361	1
Total Office of Ethics and Integrity	<u>910</u>	<u>-</u>	<u>910</u>	<u>911</u>	<u>1</u>

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 507	\$ -	\$ 507	\$ 507	\$ -
-	-	-	-	-	278	2	280	281	1
-	-	-	-	-	785	2	787	788	1
-	-	-	-	-	5,546	-	5,546	5,546	-
182	-	182	232	50	8,178	112	8,290	8,413	123
182	-	182	232	50	13,724	112	13,836	13,959	123
-	-	-	-	-	343	-	343	345	2
997	486	1,483	1,505	22	1,823	679	2,502	2,528	26
997	486	1,483	1,505	22	2,166	679	2,845	2,873	28
-	-	-	-	-	1,049	-	1,049	1,049	-
-	-	-	2	2	747	19	766	768	2
-	-	-	2	2	1,796	19	1,815	1,817	2
-	-	-	-	-	3,219	-	3,219	3,482	263
65	-	65	132	67	2,142	168	2,310	2,400	90
65	-	65	132	67	5,361	168	5,529	5,882	353
-	-	-	-	-	2,344	-	2,344	2,344	-
184	34	218	348	130	1,545	37	1,582	1,831	249
184	34	218	348	130	3,889	37	3,926	4,175	249
-	-	-	-	-	608	-	608	608	-
6	-	6	8	2	346	7	353	355	2
6	-	6	8	2	954	7	961	963	2
-	-	-	-	-	1,072	-	1,072	1,072	-
-	-	-	-	-	808	15	823	824	1
-	-	-	-	-	1,880	15	1,895	1,896	1
-	-	-	-	-	2,394	-	2,394	2,463	69
1	-	1	28	27	1,443	1	1,444	1,778	334
1	-	1	28	27	3,837	1	3,838	4,241	403
-	-	-	-	-	630	-	630	901	271
-	-	-	-	-	538	2	540	581	41
-	-	-	-	-	1,168	2	1,170	1,482	312
-	-	-	-	-	2,138	-	2,138	2,138	-
1	-	1	19	18	1,835	6	1,841	1,862	21
1	-	1	19	18	3,973	6	3,979	4,000	21
-	-	-	-	-	308	-	308	308	-
-	-	-	-	-	312	-	312	325	13
-	-	-	-	-	620	-	620	633	13
-	-	-	-	-	550	-	550	550	-
64	194	258	301	43	424	194	618	662	44
64	194	258	301	43	974	194	1,168	1,212	44

Continued on Next Page

**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
General Government and Support Departmental (Continued):					
Department of Finance					
Salaries and Wages	\$ 380	\$ -	\$ 380	\$ 380	\$ -
Non-Personnel	575	-	575	575	-
Total Department of Finance.....	955	-	955	955	-
City Planning and Development					
Salaries and Wages	140	-	140	162	22
Non-Personnel	90	-	90	105	15
Total City Planning and Development.....	230	-	230	267	37
Public Works					
Salaries and Wages	168	-	168	194	26
Non-Personnel	93	-	93	130	37
Total Public Works.....	261	-	261	324	63
Public Safety					
Salaries and Wages	290	-	290	290	-
Non-Personnel	307	-	307	307	-
Total Public Safety.....	597	-	597	597	-
Community Services					
Salaries and Wages	165	-	165	165	-
Non-Personnel	89	-	89	93	4
Total Community Services.....	254	-	254	258	4
Customer Service					
Salaries and Wages	722	-	722	722	-
Non-Personnel	547	-	547	547	-
Total Customer Service.....	1,269	-	1,269	1,269	-
Citywide Program Expenditures					
Non-Personnel	48,775	674	49,449	52,929	3,480
Total Citywide Program Expenditures	48,775	674	49,449	52,929	3,480
General Fund Appropriated Reserve					
Non-Personnel	-	-	-	8,377	8,377
Total General Fund Appropriated Reserve	-	-	-	8,377	8,377
TOTAL GENERAL GOVERNMENT AND SUPPORT	239,114	4,036	243,150	259,951	16,801
PUBLIC SAFETY - POLICE					
Departmental:					
Police					
Salaries and Wages	220,073	-	220,073	222,682	2,609
Non-Personnel	168,062	2,085	170,147	172,851	2,704
Total Police	388,135	2,085	390,220	395,533	5,313
TOTAL PUBLIC SAFETY - POLICE	388,135	2,085	390,220	395,533	5,313
PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY					
Departmental:					
Fire-Rescue					
Salaries and Wages	114,708	-	114,708	114,708	-
Non-Personnel	78,998	731	79,729	79,729	-
Total Fire-Rescue	193,706	731	194,437	194,437	-
Homeland Security					
Salaries and Wages	702	-	702	787	85
Non-Personnel	596	2	598	723	125
Total Homeland Security	1,298	2	1,300	1,510	210
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY	195,004	733	195,737	195,947	210

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 380	\$ -	\$ 380	\$ 380	\$ -
-	-	-	15	15	575	-	575	590	15
-	-	-	15	15	955	-	955	970	15
-	-	-	-	-	140	-	140	162	22
-	-	-	-	-	90	-	90	105	15
-	-	-	-	-	230	-	230	267	37
-	-	-	-	-	168	-	168	194	26
-	-	-	-	-	93	-	93	130	37
-	-	-	-	-	261	-	261	324	63
-	-	-	-	-	290	-	290	290	-
95	-	95	147	52	402	-	402	454	52
95	-	95	147	52	692	-	692	744	52
-	-	-	-	-	165	-	165	165	-
-	-	-	-	-	89	-	89	93	4
-	-	-	-	-	254	-	254	258	4
-	-	-	-	-	722	-	722	722	-
39	-	39	129	90	586	-	586	676	90
39	-	39	129	90	1,308	-	1,308	1,398	90
959	175	1,134	2,767	1,633	49,734	849	50,583	55,696	5,113
959	175	1,134	2,767	1,633	49,734	849	50,583	55,696	5,113
-	-	-	659	659	-	-	-	9,036	9,036
-	-	-	659	659	-	-	-	9,036	9,036
3,943	2,041	5,984	9,319	3,335	243,057	6,077	249,134	269,270	20,136
-	-	-	-	-	220,073	-	220,073	222,682	2,609
1,255	299	1,554	3,068	1,514	169,317	2,384	171,701	175,919	4,218
1,255	299	1,554	3,068	1,514	389,390	2,384	391,774	398,601	6,827
1,255	299	1,554	3,068	1,514	389,390	2,384	391,774	398,601	6,827
-	-	-	-	-	114,708	-	114,708	114,708	-
566	-	566	1,007	441	79,564	731	80,295	80,736	441
566	-	566	1,007	441	194,272	731	195,003	195,444	441
-	-	-	-	-	702	-	702	787	85
26	-	26	212	186	622	2	624	935	311
26	-	26	212	186	1,324	2	1,326	1,722	396
592	-	592	1,219	627	195,596	733	196,329	197,166	837

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GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
PARKS, RECREATION, CULTURE AND LEISURE					
Departmental:					
Reservoir Concessions					
Non-Personnel	\$ 2,179	\$ -	\$ 2,179	\$ 2,183	\$ 4
Parks and Recreation-Administrative Services					
Salaries and Wages	1,242	-	1,242	1,242	-
Non-Personnel	726	-	726	729	3
Total Parks and Recreation - Administration Services	1,968	-	1,968	1,971	3
Community Parks I					
Salaries and Wages	5,618	-	5,618	5,618	-
Non-Personnel	10,370	462	10,832	10,971	139
Total Community Parks I	15,988	462	16,450	16,589	139
Community Parks II					
Salaries and Wages	8,865	-	8,865	8,865	-
Non-Personnel	10,463	427	10,890	11,196	306
Total Community Parks II	19,328	427	19,755	20,061	306
Developed Regional Parks					
Salaries and Wages	12,978	-	12,978	13,201	223
Non-Personnel	20,077	1,268	21,345	21,394	49
Total Developed Regional Parks	33,055	1,268	34,323	34,595	272
Open Space Division					
Salaries and Wages	2,551	-	2,551	3,159	608
Non-Personnel	4,882	988	5,870	5,947	77
Total Open Space Division	7,433	988	8,421	9,106	685
Library					
Salaries and Wages	17,871	-	17,871	18,268	397
Non-Personnel	16,114	616	16,730	16,740	10
Total Library	33,985	616	34,601	35,008	407
TOTAL PARKS, RECREATION CULTURE AND LEISURE	113,936	3,761	117,697	119,513	1,816
TRANSPORTATION					
Departmental:					
Streets					
Salaries and Wages	11,236	-	11,236	11,236	-
Non-Personnel	32,957	2,530	35,487	35,487	-
Total Streets	44,193	2,530	46,723	46,723	-
Right-Of Way Design					
Salaries and Wages	8,201	-	8,201	8,241	40
Non-Personnel	4,890	77	4,967	5,075	108
Total Right-Of-Way Design	13,091	77	13,168	13,316	148
Transportation Engineering					
Salaries and Wages	3,705	-	3,705	4,026	321
Non-Personnel	2,684	243	2,927	3,364	437
Total Transportation Engineering	6,389	243	6,632	7,390	758
TOTAL TRANSPORTATION	63,673	2,850	66,523	67,429	906

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,179	\$ -	\$ 2,179	\$ 2,183	\$ 4
-	-	-	-	-	1,242	-	1,242	1,242	-
8	-	8	8	-	734	-	734	737	3
8	-	8	8	-	1,976	-	1,976	1,979	3
-	-	-	-	-	5,618	-	5,618	5,618	-
312	-	312	553	241	10,682	462	11,144	11,524	380
312	-	312	553	241	16,300	462	16,762	17,142	380
-	-	-	-	-	8,865	-	8,865	8,865	-
169	-	169	220	51	10,632	427	11,059	11,416	357
169	-	169	220	51	19,497	427	19,924	20,281	357
-	-	-	-	-	12,978	-	12,978	13,201	223
974	-	974	1,593	619	21,051	1,268	22,319	22,987	668
974	-	974	1,593	619	34,029	1,268	35,297	36,188	891
-	-	-	-	-	2,551	-	2,551	3,159	608
235	421	656	1,127	471	5,117	1,409	6,526	7,074	548
235	421	656	1,127	471	7,668	1,409	9,077	10,233	1,156
-	-	-	-	-	17,871	-	17,871	18,268	397
757	-	757	890	133	16,871	616	17,487	17,630	143
757	-	757	890	133	34,742	616	35,358	35,898	540
2,455	421	2,876	4,391	1,515	116,391	4,182	120,573	123,904	3,331
-	-	-	-	-	11,236	-	11,236	11,236	-
8,836	35	8,871	10,412	1,541	41,793	2,565	44,358	45,899	1,541
8,836	35	8,871	10,412	1,541	53,029	2,565	55,594	57,135	1,541
-	-	-	-	-	8,201	-	8,201	8,241	40
102	42	144	184	40	4,992	119	5,111	5,259	148
102	42	144	184	40	13,193	119	13,312	13,500	188
-	-	-	-	-	3,705	-	3,705	4,026	321
24	-	24	430	406	2,708	243	2,951	3,794	843
24	-	24	430	406	6,413	243	6,656	7,820	1,164
8,962	77	9,039	11,026	1,987	72,635	2,927	75,562	78,455	2,893

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GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
SANITATION AND HEALTH					
Departmental:					
Collection Services					
Salaries and Wages	\$ 6,383	\$ -	\$ 6,383	\$ 7,087	\$ 704
Non-Personnel	27,337	358	27,695	27,843	148
Total Collection Services	33,720	358	34,078	34,930	852
Environmental Protection					
Salaries and Wages	1,032	-	1,032	1,053	21
Non-Personnel	753	-	753	753	-
Total Environmental Protection	1,785	-	1,785	1,806	21
Office of the Director					
Salaries and Wages	766	-	766	899	133
Non-Personnel	556	63	619	761	142
Total Office of the Director	1,322	63	1,385	1,660	275
Storm Water					
Salaries and Wages	5,734	-	5,734	8,184	2,450
Non-Personnel	16,373	12,624	28,997	31,315	2,318
Total Storm Water	22,107	12,624	34,731	39,499	4,768
Mt. Hope Cemetery					
Salaries and Wages	469	-	469	489	20
Non-Personnel	954	48	1,002	1,047	45
Total Mt. Hope Cemetery	1,423	48	1,471	1,536	65
TOTAL SANITATION AND HEALTH	60,357	13,093	73,450	79,431	5,981
NEIGHBORHOOD SERVICES:					
Family Justice Center					
Salaries and Wages	85	-	85	269	184
Non-Personnel	124	24	148	278	130
Total Family Justice Center	209	24	233	547	314
Neighborhood Code Compliance					
Salaries and Wages	3,683	-	3,683	3,683	-
Non-Personnel	2,768	72	2,840	2,840	-
Total Neighborhood Code Compliance	6,451	72	6,523	6,523	-
Neighborhood Services Departmental (Continued):					
Planning					
Salaries and Wages	5,679	-	5,679	6,913	1,234
Non-Personnel	4,246	1,170	5,416	5,416	-
Total Planning	9,925	1,170	11,095	12,329	1,234
TOTAL NEIGHBORHOOD SERVICES	16,585	1,266	17,851	19,399	1,548

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,383	\$ -	\$ 6,383	\$ 7,087	\$ 704
91	-	91	328	237	27,428	358	27,786	28,171	385
91	-	91	328	237	33,811	358	34,169	35,258	1,089
-	-	-	-	-	1,032	-	1,032	1,053	21
4	-	4	9	5	757	-	757	762	5
4	-	4	9	5	1,789	-	1,789	1,815	26
-	-	-	-	-	766	-	766	899	133
8	-	8	63	55	564	63	627	824	197
8	-	8	63	55	1,330	63	1,393	1,723	330
-	-	-	-	-	5,734	-	5,734	8,184	2,450
7,400	502	7,902	10,760	2,858	23,773	13,126	36,899	42,075	5,176
7,400	502	7,902	10,760	2,858	29,507	13,126	42,633	50,259	7,626
-	-	-	-	-	469	-	469	489	20
7	-	7	39	32	961	48	1,009	1,086	77
7	-	7	39	32	1,430	48	1,478	1,575	97
7,510	502	8,012	11,199	3,187	67,867	13,595	81,462	90,630	9,168
-	-	-	-	-	85	-	85	269	184
2	-	2	2	-	126	24	150	280	130
2	-	2	2	-	211	24	235	549	314
-	-	-	-	-	3,683	-	3,683	3,683	-
52	-	52	62	10	2,820	72	2,892	2,902	10
52	-	52	62	10	6,503	72	6,575	6,585	10
-	-	-	-	-	5,679	-	5,679	6,913	1,234
616	895	1,511	2,158	647	4,862	2,065	6,927	7,574	647
616	895	1,511	2,158	647	10,541	2,065	12,606	14,487	1,881
670	895	1,565	2,222	657	17,255	2,161	19,416	21,621	2,205

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**GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Current Year				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
DEBT SERVICE					
Principal	\$ 818	\$ -	\$ 818	\$ 818	\$ -
Interest	3,106	-	3,106	3,173	67
TOTAL DEBT SERVICE	3,924	-	3,924	3,991	67
TOTAL EXPENDITURES	1,080,728	27,824	1,108,552	1,141,194	32,642
TRANSFERS TO PROPRIETARY FUNDS					
Enterprise Funds:					
City of San Diego:					
Development Services	1,712	-	1,712	1,712	-
Recycling	483	-	483	483	-
Total Enterprise Funds	2,195	-	2,195	2,195	-
Internal Service Funds:					
City of San Diego:					
Fleet Services	1,810	-	1,810	1,810	-
Print Shop	31	-	31	31	-
Central Stores	7	-	7	7	-
Total Internal Service Funds	1,848	-	1,848	1,848	-
TOTAL TRANSFERS TO PROPRIETARY FUNDS	4,043	-	4,043	4,043	-
TRANSFERS TO OTHER FUNDS					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement and Operations	897	-	897	897	-
Police Decentralization	6,219	-	6,219	6,219	-
Other Special Revenue - Budgeted	3,528	-	3,528	3,528	-
Other Special Revenue - Unbudgeted	11,288	-	11,288	11,288	-
Total Special Revenue Funds	21,932	-	21,932	21,932	-
Capital Projects Funds:					
City of San Diego:					
Other Construction	2,845	-	2,845	2,845	-
Total Capital Projects Funds	2,845	-	2,845	2,845	-
TOTAL TRANSFERS TO OTHER FUNDS	24,777	-	24,777	24,777	-
TOTAL EXPENDITURES AND TRANSFERS	\$ 1,109,548	\$ 27,824	\$ 1,137,372	\$ 1,170,014	\$ 32,642

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 818	\$ -	\$ 818	\$ 818	\$ -
-	-	-	-	-	3,106	-	3,106	3,173	67
-	-	-	-	-	3,924	-	3,924	3,991	67
25,387	4,235	29,622	42,444	12,822	1,106,115	32,059	1,138,174	1,183,638	45,464
-	-	-	-	-	1,712	-	1,712	1,712	-
-	-	-	-	-	483	-	483	483	-
-	-	-	-	-	2,195	-	2,195	2,195	-
-	-	-	-	-	1,810	-	1,810	1,810	-
-	-	-	-	-	31	-	31	31	-
-	-	-	-	-	7	-	7	7	-
-	-	-	-	-	1,848	-	1,848	1,848	-
-	-	-	-	-	4,043	-	4,043	4,043	-
-	-	-	-	-	897	-	897	897	-
-	-	-	-	-	6,219	-	6,219	6,219	-
-	-	-	-	-	3,528	-	3,528	3,528	-
-	-	-	-	-	11,288	-	11,288	11,288	-
-	-	-	-	-	21,932	-	21,932	21,932	-
1,254	-	1,254	1,254	-	4,099	-	4,099	4,099	-
1,254	-	1,254	1,254	-	4,099	-	4,099	4,099	-
1,254	-	1,254	1,254	-	26,031	-	26,031	26,031	-
\$ 26,641	\$ 4,235	\$ 30,876	\$ 43,698	\$ 12,822	\$ 1,136,189	\$ 32,059	\$ 1,168,248	\$ 1,213,712	\$ 45,464

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NON MAJOR GOVERNMENTAL FUNDS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2009
(In Thousands)**

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	\$ 463,654	\$ -	\$ 622,154	\$ -	\$ 1,085,808
Receivables:					
Taxes - Net	13,766	2,855	-	-	16,621
Accounts - Net of Allowance for Uncollectibles (Special Revenue \$26,606)	11,549	5,050	7,545	15	24,159
Claims - Net	16	-	-	-	16
Special Assessments	1,736	1,253	4	-	2,993
Notes	117,948	-	5,000	-	122,948
Accrued Interest	1,325	985	1,164	23	3,497
Grants	7,005	-	28,697	-	35,702
From Other Funds	25	-	1	-	26
Interfund Loan Receivable	-	33,460	-	-	33,460
Advances to Other Funds	7,359	-	600	-	7,959
Advances to Other Agencies	5,777	-	-	-	5,777
Land Held for Resale	11,875	-	27,538	-	39,413
Prepaid Items	1,278	-	73	-	1,351
Restricted Cash and Investments	-	415,680	-	15,867	431,547
TOTAL ASSETS	\$ 643,313	\$ 459,283	\$ 692,776	\$ 15,905	\$ 1,811,277
LIABILITIES					
Accounts Payable	\$ 24,379	\$ -	\$ 9,916	\$ -	\$ 34,295
Accrued Wages and Benefits	736	-	-	-	736
Other Accrued Liabilities	210	-	-	-	210
Due to Other Funds	4,166	-	1,827	-	5,993
Due to Other Agencies	36	-	152	-	188
Unearned Revenue	15,235	-	18,819	-	34,054
Deferred Revenue	20,287	6,129	32,368	-	58,784
Sundry Trust Liabilities	1,161	-	4,550	-	5,711
Advances from Other Funds	1,928	-	6,031	-	7,959
Interfund Loan Payable	4,273	12,094	20,580	-	36,947
TOTAL LIABILITIES	72,411	18,223	94,243	-	184,877
FUND EQUITY:					
Fund Balances:					
Reserved for Land Held for Resale	11,875	-	27,538	-	39,413
Reserved for Notes Receivable	113,907	-	5,000	-	118,907
Reserved for Encumbrances	115,227	522	134,916	-	250,665
Reserved for Advances and Deposits	13,136	-	600	-	13,736
Reserved for Low and Moderate Income Housing	95,668	-	-	-	95,668
Reserved for Permanent Endowments	-	-	-	13,280	13,280
Reserved for Debt Service	-	175,302	-	-	175,302
Unreserved:					
Designated for Unrealized Gains	1,190	125	1,549	32	2,896
Designated for Debt Service	-	265,111	-	-	265,111
Designated for Subsequent Years' Expenditures	76,870	-	363,530	-	440,400
Undesignated	143,029	-	65,400	2,593	211,022
TOTAL FUND EQUITY	570,902	441,060	598,533	15,905	1,626,400
TOTAL LIABILITIES AND FUND EQUITY	\$ 643,313	\$ 459,283	\$ 692,776	\$ 15,905	\$ 1,811,277

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009
(In Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
REVENUES					
Property Taxes	\$ 60,345	\$ 144,486	\$ -	\$ -	\$ 204,831
Special Assessments	46,625	16,871	4	-	63,500
Sales Taxes	-	-	20,222	-	20,222
Transient Occupancy Taxes	66,892	-	-	-	66,892
Other Local Taxes	98,760	-	-	-	98,760
Licenses and Permits	1,158	-	6,942	-	8,100
Fines, Forfeitures and Penalties	1,939	-	-	-	1,939
Revenue from Use of Money and Property	33,391	11,460	22,238	(766)	66,323
Revenue from Federal Agencies	43,515	-	22,603	-	66,118
Revenue from Other Agencies	10,542	11,444	21,555	-	43,541
Revenue from Private Sources	2,911	-	18,560	122	21,593
Charges for Current Services	70,201	-	-	114	70,315
Other Revenue	18,338	-	2,077	-	20,415
TOTAL REVENUES	454,617	184,261	114,201	(530)	752,549
EXPENDITURES					
Current:					
General Government and Support	74,809	1,443	25,505	116	101,873
Public Safety - Police	17,267	-	-	-	17,267
Public Safety - Fire and Life Safety and Homeland Security	30,058	-	42	-	30,100
Parks, Recreation, Culture and Leisure	92,913	-	2,245	210	95,368
Transportation	67,096	-	23,238	-	90,334
Sanitation and Health	9,743	-	650	-	10,393
Neighborhood Services	39,880	-	16,650	-	56,530
Capital Projects	14,324	-	124,310	-	138,634
Debt Service:					
Principal Retirement	6,991	49,259	141	-	56,391
Interest	3,357	72,122	74	-	75,553
Cost of Issuance	-	1,001	-	-	1,001
TOTAL EXPENDITURES	356,438	123,825	192,855	326	673,444
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	98,179	60,436	(78,654)	(856)	79,105
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	1,918	-	61	-	1,979
Transfers from Other Funds	105,431	66,680	44,574	-	216,685
Transfers to Proprietary Funds	(1,123)	-	(1,424)	-	(2,547)
Transfers to Other Funds	(185,414)	(65,977)	(43,777)	(545)	(295,713)
Proceeds from the Sale of Capital Assets	-	-	2,157	-	2,157
Capital Leases	11,404	-	18,988	-	30,392
Contracts Issued	2,100	-	-	-	2,100
Loans Issued	5,885	-	4,598	-	10,483
Special Tax Bonds Issued	-	1,823	10,542	-	12,365
Revenue Bonds Issued	-	302	102,698	-	103,000
Discount on Bonds Issued	-	(129)	-	-	(129)
TOTAL OTHER FINANCING SOURCES (USES)	(59,799)	2,699	138,417	(545)	80,772
NET CHANGE IN FUND BALANCES	38,380	63,135	59,763	(1,401)	159,877
Fund Balances at Beginning of Year	532,522	377,925	538,770	17,306	1,466,523
FUND BALANCES AT END OF YEAR	\$ 570,902	\$ 441,060	\$ 598,533	\$ 15,905	\$ 1,626,400

NON MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF SAN DIEGO

ACQUISITION, IMPROVEMENT AND OPERATIONS

This Fund accounts for various operating activities including business improvement areas, lighting and landscape maintenance areas, facilities financing, and the City's public art program. Revenues are derived from business tax surcharges, special assessments on property, various rents, concessions and fees, and interest earnings derived there from.

ENVIRONMENTAL GROWTH

This Fund was established in accordance with Section 103.1a of the City Charter to receive 25 percent of all monies derived from the revenues accruing to the City from gas, electricity, and steam franchises. One third of the franchise monies and the interest derived there from are used exclusively for the purpose of preserving and enhancing the environment of the City of San Diego. Two thirds of the franchise monies and the interest derived there from are used as matching funds for open space acquisition and for debt service of bonds issued by the San Diego Open Space Facilities District No. 1.

POLICE DECENTRALIZATION

This Fund accounts for monies allocated for Police department decentralization expenditures for temporary facilities and to devise future capital improvement projects. Revenues are derived from sales tax allocations.

PUBLIC TRANSPORTATION

This Fund was established to account for funds set aside as reserves to be used for transportation-related purposes. Fund transfers and interest derived there from are the main sources of revenue.

QUALCOMM STADIUM OPERATIONS

This Fund accounts for the operations of the Stadium. The Stadium hosts various sporting events for its football tenants. Revenues are derived from rents, concessions, parking, and advertising.

SPECIAL GAS TAX STREET IMPROVEMENT

This Fund was established to account for the receipt of motor vehicle fuel taxes from the State under Sections 2106 and 2107 of the Streets and Highways Code. Expenditures are for the construction, improvement, maintenance, and operation of public streets and highways.

STREET DIVISION OPERATIONS

This Fund was established to account for the operations of Transportation's Street division. Revenues are derived from sales tax allocations and transfers from Gas Tax and TransNet, as well as services performed by the Streets Division. Expenditures are for maintenance and operation of City streets.

TRANSIENT OCCUPANCY TAX

This Fund was established to receive and expend transient occupancy taxes. Since 1964, a tax has been imposed on transients of hotel and motel rooms in the City of San Diego. Effective August 1994, the tax was increased from 9% to 10.5%.

UNDERGROUND SURCHARGE

This fund was established to account primarily for the capital improvement activities related to the undergrounding of utilities. This fund receives and disburses undergrounding surcharge revenue in accordance with the City's franchise agreements with San Diego Gas & Electric.

ZOOLOGICAL EXHIBITS

This Fund was established to collect monies from a fixed property tax levy authorized by Section 77a of the City Charter for the maintenance of zoological exhibits. These funds are remitted in accordance with a contractual agreement with the San Diego Zoological Society, a not-for-profit corporation independent from the City of San Diego.

OTHER SPECIAL REVENUE - BUDGETED

This Fund was established to account for revenues derived specifically for a variety of budgeted special programs administered by departments such as Police, Development Services, and General Services. Revenues in this Fund are derived from service charges, revenues from other agencies, and fines.

GRANTS

This Fund was established to account for revenue received from federal, state and other governmental agencies. Expenditures are made and accounted for as prescribed by appropriate grant provisions/agreements.

OTHER SPECIAL REVENUE FUND - UNBUDGETED

This Fund was established to account for revenues earmarked for a variety of special programs administered by such departments as Engineering and Capital Projects, Libraries, Park and Recreation, and Police. Revenues in this fund are derived from such sources as parking fees, service charges, contributions from other agencies and private sources, and interest earnings.

BLENDED COMPONENT UNITS

CENTRE CITY DEVELOPMENT CORPORATION

This Fund was established to account for the revenues and expenditures of the Centre City Development Corporation (CCDC). CCDC is a non-profit corporation that administers certain redevelopment projects in downtown San Diego and provides redevelopment advisory services to RDA. CCDC is primarily funded by RDA and the City of San Diego.

PUBLIC FACILITIES FINANCING AUTHORITY

This Fund was established to account for the activities of the Public Facilities Financing Authority (PFFA). PFFA, which was created by the City and RDA, facilitates the financing, acquisition, and construction of public capital facility improvements of RDA and the City. PFFA's special revenue account is generally used to account for revenues from the Reassessment District Bond Fund and investment income used to pay for costs of issuance and administrative expenses related to debt redemption.

REDEVELOPMENT AGENCY

This Fund was established to account for the activities of the Redevelopment Agency of the City of San Diego (RDA). RDA was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. The special revenue account is used to account for funds restricted for the benefit of low and moderate income housing. Funding is primarily from property tax increment revenues and the City of San Diego.

SAN DIEGO INDUSTRIAL DEVELOPMENT AUTHORITY

This Fund was established to account for revenues and expenditures of the San Diego Industrial Development Authority (SDIDA). SDIDA was formed in 1983 pursuant to the California Industrial Development Financing Act for the purpose of providing an alternative method of financing to participating parties for economic development purposes, through the sale and issuance of revenue bonds. Revenues are derived from fees collected from companies applying for industrial development bond financing. Expenditures are incurred for management and administrative services provided by the City of San Diego.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION

This Fund was established to account for the revenues and expenditures of the Southeastern Economic Development Corporation (SEDC). SEDC is a non-profit corporation that administers economic development projects within the community of Southeast San Diego and provides redevelopment advisory services to RDA. SEDC is primarily funded by RDA and by the City of San Diego pursuant to operating agreements under which SEDC is reimbursed for eligible costs incurred in connection with such activities.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION

This fund was established to account for the activities of the Tobacco Settlement Revenue Funding Corporation (TSRFC). The TSRFC was established for the purpose of acquiring the Tobacco Settlement Revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's special revenue fund is used to account for the expenditures incurred for administrative services provided by the City of San Diego.

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
JUNE 30, 2009
(In Thousands)**

	City of San Diego	Centre City Development Corporation
ASSETS		
Cash and Investments	\$ 293,136	\$ 851
Receivables:		
Taxes - Net	12,776	-
Accounts - Net of Allowance for Uncollectibles (City of San Diego \$26,606)	10,541	834
Claims - Net	16	-
Special Assessments	1,736	-
Notes	4,041	-
Accrued Interest	760	-
Grants	7,005	-
From Other Funds	25	-
Advances to Other Funds	7,359	-
Advances to Other Agencies	5,777	-
Land Held for Resale	-	-
Prepaid Items	1,233	5
	\$ 344,405	\$ 1,690
TOTAL ASSETS		
	\$ 344,405	\$ 1,690
LIABILITIES		
Accounts Payable	\$ 24,253	\$ -
Accrued Wages and Benefits	700	-
Other Accrued Liabilities	-	210
Due to Other Funds	4,166	-
Due to Other Agencies	36	-
Unearned Revenue	15,233	-
Deferred Revenue	20,287	-
Sundry Trust Liabilities	-	-
Advances from Other Funds	-	-
Interfund Loan Payable	-	-
	64,675	210
TOTAL LIABILITIES	64,675	210
FUND EQUITY:		
Fund Balances:		
Reserved for Land Held for Resale	-	-
Reserved for Notes Receivable	-	-
Reserved for Encumbrances	39,386	-
Reserved for Advances and Deposits	13,136	-
Reserved for Low and Moderate Income Housing	-	-
Unreserved:		
Designated for Unrealized Gains	1,190	-
Designated for Subsequent Years' Expenditures	76,855	-
Undesignated	149,163	1,480
	279,730	1,480
TOTAL FUND EQUITY	279,730	1,480
TOTAL LIABILITIES AND FUND EQUITY	\$ 344,405	\$ 1,690

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Tobacco Settlement Revenue Funding Corporation	Total
\$ 476	\$ 168,749	\$ 64	\$ 188	\$ 190	\$ 463,654
-	990	-	-	-	13,766
-	-	-	174	-	11,549
-	-	-	-	-	16
-	-	-	-	-	1,736
-	113,907	-	-	-	117,948
-	565	-	-	-	1,325
-	-	-	-	-	7,005
-	-	-	-	-	25
-	-	-	-	-	7,359
-	-	-	-	-	5,777
-	11,875	-	-	-	11,875
-	3	-	37	-	1,278
<u>\$ 476</u>	<u>\$ 296,089</u>	<u>\$ 64</u>	<u>\$ 399</u>	<u>\$ 190</u>	<u>\$ 643,313</u>
\$ -	\$ 101	\$ -	\$ 25	\$ -	\$ 24,379
-	-	-	36	-	736
-	-	-	-	-	210
-	-	-	-	-	4,166
-	-	-	-	-	36
-	2	-	-	-	15,235
-	-	-	-	-	20,287
-	1,161	-	-	-	1,161
-	1,928	-	-	-	1,928
-	4,273	-	-	-	4,273
-	7,465	-	61	-	72,411
-	11,875	-	-	-	11,875
-	113,907	-	-	-	113,907
11	75,830	-	-	-	115,227
-	-	-	-	-	13,136
-	95,668	-	-	-	95,668
-	-	-	-	-	1,190
-	-	15	-	-	76,870
465	(8,656)	49	338	190	143,029
476	288,624	64	338	190	570,902
<u>\$ 476</u>	<u>\$ 296,089</u>	<u>\$ 64</u>	<u>\$ 399</u>	<u>\$ 190</u>	<u>\$ 643,313</u>

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2009
(In Thousands)

	City of San Diego	Centre City Development Corporation
REVENUES		
Property Taxes	\$ 9,947	\$ -
Special Assessments	46,625	-
Transient Occupancy Taxes	66,892	-
Other Local Taxes	98,760	-
Licenses and Permits	1,158	-
Fines, Forfeitures and Penalties	1,939	-
Revenue from Use of Money and Property	27,166	-
Revenue from Federal Agencies	43,515	-
Revenue from Other Agencies	10,542	-
Revenue from Private Sources	2,911	-
Charges for Current Services	59,855	8,042
Other Revenue	16,402	32
	385,712	8,074
TOTAL REVENUES		
EXPENDITURES		
Current:		
General Government and Support	36,046	7,799
Public Safety - Police	17,267	-
Public Safety - Fire and Life Safety	30,058	-
Parks, Recreation, Culture and Leisure	92,913	-
Transportation	67,096	-
Sanitation and Health	9,743	-
Neighborhood Services	27,195	-
Capital Projects	14,324	-
Debt Service:		
Principal Retirement	6,991	-
Interest	3,357	-
	304,990	7,799
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES		
OVER EXPENDITURES	80,722	275
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	1,918	-
Transfers from Other Funds	67,428	280
Transfers to Proprietary Funds	(1,123)	-
Transfers to Other Funds	(147,847)	(275)
Capital Leases	11,404	-
Contracts Issued	-	-
Loans Issued	-	-
	(68,220)	5
TOTAL OTHER FINANCING SOURCES (USES)		
NET CHANGE IN FUND BALANCES		
	12,502	280
Fund Balances at Beginning of Year	267,228	1,200
FUND BALANCES AT END OF YEAR	\$ 279,730	\$ 1,480

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Tobacco Settlement Revenue Funding Corporation	Total
\$ -	\$ 50,398	\$ -	\$ -	\$ -	\$ 60,345
-	-	-	-	-	46,625
-	-	-	-	-	66,892
-	-	-	-	-	98,760
-	-	-	-	-	1,158
-	-	-	-	-	1,939
1	6,220	3	-	1	33,391
-	-	-	-	-	43,515
-	-	-	-	-	10,542
-	-	-	-	-	2,911
-	-	-	2,304	-	70,201
-	1,904	-	-	-	18,338
<u>1</u>	<u>58,522</u>	<u>3</u>	<u>2,304</u>	<u>1</u>	<u>454,617</u>
91	28,508	-	2,297	68	74,809
-	-	-	-	-	17,267
-	-	-	-	-	30,058
-	-	-	-	-	92,913
-	-	-	-	-	67,096
-	-	-	-	-	9,743
-	12,685	-	-	-	39,880
-	-	-	-	-	14,324
-	-	-	-	-	6,991
-	-	-	-	-	3,357
<u>91</u>	<u>41,193</u>	<u>-</u>	<u>2,297</u>	<u>68</u>	<u>356,438</u>
<u>(90)</u>	<u>17,329</u>	<u>3</u>	<u>7</u>	<u>(67)</u>	<u>98,179</u>
-	-	-	-	-	1,918
260	37,407	-	-	56	105,431
-	-	-	-	-	(1,123)
-	(37,292)	-	-	-	(185,414)
-	-	-	-	-	11,404
-	2,100	-	-	-	2,100
-	5,885	-	-	-	5,885
<u>260</u>	<u>8,100</u>	<u>-</u>	<u>-</u>	<u>56</u>	<u>(59,799)</u>
170	25,429	3	7	(11)	38,380
<u>306</u>	<u>263,195</u>	<u>61</u>	<u>331</u>	<u>201</u>	<u>532,522</u>
<u>\$ 476</u>	<u>\$ 288,624</u>	<u>\$ 64</u>	<u>\$ 338</u>	<u>\$ 190</u>	<u>\$ 570,902</u>

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)

	City of San Diego	
	Actual on Budgetary Basis	Final Budget
REVENUES		
Property Taxes	\$ 9,877	\$ 9,680
Special Assessments	46,625	20,655
Transient Occupance Taxes	66,892	74,718
Other Local Taxes	98,765	100,715
Licenses and Permits	1,158	1,419
Fines, Forfeitures and Penalties	1,379	1,165
Revenue from Use of Money and Property	10,470	3,209
Revenue from Federal Agencies	1,335	1,000
Revenue from Other Agencies	6,250	26,421
Revenue from Private Sources	799	1,073
Charges for Current Services	40,247	45,399
Other Revenue	1,430	104
TOTAL REVENUES	285,227	285,558
EXPENDITURES		
Current:		
General Government and Support	23,038	30,111
Public Safety - Police	10,975	16,346
Public Safety - Fire and Life Safety	8,085	8,999
Parks, Recreation, Culture and Leisure	93,961	131,023
Transportation	48,005	58,615
Sanitation and Health	7,515	8,745
Neighborhood Services	12,156	13,248
Capital Projects	6,670	27,597
Debt Service:		
Principal Retirement	4,627	5,943
Interest	1,391	347,455
TOTAL EXPENDITURES	216,423	648,082
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	68,804	(362,524)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	893	809
Transfers from Other Funds	43,727	80,483
Transfers to Proprietary Funds	(8)	(500)
Transfers to Other Funds	(129,216)	(166,038)
Capital Leases	526	-
TOTAL OTHER FINANCING SOURCES (USES)	(84,078)	(85,246)
NET CHANGE IN FUND BALANCES	(15,274)	(447,770)
Fund Balances Undesignated at July 1, 2008	80,258	80,258
Reserved for Encumbrances at July 1, 2008	14,057	14,057
Designated for Subsequent Years' Expenditures at July 1, 2008	33,207	33,207
Designated for Subsequent Years' Expenditures at June 30, 2009	(30,851)	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009	\$ 81,397	\$ (320,248)

Centre City Development Corporation		Southeastern Economic Development Corporation		Total		Variance with Final Budget Positive (Negative)
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	
\$ -	\$ -	\$ -	\$ -	\$ 9,877	\$ 9,680	\$ 197
-	-	-	-	46,625	20,655	25,970
-	-	-	-	66,892	74,718	(7,826)
-	-	-	-	98,765	100,715	(1,950)
-	-	-	-	1,158	1,419	(261)
-	-	-	-	1,379	1,165	214
-	-	-	-	10,470	3,209	7,261
-	-	-	-	1,335	1,000	335
-	-	-	-	6,250	26,421	(20,171)
-	-	-	-	799	1,073	(274)
8,042	10,477	2,304	2,717	50,593	58,593	(8,000)
32	-	-	-	1,462	104	1,358
<u>8,074</u>	<u>10,477</u>	<u>2,304</u>	<u>2,717</u>	<u>295,605</u>	<u>298,752</u>	<u>(3,147)</u>
7,799	10,202	2,297	2,717	33,134	43,030	9,896
-	-	-	-	10,975	16,346	5,371
-	-	-	-	8,085	8,999	914
-	-	-	-	93,961	131,023	37,062
-	-	-	-	48,005	58,615	10,610
-	-	-	-	7,515	8,745	1,230
-	-	-	-	12,156	13,248	1,092
-	-	-	-	6,670	27,597	20,927
-	-	-	-	4,627	5,943	1,316
-	-	-	-	1,391	347,455	346,064
<u>7,799</u>	<u>10,202</u>	<u>2,297</u>	<u>2,717</u>	<u>226,519</u>	<u>661,001</u>	<u>434,482</u>
<u>275</u>	<u>275</u>	<u>7</u>	<u>-</u>	<u>69,086</u>	<u>(362,249)</u>	<u>431,335</u>
-	-	-	-	893	809	84
280	-	-	-	44,007	80,483	(36,476)
-	-	-	-	(8)	(500)	492
(275)	(275)	-	-	(129,491)	(166,313)	36,822
-	-	-	-	526	-	-
<u>5</u>	<u>(275)</u>	<u>-</u>	<u>-</u>	<u>(84,073)</u>	<u>(85,521)</u>	<u>922</u>
280	-	7	-	(14,987)	(447,770)	432,257
1,200	1,200	331	331	81,789	81,789	-
-	-	-	-	14,057	14,057	-
-	-	-	-	33,207	33,207	-
-	-	-	-	(30,851)	-	(30,851)
<u>\$ 1,480</u>	<u>\$ 1,200</u>	<u>\$ 338</u>	<u>\$ 331</u>	<u>\$ 83,215</u>	<u>\$ (318,717)</u>	<u>\$ 401,406</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
JUNE 30, 2009
(In Thousands)

	Budgeted				
	Acquisition, Improvement and Operations	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
ASSETS					
Cash and Investments	\$ 35,672	\$ 574	\$ 5,610	\$ 5,762	\$ 4,903
Receivables:					
Taxes - Net	-	3,304	-	-	-
Accounts - Net of Allowance for Uncollectibles (TOT \$25,103, Acquisition, Improvement and Operations \$676, Other - Unbudgeted \$827)	659	-	-	-	384
Claims - Net	15	-	-	-	-
Special Assessments	1,543	-	-	-	-
Notes	-	-	-	-	-
Accrued Interest	128	33	-	19	12
Grants	-	-	-	-	-
From Other Funds	-	-	-	-	-
Advances to Other Funds	-	-	-	-	-
Advances to Other Agencies	5,630	-	-	-	-
Prepaid Items	13	-	-	-	-
TOTAL ASSETS	\$ 43,660	\$ 3,911	\$ 5,610	\$ 5,781	\$ 5,299
LIABILITIES					
Accounts Payable	\$ 165	\$ 3	\$ 4,972	\$ -	\$ 1,733
Accrued Wages and Benefits	67	-	-	-	98
Due to Other Funds	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-
Unearned Revenue	-	-	-	-	-
Deferred Revenue	1,018	-	-	-	384
TOTAL LIABILITIES	1,250	3	4,972	-	2,215
FUND EQUITY:					
Fund Balances:					
Reserved for Encumbrances	2,180	809	-	-	1,351
Reserved for Advances and Deposits	5,630	-	-	-	-
Unreserved:					
Designated for Unrealized Gains	199	4	-	31	24
Designated for Subsequent Years' Expenditures	514	2,261	-	-	-
Undesignated	33,887	834	638	5,750	1,709
TOTAL FUND EQUITY	42,410	3,908	638	5,781	3,084
TOTAL LIABILITIES AND FUND EQUITY	\$ 43,660	\$ 3,911	\$ 5,610	\$ 5,781	\$ 5,299

						Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Underground Surcharge	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
\$ 798	\$ 780	\$ 19,082	\$ 34,598	\$ 7,590	\$ 28,689	\$ 16,014	\$ 133,064	\$ 293,136
-	-	6,743	-	-	2,729	-	-	12,776
47	-	6,563	-	-	1,685	-	1,203	10,541
1	-	-	-	-	-	-	-	16
-	-	-	-	125	-	-	68	1,736
-	-	-	-	-	-	-	4,041	4,041
14	1	43	116	-	53	81	260	760
-	-	-	-	-	-	7,005	-	7,005
-	-	-	-	-	-	-	25	25
-	-	-	-	-	-	-	7,359	7,359
-	-	-	-	-	-	50	97	5,777
-	-	131	1	-	1,060	-	28	1,233
<u>\$ 860</u>	<u>\$ 781</u>	<u>\$ 32,562</u>	<u>\$ 34,715</u>	<u>\$ 7,715</u>	<u>\$ 34,216</u>	<u>\$ 23,150</u>	<u>\$ 146,145</u>	<u>\$ 344,405</u>
\$ -	\$ -	\$ 677	\$ 7,141	\$ 7,503	\$ 54	\$ 1,039	\$ 966	\$ 24,253
6	-	31	19	-	478	-	1	700
-	-	8	7	-	329	195	3,627	4,166
-	-	-	-	-	-	36	-	36
-	-	-	-	-	-	9,745	5,488	15,233
48	-	6,562	-	-	908	6,050	5,317	20,287
54	-	7,278	7,167	7,503	1,769	17,065	15,399	64,675
-	426	4,740	4,457	-	10,376	957	14,090	39,386
-	-	-	-	-	-	50	7,456	13,136
4	2	93	187	-	138	48	460	1,190
-	328	89	20,473	-	7,186	-	46,004	76,855
802	25	20,362	2,431	212	14,747	5,030	62,736	149,163
806	781	25,284	27,548	212	32,447	6,085	130,746	279,730
<u>\$ 860</u>	<u>\$ 781</u>	<u>\$ 32,562</u>	<u>\$ 34,715</u>	<u>\$ 7,715</u>	<u>\$ 34,216</u>	<u>\$ 23,150</u>	<u>\$ 146,145</u>	<u>\$ 344,405</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Budgeted				
	Acquisition, Improvement and Operations	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	46,625	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	13,480	-	-	-
Licenses and Permits	1,158	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	1,193	193	111	130	98
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	17	-	-	-	-
Charges for Current Services	2,666	-	-	-	9,188
Other Revenue	135	-	-	-	1,106
TOTAL REVENUES	51,794	13,673	111	130	10,392
EXPENDITURES					
Current:					
General Government and Support	1,531	-	-	-	-
Public Safety - Police	-	-	7,923	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	32,735	5,313	-	-	13,364
Transportation	-	-	-	31	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	8,939	-	-	-	-
Capital Projects	130	182	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	105
Interest	-	-	-	-	5
TOTAL EXPENDITURES	43,335	5,495	7,923	31	13,474
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	8,459	8,178	(7,812)	99	(3,082)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	17	11	-	-	-
Transfers from Other Funds	2,550	14	6,219	4,008	9,825
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(51)	(9,822)	(111)	(1,228)	(5,683)
Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,516	(9,797)	6,108	2,780	4,142
NET CHANGE IN FUND BALANCES	10,975	(1,619)	(1,704)	2,879	1,060
Fund Balances at Beginning of Year	31,435	5,527	2,342	2,902	2,024
FUND BALANCES AT END OF YEAR	\$ 42,410	\$ 3,908	\$ 638	\$ 5,781	\$ 3,084

						Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Underground Surcharge	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
\$ -	\$ -	\$ -	\$ -	\$ 9,877	\$ -	\$ -	\$ 70	\$ 9,947
-	-	-	-	-	-	-	-	46,625
-	-	66,892	-	-	-	-	-	66,892
27,462	-	55	47,308	-	10,455	-	-	98,760
-	-	-	-	-	-	-	-	1,158
-	-	-	-	-	1,379	-	560	1,939
250	31	2,965	1,223	125	4,172	1,284	15,391	27,166
-	-	-	-	-	1,335	42,180	-	43,515
-	-	4,500	-	-	1,750	3,495	797	10,542
-	-	782	-	-	-	-	2,112	2,911
13	-	104	-	-	28,276	-	19,608	59,855
-	-	27	-	-	162	1,776	13,196	16,402
<u>27,725</u>	<u>31</u>	<u>75,325</u>	<u>48,531</u>	<u>10,002</u>	<u>47,529</u>	<u>48,735</u>	<u>51,734</u>	<u>385,712</u>
83	-	212	693	-	17,817	1,461	14,249	36,046
-	-	-	-	-	2,880	6,426	38	17,267
-	-	-	-	-	6,320	10,164	13,574	30,058
46	-	23,241	-	11,503	203	1,364	5,144	92,913
2	11	-	47,432	-	-	108	19,512	67,096
-	-	5,905	-	-	1,393	1,409	1,036	9,743
-	-	-	-	-	3,216	5,633	9,407	27,195
-	55	27	1,115	-	-	6,757	6,058	14,324
-	-	-	-	-	4,522	1,665	699	6,991
-	-	-	-	-	1,386	1,419	547	3,357
<u>131</u>	<u>66</u>	<u>29,385</u>	<u>49,240</u>	<u>11,503</u>	<u>37,737</u>	<u>36,406</u>	<u>70,264</u>	<u>304,990</u>
<u>27,594</u>	<u>(35)</u>	<u>45,940</u>	<u>(709)</u>	<u>(1,501)</u>	<u>9,792</u>	<u>12,329</u>	<u>(18,530)</u>	<u>80,722</u>
-	-	57	-	-	808	-	1,025	1,918
4	-	14,557	-	119	6,431	482	23,219	67,428
-	-	-	-	-	(8)	(476)	(639)	(1,123)
(27,854)	(16)	(67,314)	(9)	(125)	(9,460)	(1,455)	(24,719)	(147,847)
-	-	-	-	-	526	-	10,878	11,404
<u>(27,850)</u>	<u>(16)</u>	<u>(52,700)</u>	<u>(9)</u>	<u>(6)</u>	<u>(1,703)</u>	<u>(1,449)</u>	<u>9,764</u>	<u>(68,220)</u>
(256)	(51)	(6,760)	(718)	(1,507)	8,089	10,880	(8,766)	12,502
<u>1,062</u>	<u>832</u>	<u>32,044</u>	<u>28,266</u>	<u>1,719</u>	<u>24,358</u>	<u>(4,795)</u>	<u>139,512</u>	<u>267,228</u>
<u>\$ 806</u>	<u>\$ 781</u>	<u>\$ 25,284</u>	<u>\$ 27,548</u>	<u>\$ 212</u>	<u>\$ 32,447</u>	<u>\$ 6,085</u>	<u>\$ 130,746</u>	<u>\$ 279,730</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Acquisition, Improvement and Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	46,625	-	46,625	20,655	25,970
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	1,158	-	1,158	1,419	(261)
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	1,193	10	1,203	416	787
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	21,421	(21,421)
Revenue from Private Sources	17	-	17	30	(13)
Charges for Current Services	2,666	-	2,666	2,933	(267)
Other Revenue	135	-	135	58	77
TOTAL REVENUES	51,794	10	51,804	46,932	4,872
EXPENDITURES					
Current:					
General Government and Support	1,531	2,024	3,555	2,151	(1,404)
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	32,735	3,460	36,195	57,285	21,090
Transportation	-	-	-	-	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	8,939	(3)	8,936	9,930	994
Capital Projects	130	-	130	1,612	1,482
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	43,335	5,481	48,816	70,978	22,162
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	8,459	(5,471)	2,988	(24,046)	27,034
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	17	-	17	-	17
Transfers from Other Funds	2,550	-	2,550	2,704	(154)
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(51)	-	(51)	(170)	119
Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,516	-	2,516	2,534	(18)
NET CHANGE IN FUND BALANCES	\$ 10,975	\$ (5,471)	5,504	(21,512)	27,016
Fund Balances Undesignated at July 1, 2008			25,967	25,967	-
Reserved for Encumbrances at July 1, 2008			1,906	1,906	-
Designated for Subsequent Years' Expenditures at July 1, 2008			1,024	1,024	-
Designated for Subsequent Years' Expenditures at June 30, 2009			(514)	-	(514)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009			\$ 33,887	\$ 7,385	\$ 26,502

Environmental Growth					Police Decentralization				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
13,480	-	13,480	14,141	(661)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
193	9	202	110	92	111	-	111	-	111
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
13,673	9	13,682	14,251	(569)	111	-	111	-	111
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	7,923	-	7,923	11,423	3,500
-	-	-	-	-	-	-	-	-	-
5,313	-	5,313	3,599	(1,714)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
182	809	991	7,725	6,734	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
5,495	809	6,304	11,324	5,020	7,923	-	7,923	11,423	3,500
-	-	-	-	-	-	-	-	-	-
8,178	(800)	7,378	2,927	4,451	(7,812)	-	(7,812)	(11,423)	3,611
-	-	-	-	-	-	-	-	-	-
11	-	11	-	11	-	-	-	-	-
14	-	14	-	14	6,219	-	6,219	6,219	-
-	-	-	-	-	-	-	-	-	-
(9,822)	-	(9,822)	(9,822)	-	(111)	-	(111)	(111)	-
-	-	-	-	-	-	-	-	-	-
(9,797)	-	(9,797)	(9,822)	25	6,108	-	6,108	6,108	-
\$ (1,619)	\$ (800)	(2,419)	(6,895)	4,476	\$ (1,704)	\$ -	(1,704)	(5,315)	3,611
-	-	2,714	2,714	-	-	-	-	-	-
-	-	617	617	-	-	-	2,342	2,342	-
-	-	2,183	2,183	-	-	-	-	-	-
-	-	(2,261)	-	(2,261)	-	-	-	-	-
-	-	\$ 834	\$ (1,381)	\$ 2,215	-	-	\$ 638	\$ (2,973)	\$ 3,611

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CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) CONTINUED
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Public Transportation				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	130	(14)	116	-	116
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
TOTAL REVENUES	<u>130</u>	<u>(14)</u>	<u>116</u>	<u>-</u>	<u>116</u>
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	31	-	31	2,889	2,858
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	<u>31</u>	<u>-</u>	<u>31</u>	<u>2,889</u>	<u>2,858</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>99</u>	<u>(14)</u>	<u>85</u>	<u>(2,889)</u>	<u>2,974</u>
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	4,008	-	4,008	4,008	-
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(1,228)	-	(1,228)	(1,228)	-
Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,780</u>	<u>-</u>	<u>2,780</u>	<u>2,780</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ 2,879</u>	<u>\$ (14)</u>	<u>2,865</u>	<u>(109)</u>	<u>2,974</u>
Fund Balances Undesignated at July 1, 2008			2,875	2,875	-
Reserved for Encumbrances at July 1, 2008			10	10	-
Designated for Subsequent Years' Expenditures at July 1, 2008			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2009			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009			<u>\$ 5,750</u>	<u>\$ 2,776</u>	<u>\$ 2,974</u>

Qualcomm Stadium Operations					Special Gas Tax Street Improvement				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	27,462	-	27,462	27,589	(127)
-	-	-	-	-	-	-	-	-	-
98	(5)	93	35	58	250	8	258	349	(91)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
9,188	-	9,188	9,271	(83)	13	-	13	-	13
1,106	-	1,106	46	1,060	-	-	-	-	-
<u>10,392</u>	<u>(5)</u>	<u>10,387</u>	<u>9,352</u>	<u>1,035</u>	<u>27,725</u>	<u>8</u>	<u>27,733</u>	<u>27,938</u>	<u>(205)</u>
-	-	-	-	-	83	-	83	83	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
13,364	1,351	14,715	15,453	738	46	-	46	46	-
-	-	-	-	-	2	-	2	2	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
105	-	105	105	-	-	-	-	-	-
5	-	5	6	1	-	-	-	-	-
<u>13,474</u>	<u>1,351</u>	<u>14,825</u>	<u>15,564</u>	<u>739</u>	<u>131</u>	<u>-</u>	<u>131</u>	<u>131</u>	<u>-</u>
<u>(3,082)</u>	<u>(1,356)</u>	<u>(4,438)</u>	<u>(6,212)</u>	<u>1,774</u>	<u>27,594</u>	<u>8</u>	<u>27,602</u>	<u>27,807</u>	<u>(205)</u>
-	-	-	-	-	-	-	-	-	-
9,825	-	9,825	9,825	-	4	-	4	-	4
-	-	-	-	-	-	-	-	-	-
(5,683)	-	(5,683)	(5,683)	-	(27,854)	-	(27,854)	(27,854)	-
-	-	-	-	-	-	-	-	-	-
4,142	-	4,142	4,142	-	(27,850)	-	(27,850)	(27,854)	4
<u>\$ 1,060</u>	<u>\$ (1,356)</u>	<u>(296)</u>	<u>(2,070)</u>	<u>1,774</u>	<u>\$ (256)</u>	<u>\$ 8</u>	<u>(248)</u>	<u>(47)</u>	<u>(201)</u>
		3	3	-			1,003	1,003	-
		496	496	-			-	-	-
		1,506	1,506	-			47	47	-
		-	-	-			-	-	-
		<u>\$ 1,709</u>	<u>\$ (65)</u>	<u>\$ 1,774</u>			<u>\$ 802</u>	<u>\$ 1,003</u>	<u>\$ (201)</u>

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CITY OF SAN DIEGO
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS) CONTINUED
 YEAR ENDED JUNE 30, 2009
 (In Thousands)

	Street Division Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	31	-	31	-	31
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
TOTAL REVENUES	<u>31</u>	<u>-</u>	<u>31</u>	<u>-</u>	<u>31</u>
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	11	417	428	11	(417)
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	55	9	64	392	328
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	<u>66</u>	<u>426</u>	<u>492</u>	<u>403</u>	<u>(89)</u>
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES	<u>(35)</u>	<u>(426)</u>	<u>(461)</u>	<u>(403)</u>	<u>(58)</u>
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	-	-	-	-	-
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(16)	-	(16)	(16)	-
Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16)</u>	<u>-</u>	<u>(16)</u>	<u>(16)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ (51)</u>	<u>\$ (426)</u>	<u>(477)</u>	<u>(419)</u>	<u>(58)</u>
Fund Balances Undesignated at July 1, 2008			427	427	-
Reserved for Encumbrances at July 1, 2008			9	9	-
Designated for Subsequent Years' Expenditures at July 1, 2008			394	394	-
Designated for Subsequent Years' Expenditures at June 30, 2009			<u>(328)</u>	<u>-</u>	<u>(328)</u>
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009			<u>\$ 25</u>	<u>\$ 411</u>	<u>\$ (386)</u>

Transient Occupancy Tax					Underground Surcharge				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
66,892	-	66,892	74,718	(7,826)	-	-	-	-	-
55	-	55	50	5	47,308	5	47,313	48,366	(1,053)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
2,965	33	2,998	1,915	1,083	1,223	-	1,223	-	1,223
-	-	-	-	-	-	-	-	-	-
4,500	-	4,500	4,500	-	-	-	-	-	-
782	-	782	1,043	(261)	-	-	-	-	-
104	-	104	3,137	(3,033)	-	-	-	89	(89)
27	-	27	-	27	-	-	-	-	-
<u>75,325</u>	<u>33</u>	<u>75,358</u>	<u>85,363</u>	<u>(10,005)</u>	<u>48,531</u>	<u>5</u>	<u>48,536</u>	<u>48,455</u>	<u>81</u>
212	-	212	299	87	693	2	695	1,176	481
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
23,241	2,745	25,986	42,909	16,923	-	-	-	-	-
-	-	-	-	-	47,432	112	47,544	55,713	8,169
5,905	-	5,905	6,719	814	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
27	-	27	105	78	1,115	4,343	5,458	17,763	12,305
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>29,385</u>	<u>2,745</u>	<u>32,130</u>	<u>50,032</u>	<u>17,902</u>	<u>49,240</u>	<u>4,457</u>	<u>53,697</u>	<u>74,652</u>	<u>20,955</u>
45,940	(2,712)	43,228	35,331	7,897	(709)	(4,452)	(5,161)	(26,197)	21,036
57	-	57	-	57	-	-	-	-	-
14,557	-	14,557	50,958	(36,401)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(67,314)	-	(67,314)	(102,986)	35,672	(9)	-	(9)	(9)	-
-	-	-	-	-	-	-	-	-	-
<u>(52,700)</u>	<u>-</u>	<u>(52,700)</u>	<u>(52,028)</u>	<u>(672)</u>	<u>(9)</u>	<u>-</u>	<u>(9)</u>	<u>(9)</u>	<u>-</u>
<u>\$ (6,760)</u>	<u>\$ (2,712)</u>	<u>(9,472)</u>	<u>(16,697)</u>	<u>7,225</u>	<u>\$ (718)</u>	<u>\$ (4,452)</u>	<u>(5,170)</u>	<u>(26,206)</u>	<u>21,036</u>
		24,159	24,159	-			1,868	1,868	-
		5,551	5,551	-			1,821	1,821	-
		213	213	-			24,385	24,385	-
		(89)	-	(89)			(20,473)	-	(20,473)
		<u>\$ 20,362</u>	<u>\$ 13,226</u>	<u>\$ 7,136</u>			<u>\$ 2,431</u>	<u>\$ 1,868</u>	<u>\$ 563</u>

Continued on Next Page

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) CONTINUED
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Zoological Exhibits				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ 9,877	\$ -	\$ 9,877	\$ 9,680	\$ 197
Special Assessments	-	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	125	-	125	-	125
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
TOTAL REVENUES	10,002	-	10,002	9,680	322
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	11,503	-	11,503	11,503	-
Transportation	-	-	-	-	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	11,503	-	11,503	11,503	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,501)	-	(1,501)	(1,823)	322
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	119	-	119	-	119
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(125)	-	(125)	(125)	-
Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(6)	-	(6)	(125)	119
NET CHANGE IN FUND BALANCES	\$ (1,507)	\$ -	(1,507)	(1,948)	441
Fund Balances Undesignated at July 1, 2008			1,719	1,719	-
Reserved for Encumbrances at July 1, 2008			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2008			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2009			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009			\$ 212	\$ (229)	\$ 441

Other Special Revenue					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,877	\$ -	\$ 9,877	\$ 9,680	\$ 197
-	-	-	-	-	46,625	-	46,625	20,655	25,970
-	-	-	-	-	66,892	-	66,892	74,718	(7,826)
10,455	-	10,455	10,569	(114)	98,760	5	98,765	100,715	(1,950)
-	-	-	-	-	1,158	-	1,158	1,419	(261)
1,379	-	1,379	1,165	214	1,379	-	1,379	1,165	214
4,172	(62)	4,110	384	3,726	10,491	(21)	10,470	3,209	7,261
1,335	-	1,335	1,000	335	1,335	-	1,335	1,000	335
1,750	-	1,750	500	1,250	6,250	-	6,250	26,421	(20,171)
-	-	-	-	-	799	-	799	1,073	(274)
28,276	-	28,276	29,969	(1,693)	40,247	-	40,247	45,399	(5,152)
162	-	162	-	162	1,430	-	1,430	104	1,326
<u>47,529</u>	<u>(62)</u>	<u>47,467</u>	<u>43,587</u>	<u>3,880</u>	<u>285,243</u>	<u>(16)</u>	<u>285,227</u>	<u>285,558</u>	<u>(331)</u>
17,817	676	18,493	26,402	7,909	20,336	2,702	23,038	30,111	7,073
2,880	172	3,052	4,923	1,871	10,803	172	10,975	16,346	5,371
6,320	1,765	8,085	8,999	914	6,320	1,765	8,085	8,999	914
203	-	203	228	25	86,405	7,556	93,961	131,023	37,062
-	-	-	-	-	47,476	529	48,005	58,615	10,610
1,393	217	1,610	2,026	416	7,298	217	7,515	8,745	1,230
3,216	4	3,220	3,318	98	12,155	1	12,156	13,248	1,092
-	-	-	-	-	1,509	5,161	6,670	27,597	20,927
4,522	-	4,522	5,838	1,316	4,627	-	4,627	5,943	1,316
1,386	-	1,386	347,449	346,063	1,391	-	1,391	347,455	346,064
<u>37,737</u>	<u>2,834</u>	<u>40,571</u>	<u>399,183</u>	<u>358,612</u>	<u>198,320</u>	<u>18,103</u>	<u>216,423</u>	<u>648,082</u>	<u>431,659</u>
<u>9,792</u>	<u>(2,896)</u>	<u>6,896</u>	<u>(355,596)</u>	<u>362,492</u>	<u>86,923</u>	<u>(18,119)</u>	<u>68,804</u>	<u>(362,524)</u>	<u>431,328</u>
808	-	808	809	(1)	893	-	893	809	84
6,431	-	6,431	6,769	(338)	43,727	-	43,727	80,483	(36,756)
(8)	-	(8)	(500)	492	(8)	-	(8)	(500)	492
(9,460)	(7,543)	(17,003)	(18,034)	1,031	(121,673)	(7,543)	(129,216)	(166,038)	36,822
526	-	526	-	526	526	-	526	-	526
<u>(1,703)</u>	<u>(7,543)</u>	<u>(9,246)</u>	<u>(10,956)</u>	<u>1,710</u>	<u>(76,535)</u>	<u>(7,543)</u>	<u>(84,078)</u>	<u>(85,246)</u>	<u>1,168</u>
<u>\$ 8,089</u>	<u>\$ (10,439)</u>	<u>(2,350)</u>	<u>(366,552)</u>	<u>364,202</u>	<u>\$ 10,388</u>	<u>\$ (25,662)</u>	<u>(15,274)</u>	<u>(447,770)</u>	<u>432,496</u>
		19,523	19,523	-			80,258	80,258	-
		1,305	1,305	-			14,057	14,057	-
		3,455	3,455	-			33,207	33,207	-
		<u>(7,186)</u>	<u>-</u>	<u>(7,186)</u>			<u>(30,851)</u>	<u>-</u>	<u>(30,851)</u>
		<u>\$ 14,747</u>	<u>\$ (342,269)</u>	<u>\$ 357,016</u>			<u>\$ 81,397</u>	<u>\$ (320,248)</u>	<u>\$ 401,645</u>

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**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
ENVIRONMENTAL GROWTH FUND
COMBINING BALANCE SHEET
JUNE 30, 2009
(In Thousands)**

	<u>Two-Thirds Requirement</u>	<u>One-Third Requirement</u>	<u>Total</u>
ASSETS			
Cash and Investments	\$ 106	\$ 468	\$ 574
Receivables:			
Taxes - Net	2,203	1,101	3,304
Accrued Interest	25	8	33
TOTAL ASSETS	<u>\$ 2,334</u>	<u>\$ 1,577</u>	<u>\$ 3,911</u>
LIABILITIES			
Accounts Payable	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	484	325	809
Unreserved:			
Designated for Unrealized Gains	1	3	4
Designated for Subsequent Years' Expenditures	1,849	412	2,261
Undesignated	-	834	834
TOTAL FUND EQUITY	<u>2,334</u>	<u>1,574</u>	<u>3,908</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,334</u>	<u>\$ 1,577</u>	<u>\$ 3,911</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009
(In Thousands)**

	<u>Two-Thirds Requirement</u>	<u>One-Third Requirement</u>	<u>Total</u>
REVENUES			
Other Local Taxes	\$ 8,987	\$ 4,493	\$ 13,480
Revenue from Use of Money and Property	138	55	193
TOTAL REVENUES	<u>9,125</u>	<u>4,548</u>	<u>13,673</u>
EXPENDITURES			
Current:			
Parks, Recreation, Culture and Leisure	2,646	2,667	5,313
Capital Projects	-	182	182
TOTAL EXPENDITURES	<u>2,646</u>	<u>2,849</u>	<u>5,495</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>6,479</u>	<u>1,699</u>	<u>8,178</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	11	-	11
Transfers from Other Funds	14	-	14
Transfers to Other Funds	(7,932)	(1,890)	(9,822)
NET CHANGE IN FUND BALANCES	<u>(1,428)</u>	<u>(191)</u>	<u>(1,619)</u>
Fund Balances at Beginning of Year	3,762	1,765	5,527
FUND BALANCES AT END OF YEAR	<u>\$ 2,334</u>	<u>\$ 1,574</u>	<u>\$ 3,908</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
ENVIRONMENTAL GROWTH FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)

	Two-Thirds Requirement				Variance with Final Budget Positive (Negative)
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	
REVENUES					
Other Local Taxes	\$ 8,987	\$ -	\$ 8,987	\$ 9,427	\$ (440)
Revenue from Use of Money and Property	138	7	145	54	91
TOTAL REVENUES	9,125	7	9,132	9,481	(349)
EXPENDITURES					
Current:					
Parks, Recreation, Culture and Leisure	2,646	-	2,646	-	(2,646)
Capital Projects	-	484	484	6,961	6,477
TOTAL EXPENDITURES	2,646	484	3,130	6,961	3,831
EXCESS OF REVENUES OVER EXPENDITURES	6,479	(477)	6,002	2,520	3,482
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	11	-	11	-	11
Transfers from Other Funds	14	-	14	-	14
Transfers to Other Funds	(7,932)	-	(7,932)	(7,932)	-
NET CHANGE IN FUND BALANCES	\$ (1,428)	\$ (477)	(1,905)	(5,412)	3,507
Fund Balances Undesignated at July 1, 2008			1,940	1,940	-
Reserved for Encumbrances at July 1, 2008			123	123	-
Designated for Subsequent Years' Expenditures at July 1, 2008			1,691	1,691	-
Designated for Subsequent Years' Expenditures at June 30, 2009			(1,849)	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009			\$ -	\$ (1,658)	\$ 1,658

One-Third Requirement					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ 4,493	\$ -	\$ 4,493	\$ 4,714	\$ (221)	\$ 13,480	\$ -	\$ 13,480	\$ 14,141	\$ (661)
55	2	57	56	1	193	9	202	110	92
4,548	2	4,550	4,770	(220)	13,673	9	13,682	14,251	(569)
2,667	-	2,667	3,599	932	5,313	-	5,313	3,599	(1,714)
182	325	507	764	257	182	809	991	7,725	6,734
2,849	325	3,174	4,363	1,189	5,495	809	6,304	11,324	5,020
1,699	(323)	1,376	407	969	8,178	(800)	7,378	2,927	4,451
-	-	-	-	-	11	-	11	-	11
-	-	-	-	-	14	-	14	-	14
(1,890)	-	(1,890)	(1,890)	-	(9,822)	-	(9,822)	(9,822)	-
<u>\$ (191)</u>	<u>\$ (323)</u>	(514)	(1,483)	969	<u>\$ (1,619)</u>	<u>\$ (800)</u>	(2,419)	(6,895)	4,476
		774	774	-			2,714	2,714	-
		494	494	-			617	617	-
		492	492	-			2,183	2,183	-
		(412)	-	(412)			(2,261)	-	(2,261)
		<u>\$ 834</u>	<u>\$ 277</u>	<u>\$ 557</u>			<u>\$ 834</u>	<u>\$ (1,381)</u>	<u>\$ 2,215</u>

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NON MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE

DEBT SERVICE FUNDS

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

CITY OF SAN DIEGO

PUBLIC SAFETY COMMUNICATIONS PROJECT

This fund was established to account for the payment of principal and interest on general obligation bonds issued in 1991. These bonds are serviced by property taxes.

OTHER SPECIAL ASSESSMENTS

This fund was established to account for the payment of principal and interest for bonds issued under the Improvement Bond Act of 1915 and the Mello-Roos Community Facilities Act of 1982. These bonds are serviced by assessments and special taxes levied on property owners within each district.

BLENDED COMPONENT UNITS

CITY OF SAN DIEGO METROPOLITAN TRANSIT DEVELOPMENT BOARD AUTHORITY

This fund was established to account for the debt service activities of the City of San Diego Metropolitan Transit Development Board Authority (MTDB). MTDB was created to acquire and construct mass public transit guideways, systems and related facilities. MTDB's debt service fund is used to account for the payment of long-term debt principal and interest. This fund is serviced by investment income, lease payments from the City of San Diego, and proceeds from lease revenue bonds and certificates of participation.

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

This fund was established to account for the debt service activities of the Convention Center Expansion Financing Authority (CCEFA). CCEFA, created by the City of San Diego and the Port of San Diego, facilitates the financing, acquisition and construction of an expansion to the existing convention center. CCEFA's debt service fund is used to account for the payment of long-term debt principal and interest.

PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the debt service activities of the Public Facilities Financing Authority (PFFA). PFFA, which was created by the City of San Diego and RDA, facilitates the financing, acquisition and construction of public capital facility improvements of RDA or the City. PFFA's debt service fund is used to account for the payment of long-term debt principal and interest.

REDEVELOPMENT AGENCY

This fund was established to account for the debt service activities of the Redevelopment Agency of the City of San Diego (RDA). RDA was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. This fund is serviced by property tax increments, sale of real estate, and investment income.

SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

This fund was established to account for the debt service activities of the San Diego Facilities and Equipment Leasing Corporation (SDFELC). SDFELC was established to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. The City makes lease payments from annual appropriations payable out of any source of legally available funds.

SAN DIEGO OPEN SPACE PARK FACILITIES DISTRICT #1

This fund was established for the purpose of acquiring open space properties to implement the Open Space element of the City of San Diego General Plan, and accounts for financial resources accumulated for the payment of long-term debt principal and interest. This fund is serviced by City contributions and investment income.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION

This fund was established to account for the debt service activities of the Tobacco Settlement Revenue Funding Corporation (TSRFC). The TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's debt service fund is used to account for the payment of long-term debt principal and interest.

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NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2009
(In Thousands)

	City of San Diego	City of San Diego/MTDB Authority	Convention Center Expansion Financing Authority	Public Facilities Financing Authority
ASSETS				
Receivables:				
Taxes - Net	\$ 6	\$ -	\$ -	\$ -
Accounts	-	-	-	-
Special Assessments	1,253	-	-	-
Accrued Interest	23	-	-	-
Interfund Loan Receivable	-	-	-	33,460
Restricted Cash and Investments	31,380	3,236	-	12,082
TOTAL ASSETS	\$ 32,662	\$ 3,236	\$ -	\$ 45,542
LIABILITIES				
Deferred Revenue	\$ 1,079	\$ -	\$ -	\$ -
Interfund Loan Payable	-	-	-	-
TOTAL LIABILITIES	1,079	-	-	-
FUND EQUITY				
Fund Balances:				
Reserved for Encumbrances	9	-	-	-
Reserved for Debt Service	31,520	3,236	-	45,471
Unreserved:				
Designated for Unrealized Gains	54	-	-	71
Designated for Debt Service	-	-	-	-
TOTAL FUND EQUITY	31,583	3,236	-	45,542
TOTAL LIABILITIES AND FUND EQUITY	\$ 32,662	\$ 3,236	\$ -	\$ 45,542

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009
(In Thousands)

REVENUES				
Property Taxes	\$ 2,325	\$ -	\$ -	\$ -
Special Assessments	16,871	-	-	-
Revenue from Use of Money and Property	616	86	-	290
Revenue from Other Agencies	-	-	-	-
TOTAL REVENUES	19,812	86	-	290
EXPENDITURES				
Current:				
General Government and Support	41	-	-	4
Debt Service:				
Principal Retirement	6,755	3,275	5,290	8,275
Interest	8,779	725	8,408	15,922
Cost of Issuance	746	-	-	255
TOTAL EXPENDITURES	16,321	4,000	13,698	24,456
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,491	(3,914)	(13,698)	(24,166)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	14	1,228	13,690	23,243
Transfers to Other Funds	(3,852)	-	-	(85)
Special Tax Bonds Issued	1,823	-	-	-
Revenue Bonds Issued	-	-	-	302
Discount on Bonds Issued	(129)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(2,144)	1,228	13,690	23,460
NET CHANGE IN FUND BALANCES	1,347	(2,686)	(8)	(706)
Fund Balances at Beginning of Year	30,236	5,922	8	46,248
FUND BALANCES AT END OF YEAR	\$ 31,583	\$ 3,236	\$ -	\$ 45,542

Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	San Diego Open Space Park Facilities District #1	Tobacco Settlement Revenue Funding Corporation	Total
\$ 2,849	\$ -	\$ -	\$ -	\$ 2,855
-	-	-	5,050	5,050
962	-	-	-	1,253
-	-	-	-	985
356,508	93	-	12,381	33,460
<u>360,319</u>	<u>93</u>	<u>-</u>	<u>17,431</u>	<u>415,680</u>
\$ 360,319	\$ 93	\$ -	\$ 17,431	\$ 459,283
\$ -	\$ -	\$ -	\$ 5,050	\$ 6,129
12,094	-	-	-	12,094
12,094	-	-	5,050	18,223
513	-	-	-	522
82,601	93	-	12,381	175,302
-	-	-	-	125
265,111	-	-	-	265,111
348,225	93	-	12,381	441,060
<u>360,319</u>	<u>93</u>	<u>-</u>	<u>17,431</u>	<u>459,283</u>
\$ 142,161	\$ -	\$ -	\$ -	\$ 144,486
-	-	-	-	16,871
9,952	-	6	510	11,460
15	-	-	11,429	11,444
152,128	-	6	11,939	184,261
1,398	-	-	-	1,443
15,959	5,305	410	3,990	49,259
29,952	1,258	12	7,066	72,122
-	-	-	-	1,001
47,309	6,563	422	11,056	123,825
104,819	(6,563)	(416)	883	60,436
21,850	6,655	-	-	66,680
(60,641)	-	(14)	(1,385)	(65,977)
-	-	-	-	1,823
-	-	-	-	302
-	-	-	-	(129)
(38,791)	6,655	(14)	(1,385)	2,699
66,028	92	(430)	(502)	63,135
282,197	1	430	12,883	377,925
<u>348,225</u>	<u>93</u>	<u>-</u>	<u>12,381</u>	<u>441,060</u>

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2009
(In Thousands)

	City of San Diego	
	Actual on Budgetary Basis	Final Budget
REVENUES		
Property Taxes	\$ 2,325	\$ 2,315
Revenue from Use of Money and Property	45	55
TOTAL REVENUES	<u>2,370</u>	<u>2,370</u>
EXPENDITURES		
Current:		
General Government and Support	1	1
Debt Service:		
Principal Retirement	1,855	1,855
Interest	477	477
TOTAL EXPENDITURES	<u>2,333</u>	<u>2,333</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>37</u>	<u>37</u>
OTHER FINANCING SOURCES (USES)		
Transfers from Other Funds	-	-
Transfers to Other Funds	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	37	37
Reserved for Debt Service at July 1, 2008	2,554	2,554
Reserved for Debt Service at June 30, 2009	(2,591)	(2,591)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009	<u>\$ -</u>	<u>\$ -</u>

San Diego Open Space Park Facilities District #1		Total		
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
\$ -		\$ 2,325	\$ 2,315	\$ 10
9	54	54	109	(55)
9	54	2,379	2,424	(45)
-	-	1	1	-
410	410	2,265	2,265	-
12	25	489	502	13
422	435	2,755	2,768	13
(413)	(381)	(376)	(344)	(32)
-	434	-	434	(434)
(14)	(727)	(14)	(727)	713
(14)	(293)	(14)	(293)	279
(427)	(674)	(390)	(637)	247
427	427	2,981	2,981	-
-	-	(2,591)	(2,591)	-
\$ -	\$ (247)	\$ -	\$ (247)	\$ 247

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2009
(In Thousands)**

	<u>Budgeted</u>	<u>Unbudgeted</u>	<u>Total</u>
	<u>Public Safety Communications Project</u>	<u>Other Special Assessments</u>	
ASSETS			
Receivables:			
Taxes - Net	\$ 6	\$ -	\$ 6
Special Assessments - Net	-	1,253	1,253
Accrued Interest	8	15	23
Restricted Cash and Investments	2,591	28,789	31,380
TOTAL ASSETS	<u>\$ 2,605</u>	<u>\$ 30,057</u>	<u>\$ 32,662</u>
LIABILITIES			
Deferred Revenue	\$ -	\$ 1,079	\$ 1,079
TOTAL LIABILITIES	<u>-</u>	<u>1,079</u>	<u>1,079</u>
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	-	9	9
Reserved for Debt Service	2,591	28,929	31,520
Unreserved:			
Designated for Unrealized Gains	14	40	54
TOTAL FUND EQUITY	<u>2,605</u>	<u>28,978</u>	<u>31,583</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,605</u>	<u>\$ 30,057</u>	<u>\$ 32,662</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009
(In Thousands)**

REVENUES			
Property Taxes	\$ 2,325	\$ -	\$ 2,325
Special Assessments	-	16,871	16,871
Revenue from Use of Money and Property	44	572	616
TOTAL REVENUES	<u>2,369</u>	<u>17,443</u>	<u>19,812</u>
EXPENDITURES			
Current:			
General Government and Support	1	40	41
Debt Service:			
Principal Retirement	1,855	4,900	6,755
Interest	477	8,302	8,779
Cost of Issuance	-	746	746
TOTAL EXPENDITURES	<u>2,333</u>	<u>13,988</u>	<u>16,321</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>36</u>	<u>3,455</u>	<u>3,491</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	-	14	14
Transfers to Other Funds	-	(3,852)	(3,852)
Special Tax Bonds Issued	-	1,823	1,823
Discount on Bonds Issued	-	(129)	(129)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(2,144)</u>	<u>(2,144)</u>
NET CHANGE IN FUND BALANCES	<u>36</u>	<u>1,311</u>	<u>1,347</u>
Fund Balances at Beginning of Year	2,569	27,667	30,236
FUND BALANCES AT END OF YEAR	<u>\$ 2,605</u>	<u>\$ 28,978</u>	<u>\$ 31,583</u>

CITY OF SAN DIEGO
 NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 Year Ended June 30, 2009
 (In Thousands)

	Public Safety Communications Project				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	\$ 2,325	\$ -	\$ 2,325	\$ 2,315	\$ 10
Revenue from Use of Money and Property	44	1	45	55	(10)
TOTAL REVENUES	2,369	1	2,370	2,370	-
EXPENDITURES					
Current:					
General Government and Support	1	-	1	1	-
Debt Service:					
Principal Retirement	1,855	-	1,855	1,855	-
Interest	477	-	477	477	-
TOTAL EXPENDITURES	2,333	-	2,333	2,333	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	36	1	37	37	-
NET CHANGE IN FUND BALANCES	\$ 36	\$ 1	37	37	-
Reserved for Debt Service at July 1, 2008			2,554	2,554	-
Reserved for Debt Service at June 30, 2009			(2,591)	(2,591)	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009			\$ -	\$ -	\$ -

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NON MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and fiduciary funds).

CITY OF SAN DIEGO

CAPITAL OUTLAY

This fund was established per Section 77 of the City Charter to account for the acquisition, construction and completion of permanent public improvements and real property. Capital outlay fund revenues are derived from the sale of City-owned real property supplemented by sales tax revenue.

PARK & RECREATION DISTRICTS

This fund was established to account for park fees collected at the time of subdivision or permit issuance and is mandated per the City of San Diego Municipal Code. Fee assessments are only to be used for park purposes within a Community Park Service District to purchase land, facilities, or reimburse those who have donated more than their proportionate responsibilities.

FACILITIES BENEFIT ASSESSMENTS

This fund was established to account for building permit fees collected at the time of permit issuance and is mandated by the City Charter. Fee assessments are only to be used in the community the assessments are collected and are the primary source of project funding, excluding maintenance costs.

IMPACT FEES

This fund was established to account for building permit fees collected at the time of permit issuance and has specific State reporting requirements. Fee assessments are only to be used in the community the assessments are collected and are not the primary source of project funding and exclude maintenance costs.

SPECIAL ASSESSMENT/SPECIAL TAX BONDS

This fund was established to account for Community Facilities Districts and Special Assessment Districts, which under various sections of State law, issues limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties within each district, and are repaid through revenues generated by the annual levy of special taxes or special assessments on the benefiting properties.

TRANSNET

This fund was established to account for transportation improvements funded by a local sales tax approved by voters in the County of San Diego. Funds are to help relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

OTHER CONSTRUCTION

This fund was established to account for a variety of capital projects such as park and street improvements and construction of public facilities in new development areas. Revenues in this fund are derived from such sources as contributions from developers, grants from Federal, State and other governmental agencies, special assessments, special taxes, fees, and interest derived there from.

BLENDED COMPONENT UNITS**PUBLIC FACILITIES FINANCING AUTHORITY**

This fund was established to account for the capital improvement acquisition and construction activities of the Public Facilities Financing Authority (PFFA). PFFA, which was created by the City of San Diego and RDA, facilitates the financing and construction of public capital improvements of the City or RDA. Revenues are derived from the issuance of bonds and interest earnings on investments.

REDEVELOPMENT AGENCY

This fund was established to account for the capital improvement activities of the Redevelopment Agency of the City of San Diego (RDA). RDA was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. Funds are derived from the City of San Diego, from the issuance of bonds for specific redevelopment projects, sale of real estate and investment income.

SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

This fund was established to account for the capital improvement activities of the San Diego Facilities and Equipment Leasing Corporation (SDFELC). SDFELC was established to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. This fund accounts for proceeds from the issuance of Certificates of Participation used to finance construction projects in Balboa and Mission Bay parks.

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NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2009
(In Thousands)

	<u>City of San Diego</u>	<u>Public Facilities Financing Authority</u>
ASSETS		
Cash or Equity in Pooled Cash and Investments	\$ 322,004	\$ 105,438
Receivables:		
Accounts	7,545	-
Special Assessments	4	-
Notes	-	-
Accrued Interest	871	8
Grants	28,697	-
Due from Other Funds.....	1	-
Advances to Other Funds	600	-
Land Held for Resale.....	-	-
Prepaid Items.....	-	-
TOTAL ASSETS	<u>\$ 359,722</u>	<u>\$ 105,446</u>
LIABILITIES		
Accounts Payable	\$ 6,061	\$ -
Due to Other Funds	1,827	-
Due to Other Agencies	152	-
Unearned Revenue	18,816	-
Deferred Revenue	32,368	-
Sundry Trust Liabilities.....	-	-
Advances from Other Funds	600	-
Interfund Loan Payable	<u>3,487</u>	<u>-</u>
TOTAL LIABILITIES	<u>63,311</u>	<u>-</u>
FUND EQUITY		
Fund Balances:		
Reserved for Land Held for Resale.....	-	-
Reserved for Notes Receivable.....	-	-
Reserved for Encumbrances	52,865	401
Reserved for Advances and Deposits	600	-
Unreserved:		
Designated for Unrealized Gains	1,358	8
Designated for Subsequent Years' Expenditures	177,925	103,300
Undesignated	<u>63,663</u>	<u>1,737</u>
TOTAL FUND EQUITY	<u>296,411</u>	<u>105,446</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 359,722</u>	<u>\$ 105,446</u>

<u>Redevelopment Agency</u>	<u>San Diego Facilities and Equipment Leasing Corporation</u>	<u>Total</u>
\$ 194,712	\$ -	\$ 622,154
-	-	7,545
-	-	4
5,000	-	5,000
285	-	1,164
-	-	28,697
-	-	1
-	-	600
27,538	-	27,538
<u>73</u>	<u>-</u>	<u>73</u>
<u>\$ 227,608</u>	<u>\$ -</u>	<u>\$ 692,776</u>
\$ 3,855	\$ -	\$ 9,916
-	-	1,827
-	-	152
3	-	18,819
-	-	32,368
4,550	-	4,550
5,431	-	6,031
<u>17,093</u>	<u>-</u>	<u>20,580</u>
<u>30,932</u>	<u>-</u>	<u>94,243</u>
27,538	-	27,538
5,000	-	5,000
81,650	-	134,916
-	-	600
183	-	1,549
82,305	-	363,530
<u>-</u>	<u>-</u>	<u>65,400</u>
<u>196,676</u>	<u>-</u>	<u>598,533</u>
<u>\$ 227,608</u>	<u>\$ -</u>	<u>\$ 692,776</u>

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009
(In Thousands)

	City of San Diego	Public Facilities Financing Authority
REVENUES		
Special Assessments.....	\$ 4	\$ -
Sales Taxes	20,222	-
Licenses and Permits	6,942	-
Revenue from Use of Money and Property	14,249	115
Revenue from Federal Agencies	22,603	-
Revenue from Other Agencies	21,555	-
Revenue from Private Sources	9,406	-
Other Revenue	554	104
TOTAL REVENUES	95,535	219
EXPENDITURES		
Current:		
General Government and Support	3,725	-
Public Safety - Fire & Life Safety	42	-
Parks, Recreation, Culture and Leisure	2,245	-
Transportation	23,238	-
Sanitation and Health	650	-
Neighborhood Services	189	-
Capital Projects	100,980	-
Debt Service:		
Principal Retirement	141	-
Interest	74	-
TOTAL EXPENDITURES	131,284	-
EXCESS (DEFICIENCY) OF REVENUES		
OVER EXPENDITURES	(35,749)	219
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	61	-
Transfers from Other Funds	6,120	85
Transfers to Proprietary Funds	(1,424)	-
Transfers to Other Funds	(29,295)	-
Proceeds from the Sale of Capital Assets	2,157	-
Capital Leases	18,988	-
Loans Issued	302	-
Special Tax Bonds Issued	10,542	-
Revenue Bonds Issued	-	102,698
TOTAL OTHER FINANCING SOURCES (USES)	7,451	102,783
NET CHANGE IN FUND BALANCES	(28,298)	103,002
Fund Balances at Beginning of Year	324,709	2,444
FUND BALANCES AT END OF YEAR	\$ 296,411	\$ 105,446

Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	Total
\$ -	\$ -	\$ 4
-	-	20,222
-	-	6,942
7,874	-	22,238
-	-	22,603
-	-	21,555
9,154	-	18,560
1,419	-	2,077
<u>18,447</u>	<u>-</u>	<u>114,201</u>
21,780	-	25,505
-	-	42
-	-	2,245
-	-	23,238
-	-	650
16,461	-	16,650
23,330	-	124,310
-	-	141
<u>-</u>	<u>-</u>	<u>74</u>
<u>61,571</u>	<u>-</u>	<u>192,855</u>
<u>(43,124)</u>	<u>-</u>	<u>(78,654)</u>
-	-	61
38,369	-	44,574
-	-	(1,424)
(14,478)	(4)	(43,777)
-	-	2,157
-	-	18,988
4,296	-	4,598
-	-	10,542
<u>-</u>	<u>-</u>	<u>102,698</u>
<u>28,187</u>	<u>(4)</u>	<u>138,417</u>
(14,937)	(4)	59,763
<u>211,613</u>	<u>4</u>	<u>538,770</u>
<u>\$ 196,676</u>	<u>\$ -</u>	<u>\$ 598,533</u>

**CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2009
(In Thousands)**

	<u>Capital Outlay</u>	<u>Park & Recreation Districts</u>	<u>Facilities Benefit Assesments</u>
ASSETS			
Cash and Investments	\$ 19,599	\$ 7,126	\$ 134,760
Receivables:			
Accounts	-	-	-
Special Assesments	-	-	-
Accrued Interest	(8)	25	459
Grants	28,697	-	-
Due from Other Funds.....	-	-	1
Advances to Other Funds.....	600	-	-
TOTAL ASSETS	<u>\$ 48,888</u>	<u>\$ 7,151</u>	<u>\$ 135,220</u>
LIABILITIES			
Accounts Payable	\$ 2,452	\$ -	\$ 1,955
Due to Other Funds	1,827	-	-
Due to Other Agencies	13	-	-
Unearned Revenue	17,076	-	-
Deferred Revenue	23,076	-	-
Advances from Other Funds	-	-	-
Interfund Loan Payable	-	-	3,487
TOTAL LIABILITIES	<u>44,444</u>	<u>-</u>	<u>5,442</u>
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	2,552	461	36,101
Reserved for Advances and Deposits	600	-	-
Unreserved:			
Designated for Unrealized Gains	4	39	736
Designated for Subsequent Years' Expenditures	25,292	1,999	92,941
Undesignated	(24,004)	4,652	-
TOTAL FUND EQUITY	<u>4,444</u>	<u>7,151</u>	<u>129,778</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 48,888</u>	<u>\$ 7,151</u>	<u>\$ 135,220</u>

<u>Impact Fees</u>	<u>Special Assesment / Special Tax Bonds</u>	<u>TransNet</u>	<u>Other Construction</u>	<u>Total</u>
\$ 48,695	\$ 18,288	\$ 33,349	\$ 60,187	\$ 322,004
-	-	5,497	2,048	7,545
-	4	-	-	4
161	12	125	97	871
-	-	-	-	28,697
-	-	-	-	1
-	-	-	-	600
<u>\$ 48,856</u>	<u>\$ 18,304</u>	<u>\$ 38,971</u>	<u>\$ 62,332</u>	<u>\$ 359,722</u>
\$ 30	\$ -	\$ 1,380	\$ 244	6,061
-	-	-	-	1,827
-	-	-	139	152
-	-	-	1,740	18,816
-	-	7,244	2,048	32,368
-	-	-	600	600
-	-	-	-	3,487
<u>30</u>	<u>-</u>	<u>8,624</u>	<u>4,771</u>	<u>63,311</u>
3,095	112	5,884	4,660	52,865
-	-	-	-	600
263	31	169	116	1,358
5,007	75	23,725	28,886	177,925
<u>40,461</u>	<u>18,086</u>	<u>569</u>	<u>23,899</u>	<u>63,663</u>
<u>48,826</u>	<u>18,304</u>	<u>30,347</u>	<u>57,561</u>	<u>296,411</u>
<u>\$ 48,856</u>	<u>\$ 18,304</u>	<u>\$ 38,971</u>	<u>\$ 62,332</u>	<u>\$ 359,722</u>

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009
(In Thousands)

	Capital Outlay	Park & Recreation Districts	Facilities Benefit Assesments
REVENUES			
Special Assessments	\$ -	\$ -	\$ -
Sales Taxes	-	-	-
Licenses and Permits	-	-	-
Revenue from Use of Money and Property	2,755	252	4,972
Revenue from Federal Agencies	22,603	-	-
Revenue from Other Agencies	19,092	-	-
Revenue from Private Sources	-	-	9,048
Other Revenue	6	-	-
TOTAL REVENUES	<u>44,456</u>	<u>252</u>	<u>14,020</u>
EXPENDITURES			
Current:			
General Government and Support	-	-	1,657
Public Safety - Fire & Life Safety	1	-	-
Parks, Recreation, Culture and Leisure	1,075	-	-
Transportation	1,110	-	116
Sanitation and Health	-	-	224
Neighborhood Services	189	-	-
Capital Projects	65,204	18	20,673
Debt Service:			
Principal Retirement	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	<u>67,579</u>	<u>18</u>	<u>22,670</u>
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES	<u>(23,123)</u>	<u>234</u>	<u>(8,650)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	-	-	-
Transfers from Other Funds	54	-	-
Transfers to Proprietary Funds	(1,424)	-	-
Transfers to Other Funds	(8,968)	-	-
Proceeds from the Sale of Capital Assets	1,600	-	-
Capital Leases	18,988	-	-
Loans Issued	-	-	-
Special Tax Bonds Issued	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>10,250</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(12,873)	234	(8,650)
Fund Balances at Beginning of Year	17,317	6,917	138,428
FUND BALANCES AT END OF YEAR	<u>\$ 4,444</u>	<u>\$ 7,151</u>	<u>\$ 129,778</u>

<u>Impact Fees</u>	<u>Special Assesment / Special Tax Bonds</u>	<u>TransNet</u>	<u>Other Construction</u>	<u>Total</u>
\$ -	\$ 4	\$ -	\$ -	\$ 4
-	-	20,222	-	20,222
6,380	-	562	-	6,942
1,690	369	1,238	2,973	14,249
-	-	-	-	22,603
-	-	-	2,463	21,555
-	100	-	258	9,406
-	-	-	548	554
<u>8,070</u>	<u>473</u>	<u>22,022</u>	<u>6,242</u>	<u>95,535</u>
587	173	102	1,206	3,725
-	-	-	41	42
-	-	-	1,170	2,245
4	11,695	261	10,052	23,238
-	-	309	117	650
-	-	-	-	189
2,108	-	7,201	5,776	100,980
-	-	-	141	141
-	-	-	74	74
<u>2,699</u>	<u>11,868</u>	<u>7,873</u>	<u>18,577</u>	<u>131,284</u>
<u>5,371</u>	<u>(11,395)</u>	<u>14,149</u>	<u>(12,335)</u>	<u>(35,749)</u>
-	-	-	61	61
1	495	-	5,570	6,120
-	-	-	-	(1,424)
(4,749)	-	(9,821)	(5,757)	(29,295)
-	-	-	557	2,157
-	-	-	-	18,988
-	-	-	302	302
-	10,542	-	-	10,542
<u>(4,748)</u>	<u>11,037</u>	<u>(9,821)</u>	<u>733</u>	<u>7,451</u>
623	(358)	4,328	(11,602)	(28,298)
<u>48,203</u>	<u>18,662</u>	<u>26,019</u>	<u>69,163</u>	<u>324,709</u>
<u>\$ 48,826</u>	<u>\$ 18,304</u>	<u>\$ 30,347</u>	<u>\$ 57,561</u>	<u>\$ 296,411</u>

CITY OF SAN DIEGO
 NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 Year Ended June 30, 2009
 (In Thousands)

	TransNet				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Sales Taxes	\$ 20,222	\$ -	\$ 20,222	\$ 27,057	\$ (6,835)
Revenue from Use of Money and Property	1,238	(2)	1,236	-	1,236
Other Revenue	562	-	562	-	562
TOTAL REVENUES	<u>22,022</u>	<u>(2)</u>	<u>22,020</u>	<u>27,057</u>	<u>(5,037)</u>
EXPENDITURES					
Current:					
General Government and Support	102	-	102	162	60
Transportation	261	21	282	319	37
Sanitation and Health	309	66	375	1,043	668
Capital Projects	7,201	5,797	12,998	38,635	25,637
Debt Service:					
Principal Retirement	-	-	-	142	142
TOTAL EXPENDITURES	<u>7,873</u>	<u>5,884</u>	<u>13,757</u>	<u>40,301</u>	<u>26,544</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>14,149</u>	<u>(5,886)</u>	<u>8,263</u>	<u>(13,244)</u>	<u>21,507</u>
OTHER FINANCING SOURCES (USES)					
Transfers to Other Funds	(9,821)	-	(9,821)	(9,898)	77
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,821)</u>	<u>-</u>	<u>(9,821)</u>	<u>(9,898)</u>	<u>77</u>
NET CHANGE IN FUND BALANCES	<u>\$ 4,328</u>	<u>\$ (5,886)</u>	<u>(1,558)</u>	<u>(23,142)</u>	<u>21,584</u>
Fund Balances Undesignated at July 1, 2008			130	130	
Reserved for Encumbrances at July 1, 2008			7,690	7,690	-
Designated for Subsequent Years' Expenditures at July 1, 2008			18,032	18,032	-
Designated for Subsequent Years' Expenditures at June 30, 2009			<u>(23,725)</u>	<u>-</u>	<u>(23,725)</u>
FUND BALANCES UNDESIGNATED AT JUNE 30, 2009			<u>\$ 569</u>	<u>\$ 2,710</u>	<u>\$ (2,141)</u>

NON MAJOR GOVERNMENTAL FUNDS - PERMANENT

PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs (i.e., for the benefit of the City or its citizens).

CARMEL VALLEY SEWER MAINTENANCE

This fund was established to fund the City's share of maintenance costs for a private sewer system in the Carmel Valley community. The original contribution was received from a developer and interest earnings derived there from will finance a fifty-year maintenance period.

CEMETERY PERPETUITY

This fund was established to account for the Mt. Hope Cemetery endowment. Investment earnings derived from the endowment supplement grave sales revenues in order to finance cemetery operations.

EFFIE SERGEANT

This fund was established to account for a donation to benefit the North Park Branch Library. Investment earnings are used to finance library services and programs.

FIGG ESTATE ENDOWMENT

This fund was established to account for a donation received for the planting and maintenance of jacaranda trees in the public rights of way throughout the City of San Diego. Investment earnings are used for planting and maintenance as well.

GLADYS EDNA PETERS

This fund was established to account for a donation to benefit the Rancho Bernardo Branch Library. Investment earnings are used to procure and maintain a collection of large print books and periodicals.

JANE CAMERON ESTATE

This fund was established to account for a donation to benefit the La Jolla/Riford Branch Library. Investment earnings are used to finance library services and programs.

LOS PENASQUITOS CANYON

This fund was established to account for the Los Penasquitos Canyon Preserve Trust Fund. Investment earnings are used to finance operations, land acquisitions, historical restoration, and maintenance of the Penasquitos Preserve Park.

MONTEZUMA ROAD MEDIAN MAINTENANCE

This fund was established to account for an endowment from San Diego State University. Investment earnings derived there from are used to finance the maintenance of medians along Montezuma Road.

SOUTHCREST PARK ESTATES II

This fund was established to finance the City's landscape maintenance costs for the Southcrest Park Estates II, a residential development within the Southcrest Redevelopment project area. The original contribution was received from a developer, and investment earnings derived there from will finance the permanent maintenance costs.

SYCAMORE ESTATES

This fund was established to account for an endowment agreement between the City and Sycamore Estates, LLC. Investment earnings from the endowment shall be used exclusively for the long-term maintenance of conserved property within Sycamore Estates.

ZOOLOGICAL SOCIETY – MISSION TRAILS

This fund was established to account for the Fortuna Mountain Conservation Bank endowment. Investment earnings derived from the endowment shall be used to fund the permanent management of the Fortuna Mountain Conservation Bank within Mission Trails Regional Park.

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CITY OF SAN DIEGO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
JUNE 30, 2009
(In Thousands)

	Carmel Valley Sewer Maintenance	Cemetery Perpetuity	Effie Sergeant
ASSETS			
Receivables:			
Accounts - Net	\$ -	\$ 15	\$ -
Accrued Interest	-	14	-
Restricted Cash and Investments	49	9,427	441
TOTAL ASSETS	<u>\$ 49</u>	<u>\$ 9,456</u>	<u>\$ 441</u>
FUND EQUITY:			
Fund Balances:			
Reserved for Permanent Endowments	\$ -	\$ 9,439	\$ 441
Unreserved:			
Designated for Unrealized Gains	-	17	-
Undesignated	49	-	-
TOTAL FUND EQUITY	<u>\$ 49</u>	<u>\$ 9,456</u>	<u>\$ 441</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009
(In Thousands)

REVENUES			
Revenue from Use of Money and Property	\$ 1	\$ (411)	\$ (65)
Revenue from Private Sources	-	-	-
Charges for Current Services	-	114	-
TOTAL REVENUES	<u>1</u>	<u>(297)</u>	<u>(65)</u>
EXPENDITURES			
Current:			
General Government and Support	-	-	-
Parks, Recreation, Culture and Leisure	-	-	10
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>10</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	<u>1</u>	<u>(297)</u>	<u>(75)</u>
OTHER FINANCING SOURCES (USES)			
Transfers to Other Funds	-	(372)	-
NET CHANGE IN FUND BALANCES	<u>1</u>	<u>(669)</u>	<u>(75)</u>
Fund Balances at Beginning of Year	<u>48</u>	<u>10,125</u>	<u>516</u>
FUND BALANCES AT END OF YEAR	<u>\$ 49</u>	<u>\$ 9,456</u>	<u>\$ 441</u>

Figg Estate Endowment	Gladys Edna Peters	Jane Cameron Estate	Los Penasquitos Canyon	Montezuma Road Median Maintenance	Southcrest Park Estates II	Sycamore Estates	Zoological Society - Mission Trails	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15
-	-	9	-	-	-	-	-	23
<u>322</u>	<u>298</u>	<u>2,789</u>	<u>2,209</u>	<u>-</u>	<u>13</u>	<u>250</u>	<u>69</u>	<u>15,867</u>
<u>\$ 322</u>	<u>\$ 298</u>	<u>\$ 2,798</u>	<u>\$ 2,209</u>	<u>\$ -</u>	<u>\$ 13</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 15,905</u>
\$ -	\$ 298	\$ 2,783	\$ -	\$ -	\$ -	\$ 250	\$ 69	\$ 13,280
-	-	15	-	-	-	-	-	32
<u>322</u>	<u>-</u>	<u>-</u>	<u>2,209</u>	<u>-</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>2,593</u>
<u>\$ 322</u>	<u>\$ 298</u>	<u>\$ 2,798</u>	<u>\$ 2,209</u>	<u>\$ -</u>	<u>\$ 13</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 15,905</u>
\$ 15	\$ (47)	\$ 99	\$ (375)	\$ 4	\$ -	\$ 10	\$ 3	\$ (766)
-	-	122	-	-	-	-	-	122
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114</u>
<u>15</u>	<u>(47)</u>	<u>221</u>	<u>(375)</u>	<u>4</u>	<u>-</u>	<u>10</u>	<u>3</u>	<u>(530)</u>
-	-	-	1	115	-	-	-	116
<u>-</u>	<u>22</u>	<u>178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210</u>
<u>-</u>	<u>22</u>	<u>178</u>	<u>1</u>	<u>115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>326</u>
<u>15</u>	<u>(69)</u>	<u>43</u>	<u>(376)</u>	<u>(111)</u>	<u>-</u>	<u>10</u>	<u>3</u>	<u>(856)</u>
<u>(13)</u>	<u>-</u>	<u>-</u>	<u>(143)</u>	<u>(4)</u>	<u>-</u>	<u>(10)</u>	<u>(3)</u>	<u>(545)</u>
<u>2</u>	<u>(69)</u>	<u>43</u>	<u>(519)</u>	<u>(115)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,401)</u>
<u>320</u>	<u>367</u>	<u>2,755</u>	<u>2,728</u>	<u>115</u>	<u>13</u>	<u>250</u>	<u>69</u>	<u>17,306</u>
<u>\$ 322</u>	<u>\$ 298</u>	<u>\$ 2,798</u>	<u>\$ 2,209</u>	<u>\$ -</u>	<u>\$ 13</u>	<u>\$ 250</u>	<u>\$ 69</u>	<u>\$ 15,905</u>

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NON MAJOR BUSINESS-TYPE FUNDS - ENTERPRISE

ENTERPRISE FUNDS

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. These funds use full accrual accounting.

CITY OF SAN DIEGO

AIRPORTS

This fund was established to account for the operation, maintenance and development of both City-owned airports--Montgomery and Brown Fields. Airports fund revenues are derived from such sources as rent/lease revenue, usage fees, earnings on investments and aid from other governmental agencies.

CITY STORE

This fund was established to account for activities of the City's entrepreneurial program. This program operates retail store outlets for the purpose of selling surplus city materials and other items promoting the City of San Diego.

DEVELOPMENT SERVICES

This fund was established to account for construction management, development project review, permitting, and inspection services for the City.

ENVIRONMENTAL SERVICES

This fund was established to account for refuse disposal, collection, energy conservation, resource management, and other environmental programs.

GOLF COURSE

This fund was established to operate, maintain, and improve physical conditions and initiate capital improvement programs for Torrey Pines, Mission Bay, and Balboa golf courses. Revenues are derived from green fees and leases.

RECYCLING

This fund was established to account for the planning, implementation, operation and management of City recycling and waste diversion programs. Revenues are derived from the recycling fee on all waste generated in the City or disposed of at the City landfill.

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF NET ASSETS
June 30, 2009
(In Thousands)

	<u>Airports</u>	<u>City Store</u>
ASSETS		
Cash and Investments	\$ 11,866	\$ -
Receivables:		
Accounts - Net of Allowance for Uncollectibles (Airports \$340)	392	-
Claims - Net	-	-
Accrued Interest	42	-
Grants	1,560	-
From Other Funds	-	-
Inventories	-	-
Prepaid Expenses	2	-
Restricted Cash and Investments	-	-
Capital Assets - Non-Depreciable	3,667	-
Capital Assets - Depreciable	<u>9,652</u>	<u>-</u>
TOTAL ASSETS	<u>27,181</u>	<u>-</u>
LIABILITIES		
Accounts Payable	491	-
Accrued Wages and Benefits	44	-
Interest Accrued on Long-Term Debt	-	-
Long Term Debt Due Within One Year	67	-
Due to Other Funds	2	-
Unearned Revenue	-	-
Contract Deposits	-	-
Deposits/Advances from Others	-	-
Compensated Absences	68	-
Estimated Landfill Closure and Postclosure Care	-	-
Net Other Post Employment Benefits Obligation	131	-
Net Pension Obligation	<u>197</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,000</u>	<u>-</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	13,319	-
Restricted for Closure/Postclosure maintenance	-	-
Unrestricted	<u>12,862</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 26,181</u>	<u>\$ -</u>

<u>Development Services</u>	<u>Environmental Services</u>	<u>Golf Course</u>	<u>Recycling</u>	<u>Total</u>
\$ 5,322	\$ 58,010	\$ 20,439	\$ 8,547	\$ 104,184
85	112	14	198	801
-	-	2	-	2
52	296	70	51	511
-	-	-	224	1,784
3,604	-	5	-	3,609
-	-	2	-	2
-	-	-	-	2
-	37,983	-	2,569	40,552
177	19,409	1,629	-	24,882
<u>1,082</u>	<u>32,886</u>	<u>15,443</u>	<u>1,460</u>	<u>60,523</u>
<u>10,322</u>	<u>148,696</u>	<u>37,604</u>	<u>13,049</u>	<u>236,852</u>
46	684	326	23	1,570
1,191	465	182	294	2,176
-	-	-	1	1
1,024	513	173	207	1,984
58	60	-	27	147
6,453	-	-	224	6,677
-	-	-	337	337
-	-	-	2,569	2,569
1,031	516	174	208	1,997
-	19,336	-	-	19,336
3,212	1,199	734	997	6,273
<u>6,092</u>	<u>2,067</u>	<u>547</u>	<u>1,309</u>	<u>10,212</u>
<u>19,107</u>	<u>24,840</u>	<u>2,136</u>	<u>6,196</u>	<u>53,279</u>
1,259	52,295	17,072	1,460	85,405
-	38,113	-	-	38,113
<u>(10,044)</u>	<u>33,448</u>	<u>18,396</u>	<u>5,393</u>	<u>60,055</u>
<u>\$ (8,785)</u>	<u>\$ 123,856</u>	<u>\$ 35,468</u>	<u>\$ 6,853</u>	<u>\$ 183,573</u>

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Year Ended June 30, 2009
 (In Thousands)

	Airports	City Store
OPERATING REVENUES		
Charges for Services	\$ -	\$ 242
Usage Fees	4,778	-
Other	151	-
TOTAL OPERATING REVENUES	4,929	242
OPERATING EXPENSES		
Maintenance and Operations	3,854	277
Administration	795	38
Depreciation	520	1
TOTAL OPERATING EXPENSES	5,169	316
OPERATING INCOME (LOSS)	(240)	(74)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	439	2
Federal Grant Assistance	-	-
Other Agency Grant Assistance	-	-
Gain (Loss) on Sale/Retirement of Capital Assets	(4)	(5)
Debt Service Interest Expense	-	-
Other	6	(1)
TOTAL NONOPERATING REVENUES (EXPENSES)	441	(4)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	201	(78)
Capital Contributions	1,806	-
Transfers from Other Funds	8	-
Transfers from Governmental Funds	-	-
Transfers to Other Funds	(32)	-
Transfers to Governmental Funds	(2)	(57)
CHANGE IN NET ASSETS	1,981	(135)
Net Assets at Beginning of Year	24,200	135
NET ASSETS AT END OF YEAR	\$ 26,181	\$ -

<u>Development Services</u>	<u>Environmental Services</u>	<u>Golf Course</u>	<u>Recycling</u>	<u>Total</u>
\$ 37,178	\$ 1,047	\$ 14,859	\$ 5,463	\$ 58,789
-	30,169	1,334	9,391	45,672
<u>132</u>	<u>510</u>	<u>8</u>	<u>1,173</u>	<u>1,974</u>
<u>37,310</u>	<u>31,726</u>	<u>16,201</u>	<u>16,027</u>	<u>106,435</u>
21,424	27,558	10,171	18,337	81,621
25,624	4,616	972	2,093	34,138
<u>267</u>	<u>3,140</u>	<u>817</u>	<u>1,052</u>	<u>5,797</u>
<u>47,315</u>	<u>35,314</u>	<u>11,960</u>	<u>21,482</u>	<u>121,556</u>
<u>(10,005)</u>	<u>(3,588)</u>	<u>4,241</u>	<u>(5,455)</u>	<u>(15,121)</u>
94	3,403	696	441	5,075
-	-	-	27	27
-	83	-	200	283
(9)	(787)	-	(9)	(814)
-	-	-	(3)	(3)
<u>-</u>	<u>1,993</u>	<u>1</u>	<u>263</u>	<u>2,262</u>
<u>85</u>	<u>4,692</u>	<u>697</u>	<u>919</u>	<u>6,830</u>
(9,920)	1,104	4,938	(4,536)	(8,291)
-	-	-	-	1,806
11	171	20	66	276
2,125	9	-	483	2,617
(31)	-	-	-	(63)
<u>(134)</u>	<u>(35)</u>	<u>(2,134)</u>	<u>(102)</u>	<u>(2,464)</u>
(7,949)	1,249	2,824	(4,089)	(6,119)
<u>(836)</u>	<u>122,607</u>	<u>32,644</u>	<u>10,942</u>	<u>189,692</u>
<u>\$ (8,785)</u>	<u>\$ 123,856</u>	<u>\$ 35,468</u>	<u>\$ 6,853</u>	<u>\$ 183,573</u>

**NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2009
(In Thousands)**

	<u>Airports</u>	<u>City Store</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 5,073	\$ 237
Receipts from Interfund Services Provided	-	4
Payments to Suppliers	(2,310)	(247)
Payments to Employees	(1,172)	-
Payments for Interfund Services Used.....	(736)	(4)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	855	(10)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In	8	-
Transfers from Governmental Funds	-	-
Transfers Out	(32)	-
Transfers to Governmental Funds	(2)	(57)
Operating Grants Received	-	-
Proceeds from Advances and Deposits	-	-
Payments for Advances and Deposits	-	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(26)	(57)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions	973	-
Acquisition of Capital Assets	(1,648)	-
Principal Payments on Capital Leases	-	-
Interest Paid on Long-Term Debt	-	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(675)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received on Investments	471	2
NET CASH PROVIDED BY INVESTING ACTIVITIES	471	2
Net Increase (Decrease) in Cash and Cash Equivalents	625	(65)
Cash and Cash Equivalents at Beginning of Year	11,241	65
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 11,866	\$ -
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Operating Income (Loss)	\$ (240)	\$ (74)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	520	1
(Increase) Decrease in Assets:		
Accounts Receivable - Net	138	-
Claims Receivable - Net	-	-
Due From Other Funds	-	-
Inventories	-	77
Prepaid Expenses	(2)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	322	(13)
Accrued Wages and Benefits	10	-
Due to Other Funds	(1)	-
Unearned Revenue	-	-
Contract Deposits	-	-
Compensated Absences	15	-
Estimated Landfill Closure and Postclosure Care	-	-
Net OPEB Obligation	82	-
Net Pension Obligation	5	-
Other Nonoperating Revenue (Expenses)	6	(1)
Total Adjustments	1,095	64
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 855	\$ (10)
Noncash Investing, Capital, and Financing Activities:		
Increase (Decrease) in Capital Assets related Accounts Payable	\$ 76	\$ -
Noncash Retirement of Capital Assets	(4)	(5)

Development Services	Environmental Services	Golf Course	Recycling	Total
\$ 23,210	\$ 30,744	\$ 16,188	\$ 15,155	\$ 90,607
13,965	2,938	7	1,391	18,305
(10,480)	(16,816)	(3,908)	(8,077)	(41,838)
(34,887)	(11,018)	(5,964)	(8,866)	(61,907)
(350)	(2,740)	(759)	(3,020)	(7,609)
<u>(8,542)</u>	<u>3,108</u>	<u>5,564</u>	<u>(3,417)</u>	<u>(2,442)</u>
11	171	20	66	276
2,125	9	-	483	2,617
(30)	-	-	-	(62)
(134)	(35)	(2,134)	(102)	(2,464)
-	83	-	155	238
-	-	-	2,569	2,569
-	(25)	-	-	(25)
<u>1,972</u>	<u>203</u>	<u>(2,114)</u>	<u>3,171</u>	<u>3,149</u>
-	-	-	-	973
-	(3,809)	(1,113)	(10)	(6,580)
-	-	-	(166)	(166)
-	-	-	(11)	(11)
<u>-</u>	<u>(3,809)</u>	<u>(1,113)</u>	<u>(187)</u>	<u>(5,784)</u>
<u>207</u>	<u>3,721</u>	<u>754</u>	<u>477</u>	<u>5,632</u>
<u>207</u>	<u>3,721</u>	<u>754</u>	<u>477</u>	<u>5,632</u>
(6,363)	3,223	3,091	44	555
<u>11,685</u>	<u>92,770</u>	<u>17,348</u>	<u>11,072</u>	<u>144,181</u>
<u>\$ 5,322</u>	<u>\$ 95,993</u>	<u>\$ 20,439</u>	<u>\$ 11,116</u>	<u>\$ 144,736</u>
<u>\$ (10,005)</u>	<u>\$ (3,588)</u>	<u>\$ 4,241</u>	<u>\$ (5,455)</u>	<u>\$ (15,121)</u>
267	3,140	817	1,052	5,797
(36)	(37)	-	(2)	63
-	-	(2)	-	(2)
469	-	(5)	-	464
-	-	(1)	-	76
-	-	-	12	10
(59)	(157)	(1)	(84)	8
87	85	(11)	22	193
(21)	(42)	(7)	(63)	(134)
(568)	-	-	196	(372)
-	-	-	62	62
(496)	40	14	(78)	(505)
-	907	-	-	907
1,715	729	499	627	3,652
105	38	19	31	198
-	1,993	1	263	2,262
<u>1,463</u>	<u>6,696</u>	<u>1,323</u>	<u>2,038</u>	<u>12,679</u>
<u>\$ (8,542)</u>	<u>\$ 3,108</u>	<u>\$ 5,564</u>	<u>\$ (3,417)</u>	<u>\$ (2,442)</u>
\$ -	\$ (160)	\$ (298)	\$ -	\$ (382)
(9)	(787)	-	(9)	(814)

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INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units and/or funds.

CITY OF SAN DIEGO

FLEET SERVICES

This fund was established to account for the acquisition, replacement, maintenance and fueling of the City's motive equipment.

CENTRAL STORES

This fund was established to provide centralized storeroom services to all City departments.

PUBLISHING SERVICES

This fund was established to provide printing and reproduction services to all City departments.

SELF INSURANCE

This fund was established to account for self insurance activities, including worker's compensation and long-term disability programs for employees. Revenues are derived from rates charged to departments as a percentage of payroll. This fund also accounts for the public liability reserve, which was established for the purpose of paying claims in excess of annual appropriations.

SPECIAL ENGINEERING

This fund was established to provide project planning, design, engineering systems management and support, and construction management and inspection services for water and wastewater capital improvements.

MISCELLANEOUS INTERNAL SERVICE

This fund accounts for various administrative activities including risk management administration, administration and operation of various employee related programs such as unused compensatory time, unused sick leave and unemployment insurance, and citywide training. Revenues are derived from rates or fees charged to the departments for specific services rendered.

BLENDED COMPONENT UNIT

SAN DIEGO DATA PROCESSING CORPORATION

This fund accounts for the operations of the San Diego Data Processing Corporation, Inc. (SDDPC). SDDPC was formed for the purpose of providing data processing services to public agencies, primarily the City of San Diego, which is the sole member of SDDPC. SDDPC also provides telecommunication services to the City. Rates are charged for the various services provided as per operating agreements and are subject to change each year.

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2009
(In Thousands)**

	<u>City of San Diego</u>	
	<u>Fleet Services</u>	<u>Central Stores</u>
ASSETS		
Cash and Investments	\$ 76,819	\$ 857
Receivables:		
Accounts - Net of Allowance for Uncollectibles (Self Insurance \$896)	97	157
Claims - Net	1	-
Contributions	-	-
Accrued Interest	-	-
From Other Funds	-	-
Inventories	-	2,031
Prepaid Expenses	931	1
Capital Assets - Non-Depreciable	-	-
Capital Assets - Depreciable	<u>113,444</u>	<u>79</u>
TOTAL ASSETS	<u>191,292</u>	<u>3,125</u>
LIABILITIES		
Accounts Payable	828	905
Accrued Wages and Benefits	805	39
Interest Accrued on Long-Term Debt	269	-
Long-Term Debt Due Within One Year	8,195	22
Due to Other Funds	91	4
Unearned Revenue	-	-
Compensated Absences	761	25
Liability Claims	-	-
Capital Lease Obligations	21,221	-
Net Other Post Employment Benefits Obligation	2,009	175
Net Pension Obligation	<u>1,579</u>	<u>203</u>
TOTAL LIABILITIES	<u>35,758</u>	<u>1,373</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	84,685	79
Unrestricted	<u>70,849</u>	<u>1,673</u>
TOTAL NET ASSETS	<u>\$ 155,534</u>	<u>\$ 1,752</u>

<u>Publishing Services</u>	<u>Self Insurance</u>	<u>Special Engineering</u>	<u>Miscellaneous Internal Service</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 1,321	\$ 57,638	\$ -	\$ 10,383	\$ 1,098	\$ 148,116
10	303	-	2	607	1,176
-	8	-	-	-	9
-	-	-	360	-	360
-	-	-	18	-	18
-	-	-	-	5,980	5,980
-	-	-	-	2	2,033
1	-	-	39	2,104	3,076
-	-	-	-	1,984	1,984
<u>206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,241</u>	<u>123,970</u>
<u>1,538</u>	<u>57,949</u>	<u>-</u>	<u>10,802</u>	<u>22,016</u>	<u>286,722</u>
139	440	-	2	6,128	8,442
35	92	-	1,375	590	2,936
-	-	-	-	-	269
44	43,663	-	2,230	1,113	55,267
1,521	-	-	165	31	1,812
-	-	-	-	77	77
51	-	-	2,578	380	3,795
-	178,126	-	-	-	178,126
-	-	-	-	-	21,221
137	-	-	657	-	2,978
<u>285</u>	<u>-</u>	<u>-</u>	<u>858</u>	<u>-</u>	<u>2,925</u>
<u>2,212</u>	<u>222,321</u>	<u>-</u>	<u>7,865</u>	<u>8,319</u>	<u>277,848</u>
206	-	-	-	12,225	97,195
<u>(880)</u>	<u>(164,372)</u>	<u>-</u>	<u>2,937</u>	<u>1,472</u>	<u>(88,321)</u>
<u>\$ (674)</u>	<u>\$ (164,372)</u>	<u>\$ -</u>	<u>\$ 2,937</u>	<u>\$ 13,697</u>	<u>\$ 8,874</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2009
(In Thousands)

	City of San Diego	
	Fleet Services	Central Stores
OPERATING REVENUES		
Charges for Services	\$ 2,079	\$ 31,536
Usage Fees	81,001	-
Other	253	331
TOTAL OPERATING REVENUES	<u>83,333</u>	<u>31,867</u>
OPERATING EXPENSES		
Benefit and Claim Payments	-	-
Maintenance and Operations	42,189	1,406
Cost of Materials Issued	-	29,149
Administration	2,730	69
Depreciation	22,202	19
TOTAL OPERATING EXPENSES	<u>67,121</u>	<u>30,643</u>
OPERATING INCOME (LOSS)	<u>16,212</u>	<u>1,224</u>
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	2,460	(7)
Other Agency Grant Assistance	123	-
Gain (Loss) on Sale/Retirement of Capital Assets	(309)	(3)
Debt Service Interest Expense	(971)	-
Other	10,455	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>11,758</u>	<u>(10)</u>
INCOME (LOSS) BEFORE TRANSFERS	27,970	1,214
Capital Contributions	198	-
Transfers from Other Funds	157	4
Transfers from Governmental Funds	5,681	11
Transfers to Other Funds	(840)	(1)
Transfers to Governmental Funds	(1,713)	(41)
CHANGE IN NET ASSETS	31,453	1,187
Net Assets at Beginning of Year	<u>124,081</u>	<u>565</u>
NET ASSETS AT END OF YEAR	<u>\$ 155,534</u>	<u>\$ 1,752</u>

<u>Publishing Services</u>	<u>Self Insurance</u>	<u>Special Engineering</u>	<u>Miscellaneous Internal Service</u>	<u>San Diego Data Processing Corporation</u>	<u>Total</u>
\$ 5,347	\$ 57,983	\$ -	\$ 16,791	\$ 47,201	\$ 160,937
-	-	-	-	-	81,001
-	161	-	138	-	883
<u>5,347</u>	<u>58,144</u>	<u>-</u>	<u>16,929</u>	<u>47,201</u>	<u>242,821</u>
-	45,665	-	12,751	-	58,416
2,752	-	-	-	-	46,347
-	-	-	-	-	29,149
2,396	-	(3,094)	9,250	44,364	55,715
83	-	-	-	4,209	26,513
<u>5,231</u>	<u>45,665</u>	<u>(3,094)</u>	<u>22,001</u>	<u>48,573</u>	<u>216,140</u>
<u>116</u>	<u>12,479</u>	<u>3,094</u>	<u>(5,072)</u>	<u>(1,372)</u>	<u>26,681</u>
(31)	2,207	(3)	523	33	5,182
-	-	-	-	-	123
(8)	-	(1)	-	85	(236)
-	-	-	-	-	(971)
-	-	-	-	6	10,461
<u>(39)</u>	<u>2,207</u>	<u>(4)</u>	<u>523</u>	<u>124</u>	<u>14,559</u>
77	14,686	3,090	(4,549)	(1,248)	41,240
-	-	-	-	-	198
2	-	-	-	-	163
31	-	-	-	-	5,723
-	-	(432)	-	-	(1,273)
<u>(34)</u>	<u>(2,207)</u>	<u>(207)</u>	<u>(337)</u>	<u>-</u>	<u>(4,539)</u>
76	12,479	2,451	(4,886)	(1,248)	41,512
<u>(750)</u>	<u>(176,851)</u>	<u>(2,451)</u>	<u>7,823</u>	<u>14,945</u>	<u>(32,638)</u>
<u>\$ (674)</u>	<u>\$ (164,372)</u>	<u>\$ -</u>	<u>\$ 2,937</u>	<u>\$ 13,697</u>	<u>\$ 8,874</u>

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	City of San Diego		
	Fleet Services	Central Stores	Publishing Services
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ -	\$ -	\$ -
Receipts from Interfund Services Provided	93,790	31,854	5,347
Payments to Suppliers	(26,305)	(30,859)	(4,001)
Payments to Employees	(18,711)	(1,209)	(1,162)
Payments for Interfund Services Used.....	(2,602)	(100)	(37)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	46,172	(314)	147
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	157	3	2
Transfers from Governmental Funds	2,512	7	31
Transfers Out	(840)	-	-
Transfers to Governmental Funds	(1,713)	(37)	(13)
Operating Grants Received	123	-	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	239	(27)	20
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Contracts, Notes, and Loans	10,362	-	-
Acquisition of Capital Assets	(44,598)	-	-
Proceeds from the Sale of Capital Assets	3,273	-	-
Principal Payments on Capital Leases	(7,055)	-	-
Interest Paid on Long-Term Debt	(1,046)	-	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(39,064)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received on Investments	2,460	(6)	(31)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	2,460	(6)	(31)
Net Increase (Decrease) in Cash and Cash Equivalents	9,807	(347)	136
Cash and Cash Equivalents at Beginning of Year	67,012	1,204	1,185
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 76,819	\$ 857	\$ 1,321
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Operating Income (Loss)	\$ 16,212	\$ 1,224	\$ 116
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:			
Depreciation	22,202	19	83
(Increase) Decrease in Assets:			
Accounts Receivable - Net	(3)	(13)	-
Claims Receivable - Net	5	-	-
Contributions Receivable	-	-	-
Inventories	-	72	-
Prepaid Expenses.....	(184)	(1)	(1)
Increase (Decrease) in Liabilities:			
Accounts Payable	(3,859)	(1,723)	(55)
Accrued Wages and Benefits	140	(7)	1
Due to Other Funds	(1)	-	(96)
Unearned Revenue	-	-	-
Compensated Absences	(96)	(2)	7
Liability Claims	-	-	-
Net OPEB Obligation	1,238	113	88
Net Pension Obligation	63	4	4
Other Nonoperating Revenue (Expenses)	10,455	-	-
Total Adjustments	29,960	(1,538)	31
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 46,172	\$ (314)	\$ 147
Noncash Investing, Capital, and Financing Activities:			
Capital Leases.....	\$ 10,366	\$ -	\$ -
Developer Contributed Assets	198	-	-
Increase (Decrease) in Capital Assets related Accounts Payable	(6,243)	(3)	-
Noncash Retirement of Capital Assets	(309)	-	(8)
Contributions of Capital Assets from Governmental Activities	3,170	4	-

Self Insurance	Special Engineering	Miscellaneous Internal Service	San Diego Data Processing Corporation	Total
\$ -	\$ -	\$ -	\$ 3,182	\$ 3,182
58,004	-	16,927	44,100	250,022
(23,222)	(194)	(1,139)	(18,930)	(104,650)
(21,696)	(429)	(20,911)	(26,592)	(90,710)
-	-	-	-	(2,739)
<u>13,086</u>	<u>(623)</u>	<u>(5,123)</u>	<u>1,760</u>	<u>55,105</u>
-	-	-	-	162
-	-	-	-	2,550
-	(433)	-	-	(1,273)
(2,207)	-	(337)	-	(4,307)
-	-	-	-	123
<u>(2,207)</u>	<u>(433)</u>	<u>(337)</u>	<u>-</u>	<u>(2,745)</u>
-	-	-	-	10,362
-	(1)	-	(4,570)	(49,169)
-	-	-	85	3,358
-	-	-	-	(7,055)
-	-	-	-	(1,046)
-	(1)	-	(4,485)	(43,550)
<u>2,207</u>	<u>(3)</u>	<u>542</u>	<u>33</u>	<u>5,202</u>
<u>2,207</u>	<u>(3)</u>	<u>542</u>	<u>33</u>	<u>5,202</u>
13,086	(1,060)	(4,918)	(2,692)	14,012
<u>44,552</u>	<u>1,060</u>	<u>15,301</u>	<u>3,790</u>	<u>134,104</u>
<u>\$ 57,638</u>	<u>\$ -</u>	<u>\$ 10,383</u>	<u>\$ 1,098</u>	<u>\$ 148,116</u>
<u>\$ 12,479</u>	<u>\$ 3,094</u>	<u>\$ (5,072)</u>	<u>\$ (1,372)</u>	<u>\$ 26,681</u>
-	-	-	4,209	26,513
(137)	-	(1)	(801)	(955)
(3)	-	-	-	2
-	-	39	-	39
-	-	-	-	72
-	1	(39)	(486)	(710)
(1,586)	(42)	(228)	(759)	(8,252)
2	(429)	36	(39)	(296)
-	(151)	117	-	(131)
-	-	-	(49)	(49)
-	-	(397)	126	(362)
2,331	-	-	-	2,331
-	(603)	401	-	1,237
-	(2,493)	21	-	(2,401)
-	-	-	931	11,386
<u>607</u>	<u>(3,717)</u>	<u>(51)</u>	<u>3,132</u>	<u>28,424</u>
<u>\$ 13,086</u>	<u>\$ (623)</u>	<u>\$ (5,123)</u>	<u>\$ 1,760</u>	<u>\$ 55,105</u>
\$ -	\$ -	\$ -	\$ -	\$ 10,366
-	-	-	-	198
-	-	-	-	(6,246)
-	(1)	-	-	(318)
-	-	-	-	3,174

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FIDUCIARY FUNDS

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

The resources of fiduciary funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF SAN DIEGO

PENSION AND EMPLOYEE SAVINGS TRUST FUNDS

PRESERVATION OF BENEFITS PLAN

The Preservation of Benefits Plan is a qualified governmental excess benefit arrangement under Internal Revenue Code (IRC) section 415(m), which was created by Congress to allow for the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore can't be paid from the City's Pension and Employee Savings Trust Fund). This fund is maintained by the Retirement Board of Administration to reflect all amounts the City contributes for payment of pension benefits that exceed IRC section 415(b) limits.

RETIREE HEALTH INSURANCE TRUST FUND

Retiree Health Insurance Trust fund is a separate trust fund used solely for providing retiree health benefits. It is maintained by the Retirement Board of Administration to reflect all amounts the City and retirees contribute to pay retiree health benefits.

SUPPLEMENTAL PENSION SAVINGS PLAN

The Supplemental Pension Savings Plan Fund is a defined contribution plan, where benefits depend solely on amounts contributed to the plan by both the City and employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

401(k) PLAN

The City's 401(k) Plan Fund is a defined contribution plan, where benefits depend solely on amounts contributed to the plan by City employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

AGENCY FUNDS

These funds were established to account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds, including federal and state income taxes withheld from employees, parking citation revenues, and employee benefit plans.

BLENDED COMPONENT UNIT

PENSION AND EMPLOYEE SAVINGS TRUST FUNDS

CITY EMPLOYEES' RETIREMENT SYSTEM

The San Diego City Employees' Retirement System ("CERS") provides retirement, health insurance, disability, and death benefits. SDCERS is a defined benefit plan, whereby funds are accumulated from City and employee contributions, plus earnings from fund investments. Currently SDCERS also administers the Port of San Diego and the San Diego County Regional Airport Authority defined benefit plans.

**FIDUCIARY FUNDS
PENSION AND EMPLOYEE SAVINGS TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009
(In Thousands)**

	City Employees' Retirement System	Preservation of Benefits Arrangement	Post- Employment Healthcare	Supplemental Pension Savings Plan	401(k) Plan	Total
ASSETS						
Cash or Equity in Pooled Cash and Investments	\$ 3,199	\$ 4	\$ 369	\$ 344	\$ 700	\$ 4,616
Cash with Custodian/Fiscal Agent	371,736	26	-	-	-	371,762
Investments at Fair Value:						
Short Term Investments	33,311	-	-	-	-	33,311
Domestic Fixed Income Securities (Bonds)	861,555	-	-	-	-	861,555
International Fixed Income Securities (Bonds)	143,677	-	-	-	-	143,677
Domestic Equity Securities (Stocks)	1,444,848	-	-	-	-	1,444,848
International Equity Securities (Stocks)	614,246	-	-	-	-	614,246
Real Estate Equity and Real Estate Securities	350,498	-	-	-	-	350,498
Defined Contribution Investments	-	-	-	464,337	209,585	673,922
Receivables:						
Contributions	15,116	-	-	1,841	-	16,957
Accrued Interest	13,140	-	(5)	-	-	13,135
Loans	-	-	-	22,822	9,737	32,559
Securities Sold	81,077	-	-	-	-	81,077
Prepaid Expenses	73	-	-	-	-	73
Securities Lending Collateral	395,085	-	-	-	-	395,085
Capital Assets - Depreciable	1,275	-	-	-	-	1,275
TOTAL ASSETS	4,328,836	30	364	489,344	220,022	5,038,596
LIABILITIES						
Accounts Payable	5,759	-	354	-	-	6,113
Accrued Wages and Benefits	783	-	-	-	-	783
Deposits/Advances from Others	7,200	-	-	-	-	7,200
DROP Liability	360,758	-	-	-	-	360,758
Net Other Post Employment Benefit Obligation	607	-	-	-	-	607
Net Pension Obligation	628	-	-	-	-	628
Securities Lending Obligations	395,085	-	-	-	-	395,085
Securities Purchased	203,700	-	-	-	-	203,700
TOTAL LIABILITIES	974,520	-	354	-	-	974,874
NET ASSETS						
Held in Trust for Pension Benefits and Other Purposes	\$ 3,354,316	\$ 30	\$ 10	\$ 489,344	\$ 220,022	\$ 4,063,722

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2009
(In Thousands)**

ADDITIONS						
Employer Contributions	\$ 198,134	\$ 1,210	\$ 25,587	\$ 23,746	\$ -	\$ 248,677
Employee Contributions	50,456	-	-	22,643	22,246	95,345
Retiree Contributions	-	-	7,483	-	-	7,483
Earnings on Investments:						
Investment Income	(941,670)	3	(14)	(44,726)	(26,128)	(1,012,535)
Investment Expense	(19,661)	-	-	-	-	(19,661)
Net Investment Income	(961,331)	3	(14)	(44,726)	(26,128)	(1,032,196)
Securities Lending:						
Gross Earnings	11,607	-	-	-	-	11,607
Borrower Rebates	(4,944)	-	-	-	-	(4,944)
Administrative Expenses (Lending Agent)	(1,754)	-	-	-	-	(1,754)
Net Securities Lending Income	4,909	-	-	-	-	4,909
Other Income	325	-	-	-	-	325
TOTAL OPERATING ADDITIONS	(707,507)	1,213	33,056	1,663	(3,882)	(675,457)
DEDUCTIONS						
DROP Interest Expense	27,098	-	-	-	-	27,098
Benefit and Claim Payments	281,200	1,298	32,819	44,195	13,983	373,495
Administration	14,726	12	319	-	-	15,057
TOTAL OPERATING DEDUCTIONS	323,024	1,310	33,138	44,195	13,983	415,650
CHANGE IN NET ASSETS	(1,030,531)	(97)	(82)	(42,532)	(17,865)	(1,091,107)
Net Assets at Beginning of Year	4,384,847	127	92	531,876	237,887	5,154,829
NET ASSETS AT END OF YEAR	\$ 3,354,316	\$ 30	\$ 10	\$ 489,344	\$ 220,022	\$ 4,063,722

**FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009
(In Thousands)**

	Employee Benefits	Other Miscellaneous Agency	Total
ASSETS			
Cash and Investments	\$ 10,189	\$ 19,064	\$ 29,253
Receivables:			
Accounts - Net	118	2	120
Accrued Interest	5	10	15
Restricted Cash and Investments	-	10,205	10,205
TOTAL ASSETS	\$ 10,312	\$ 29,281	\$ 39,593
LIABILITIES			
Deposits/Advances from Others	\$ -	\$ 10,977	\$ 10,977
Trust Liabilities	10,312	18,304	28,616
TOTAL LIABILITIES	\$ 10,312	\$ 29,281	\$ 39,593

**FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2009
(In Thousands)**

	Beginning Balance	Additions	Deductions	Ending Balance
Employee Benefits				
ASSETS				
Cash or Equity in Pooled Cash and Investments	\$ 9,558	\$ 65,078	\$ 64,447	\$ 10,189
Receivables:				
Accounts - Net	89	1,037	1,008	118
Accrued Interest	10	82	87	5
TOTAL ASSETS	\$ 9,657	\$ 66,197	\$ 65,542	\$ 10,312
LIABILITIES				
Trust Liabilities	\$ 9,657	\$ 78,626	\$ 77,971	\$ 10,312
TOTAL LIABILITIES	\$ 9,657	\$ 78,626	\$ 77,971	\$ 10,312
Other Miscellaneous Agency				
ASSETS				
Cash and Investments	\$ 19,346	\$ 985,774	\$ 986,056	\$ 19,064
Receivables:				
Accounts - Net	2	2	2	2
Accrued Interest	9	136	135	10
Restricted Cash and Investments	3,287	10,128	3,210	10,205
TOTAL ASSETS	\$ 22,644	\$ 996,040	\$ 989,403	\$ 29,281
LIABILITIES				
Accounts Payable	\$ 647	\$ 6,765	\$ 7,412	\$ -
Deposits/Advances from Others	12,730	2,396	4,149	10,977
Trust Liabilities	9,267	992,732	983,695	18,304
TOTAL LIABILITIES	\$ 22,644	\$ 1,001,893	\$ 995,256	\$ 29,281
TOTAL AGENCY FUNDS				
ASSETS				
Cash and Investments	\$ 28,904	\$ 1,050,852	\$ 1,050,503	\$ 29,253
Receivables:				
Accounts - Net	91	1,039	1,010	120
Accrued Interest	19	218	222	15
Restricted Cash and Investments	3,287	10,128	3,210	10,205
TOTAL ASSETS	\$ 32,301	\$ 1,062,237	\$ 1,054,945	\$ 39,593
LIABILITIES				
Accounts Payable	\$ 647	\$ 6,765	\$ 7,412	\$ -
Deposits/Advances from Others	12,730	2,396	4,149	10,977
Trust Liabilities	18,924	1,071,358	1,061,666	28,616
TOTAL LIABILITIES	\$ 32,301	\$ 1,080,519	\$ 1,073,227	\$ 39,593

STATISTICAL SECTION [UNAUDITED]

STATISTICAL SECTION

The Statistical Section presents information as required by Government Accounting Standards Board (GASB) Statement 44. In addition to utilizing the basic financial statements, notes to the financial statements, and required supplementary information, the statistical data presented in this section helps users assess the City's economic condition. Ten-year trend information has been provided when available. The statistical tables are footnoted to indicate sources and when accounting data or other information is unavailable.

CONTENTS

FINANCIAL TRENDS

Tables 1 through 4 contain information to help the reader understand how the City's financial performance and well-being have changed over time.

REVENUE CAPACITY

Tables 5 through 8 contain information to help the reader assess the City's ability to generate its most significant local revenue source, property tax.

DEBT CAPACITY

Tables 9 through 14 present information to help the reader assess the affordability of the City's current levels of certain outstanding debt categories.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Tables 15 through 16 offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to provide comparisons over time with other governments.

OPERATING INFORMATION

Tables 17 through 19 contain information about the City's resources and operations to help the reader understand how the City's financial report relates to the services provided and activities performed by the City.

*Additional financial information (audited and statistical) on the Sewer and Water Utilities can be obtained in the Annual Report Disclosure filings submitted to the Municipal Securities Rulemaking Board, <http://emma.msrb.org>, and the City's Investor Webpage, <http://www.sandiego.gov/investorinformation>.

City of San Diego
Net Assets by Category (Unaudited)
Last Eight Fiscal Years (In Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2002 <small>(restated)</small>	2003	2004	2005
<u>Governmental Activities</u>				
Invested in Capital Assets, Net of Related Debt	\$ 3,013,292	\$ 3,106,168	\$ 3,200,262	\$ 3,600,989
Restricted for:				
Capital Projects	231,964	250,452	274,664	90,390
Debt Service	70,029	154,926	74,268	37,522
Low-Moderate Income Housing	-	-	-	-
Permanent	15,860	11,857	13,104	13,908
Other	137,071	78,743	129,686	104,488
Unrestricted	5,450	(53,988)	(146,793)	(215,719)
Total Governmental Activities Net Assets	<u>3,473,666</u>	<u>3,548,158</u>	<u>3,545,191</u>	<u>3,631,578</u>
<u>Business-type Activities</u>				
Invested in Capital Assets, Net of Related Debt	2,348,754	2,624,846	2,818,690	2,863,136
Restricted for:				
Debt Service	70,011	72,567	3,674	3,517
Other	24,385	25,275	26,735	29,412
Unrestricted	616,624	373,143	317,358	271,943
Total Business-type Activities Net Assets	<u>3,059,774</u>	<u>3,095,831</u>	<u>3,166,457</u>	<u>3,168,008</u>
<u>Primary Government</u>				
Invested in Capital Assets, Net of Related Debt	5,362,046	5,731,014	6,018,952	6,464,125
Restricted for:				
Capital Projects	231,964	250,452	274,664	90,390
Debt Service	140,040	227,493	77,942	41,039
Low-Moderate Income Housing	-	-	-	-
Permanent	15,860	11,857	13,104	13,908
Other	161,456	104,018	156,421	133,900
Unrestricted	622,074	319,155	170,565	56,224
Total Primary Government Net Assets	<u>\$ 6,533,440</u>	<u>\$ 6,643,989</u>	<u>\$ 6,711,648</u>	<u>\$ 6,799,586</u>

Table 1

Fiscal Year				
	2006	2007	2008	2009
\$	3,472,531	\$ 3,461,127	\$ 3,518,704	\$ 3,530,937
	273,575	300,288	314,931	293,284
	-	-	-	-
	64,493	81,739	108,026	135,581
	14,568	16,509	16,757	13,280
	96,537	100,159	124,328	122,460
	(140,126)	(19,999)	70,635	162,661
	<u>3,781,578</u>	<u>3,939,823</u>	<u>4,153,381</u>	<u>4,258,203</u>
	2,867,469	2,998,848	2,933,012	2,970,351
	2,970	2,977	2,660	4,372
	32,115	34,732	36,776	38,113
	<u>308,575</u>	<u>343,280</u>	<u>517,261</u>	<u>587,443</u>
	<u>3,211,129</u>	<u>3,379,837</u>	<u>3,489,709</u>	<u>3,600,279</u>
	6,340,000	6,459,975	6,451,716	6,501,288
	273,575	300,288	314,931	293,284
	2,970	2,977	2,660	4,372
	64,493	81,739	108,026	135,581
	14,568	16,509	16,757	13,280
	128,652	134,891	161,104	160,573
	<u>168,449</u>	<u>323,281</u>	<u>587,896</u>	<u>750,104</u>
\$	<u>6,992,707</u>	<u>\$ 7,319,660</u>	<u>\$ 7,643,090</u>	<u>\$ 7,858,482</u>

City of San Diego
Changes in Net Assets (Unaudited)
Last Eight Fiscal Years (In Thousands)
(Accrual Basis of Accounting)

Table 2

	Fiscal Year							
	2002 <small>(restated)</small>	2003	2004	2005	2006	2007	2008	2009
Expenses								
Governmental Activities								
General Government and Support	\$ 181,722	\$ 204,072	\$ 221,752	\$ 247,038	\$ 252,295	\$ 270,190	\$ 322,157	\$ 303,581
Public Safety - Police	298,176	334,461	361,501	372,230	370,990	376,581	382,907	418,549
Public Safety - Fire and Life Safety and Homeland Security	139,699	147,897	173,311	186,203	194,074	209,902	204,822	220,787
Parks, Recreation, Culture and Leisure	181,762	202,567	204,736	218,601	237,375	229,500	231,955	258,038
Transportation	153,002	154,603	197,152	220,095	200,883	272,780	212,255	239,305
Sanitation and Health	57,227	37,615	44,925	45,088	48,774	43,780	51,772	77,447
Neighborhood Services	116,397	95,267	100,568	89,162	111,886	99,870	91,110	116,735
Debt Service:								
Interest	59,952	68,410	71,588	73,381	71,109	84,920	82,211	84,070
Total Governmental Activities Expenses	1,187,937	1,244,892	1,375,533	1,451,798	1,487,386	1,587,523	1,579,189	1,718,512
Business-type Activities								
Airports	3,085	4,281	7,384	3,196	4,100	3,755	4,109	5,140
City Store	731	731	858	808	810	843	788	321
Development Services	46,920	47,278	52,970	60,240	57,893	53,924	51,461	47,260
Environmental Services	35,684	40,306	40,602	43,711	44,493	40,138	37,279	35,718
Golf Course	6,433	6,963	7,572	8,585	9,563	10,690	11,142	11,864
Recycling	16,161	19,141	19,497	21,426	21,853	19,754	20,511	20,067
Sewer Utility	277,833	352,075	312,929	348,327	319,274	313,716	322,552	314,125
Water Utility	255,160	267,855	270,940	300,665	302,996	313,256	321,123	329,748
Total Business-type Activities Expenses	642,007	738,630	712,752	786,958	760,982	756,076	768,965	764,243
Total Primary Government Expenses	1,829,944	1,983,522	2,088,285	2,238,756	2,248,368	2,343,599	2,348,154	2,482,755
Program Revenues								
Governmental Activities								
Charges for Services:								
General Government and Support	72,067	80,782	81,167	100,887	96,345	107,257	111,714	152,630
Public Safety - Police	18,812	21,498	23,699	23,496	24,256	27,960	40,628	42,178
Public Safety - Fire and Life Safety and Homeland Security	16,492	21,014	19,940	21,381	18,572	16,548	19,156	20,449
Parks, Recreation, Culture and Leisure	20,136	9,187	12,466	35,314	51,196	52,656	64,030	80,795
Transportation	35,673	44,020	47,709	30,625	52,375	49,809	21,877	18,360
Sanitation and Health	7,571	9,009	9,087	8,651	10,697	10,224	9,832	9,306
Neighborhood Services	21,801	17,748	20,033	48,623	25,440	39,412	22,748	21,814
Operating Grants and Contributions	99,541	95,882	95,202	109,268	101,723	84,745	75,126	93,244
Capital Grants and Contributions	136,461	115,748	91,981	134,702	100,564	81,169	78,347	110,802
Total Governmental Activities Program Revenues	428,554	414,888	401,284	512,947	481,168	469,780	443,458	549,578
Business-type Activities								
Charges for Services:								
Airports	3,346	3,461	3,827	4,151	4,385	5,635	5,140	4,929
City Store	694	771	852	807	837	827	744	242
Development Services	46,860	46,656	58,412	61,299	55,011	48,746	45,945	37,310
Environmental Services	33,315	36,889	38,377	41,944	39,850	36,143	35,485	31,726
Golf Course	10,143	10,311	11,911	12,625	13,119	15,772	15,153	16,201
Recycling	15,870	17,640	16,169	19,883	21,345	20,476	23,390	16,027
Sewer Utility	233,980	256,947	267,294	288,972	290,568	304,749	328,119	322,571
Water Utility	213,577	222,462	239,533	267,649	280,567	310,292	318,626	342,719
Operating Grants and Contributions	5,981	3,616	1,483	2,028	1,909	1,203	2,312	1,739
Capital Grants and Contributions	170,943	143,444	133,586	63,830	77,602	141,419	58,400	60,863
Total Business-type Activities Program Revenues	734,709	742,197	771,444	763,188	785,193	885,262	833,314	834,327
Total Primary Government Program Revenues	1,163,263	1,157,085	1,172,728	1,276,135	1,266,361	1,355,042	1,276,772	1,383,905
Net (Expense)/Revenue								
Governmental Activities	(759,383)	(830,004)	(974,249)	(938,851)	(1,006,218)	(1,117,743)	(1,135,731)	(1,168,934)
Business-type Activities	92,702	3,567	58,692	(23,770)	24,211	129,186	64,349	70,084
Total Primary Government Net Expense	(666,681)	(826,437)	(915,557)	(962,621)	(982,007)	(988,557)	(1,071,382)	(1,098,850)

City of San Diego
Changes in Net Assets (Unaudited)
Last Eight Fiscal Years (In Thousands)
(Accrual Basis of Accounting)

Table 2

	Fiscal Year							
	2002 <small>(restated)</small>	2003	2004	2005	2006	2007	2008	2009
General Revenues and Other Changes in Net Assets								
Governmental Activities								
Property Taxes	\$ 222,778	\$ 248,659	\$ 278,804	\$ 329,659	\$ 459,777	\$ 526,722	\$ 576,605	\$ 607,857
Transient Occupancy Taxes	95,175	105,263	113,209	120,792	136,803	154,810	159,348	140,657
Other Local Taxes	106,723	98,783	139,748	152,577	148,001	157,941	151,267	161,485
Developer Contributions and Fees	36,879	39,577	33,363	47,063	53,502	62,693	38,331	16,148
Grants and Contributions not Restricted to Specific Programs	93,824	91,556	101,086	141,934	64,039	5,339	6,251	8,488
Sales Taxes	233,864	223,594	238,616	197,198	227,017	263,399	269,757	229,651
Investment Income	90,073	84,448	57,537	29,473	40,108	76,292	96,725	75,245
Gain on Sale of Capital Assets	480	92	467	684	1,214	6,546	17,884	1,922
Special and Extraordinary Items	280	870	250	-	-	-	-	-
Miscellaneous	6,983	6,243	4,396	5,232	21,227	25,671	29,570	33,528
Transfers	47,953	5,411	3,806	626	4,530	(3,425)	3,551	(1,225)
Total Governmental Activities General Revenues, Contributions, and Transfers	935,012	904,496	971,282	1,025,238	1,156,218	1,275,988	1,349,289	1,273,756
Business-type Activities								
Investment Income	34,918	31,760	10,289	17,132	16,938	30,713	41,224	31,004
Gain/(Loss) on Sale of Capital Assets	-	(1,761)	8	-	-	-	-	-
Miscellaneous	(1,036)	7,902	5,443	8,815	6,502	5,384	7,850	8,257
Transfers	(47,953)	(5,411)	(3,806)	(626)	(4,530)	3,425	(3,551)	1,225
Total Business-type Activities General Revenues and Transfers	(14,071)	32,490	11,934	25,321	18,910	39,522	45,523	40,486
Total Primary Government General Revenues, Permanent Fund Contributions, and Transfers	920,941	936,986	983,216	1,050,559	1,175,128	1,315,510	1,394,812	1,314,242
Change in Net Assets								
Governmental Activities	175,629	74,492	(2,967)	86,387	150,001	158,245	213,558	104,822
Business-type Activities	78,631	36,057	70,626	1,551	43,121	168,708	109,872	110,570
Total Primary Government Change in Net Assets	\$ 254,260	\$ 110,549	\$ 67,659	\$ 87,938	\$ 193,122	\$ 326,953	\$ 323,430	\$ 215,392

City of San Diego
Fund Balances of Governmental Funds (Unaudited)
Last Ten Fiscal Years (In Thousands)
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2000	2001 ¹	2002 ¹	2003
General Fund:				
Reserved	\$ 21,898	\$ 22,128	\$ 26,298	\$ 21,482
Unreserved	32,508	55,579	43,705	45,570
Total General Fund	<u>\$ 54,406</u>	<u>\$ 77,707</u>	<u>\$ 70,003</u>	<u>\$ 67,052</u>
All Other Governmental Funds:				
Reserved	\$ 593,837	\$ 445,752	\$ 574,974	\$ 386,652
Unreserved, reported in:				
Special Revenue Funds	119,272	137,040	202,651	185,219
Debt Service Funds	562	1,194	3,740	864
Capital Projects Funds	357,522	320,563	283,250	275,591
Permanent Funds	-	-	-	461
Total All Other Governmental Funds	<u>\$ 1,071,193</u>	<u>\$ 904,549</u>	<u>\$ 1,064,615</u>	<u>\$ 848,787</u>

Footnote:

¹ Amounts have been subsequently restated in future periods.

Table 3

Fiscal Year					
2004	2005	2006	2007	2008	2009
\$ 18,550	\$ 17,501	\$ 21,288	\$ 35,858	\$ 45,843	\$ 33,895
42,672	43,547	40,353	96,190	78,938	80,497
<u>\$ 61,222</u>	<u>\$ 61,048</u>	<u>\$ 61,641</u>	<u>\$ 132,048</u>	<u>\$ 124,781</u>	<u>\$ 114,392</u>
\$ 277,968	\$ 372,806	\$ 401,019	\$ 504,693	\$ 652,222	\$ 706,971
305,909	284,818	267,576	350,096	233,388	221,089
1,650	13	217	29	221,814	265,236
287,259	279,866	406,130	377,648	358,550	430,479
879	1,063	656	1,249	549	2,625
<u>\$ 873,665</u>	<u>\$ 938,566</u>	<u>\$ 1,075,598</u>	<u>\$ 1,233,715</u>	<u>\$ 1,466,523</u>	<u>\$ 1,626,400</u>

City of San Diego
Changes in Fund Balances of Governmental Funds (Unaudited)
Last Ten Fiscal Years (In Thousands)
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2000	2001	2002	2003
Revenues:				
Property Taxes	\$ 179,048	\$ 201,801	\$ 223,100	\$ 248,276
Special Assessments	18,457	18,775	22,491	25,748
Sales Taxes	198,622	221,724	221,383	223,023
In-Lieu Sales Taxes ⁽¹⁾	-	-	-	-
Transient Occupancy Taxes ⁽²⁾	-	-	-	-
Other Local Taxes	171,141	193,177	202,364	203,493
Licenses and Permits	30,381	34,803	25,194	29,268
Fines, Forfeitures and Penalties	31,141	32,902	25,854	26,679
Revenue from Use of Money and Property	120,966	108,345	97,213	86,789
Revenue from Federal Agencies	52,889	40,136	42,635	56,851
Revenue from Other Agencies	214,559	222,868	171,681	136,359
Revenue from Private Sources	82,382	77,583	140,841	82,410
Charges for Current Services	95,000	101,781	110,418	123,461
Other Revenue	15,462	11,544	10,074	10,594
Total Revenues	<u>1,210,048</u>	<u>1,265,439</u>	<u>1,293,248</u>	<u>1,252,951</u>
Expenditures:				
Current:				
General Government	83,351	95,992	189,128	193,980
Community and Economic Development ⁽⁴⁾	16,289	27,830	-	-
Public Safety - Police ⁽³⁾	395,942	406,580	288,809	301,839
Public Safety - Fire and Life Safety and Homeland Security	-	-	131,974	141,967
Libraries ⁽⁵⁾	26,237	31,364	-	-
Parks, Recreation, Culture and Leisure	106,227	116,195	174,485	177,584
Public Works ⁽⁶⁾	152,409	152,557	-	-
Housing and Community Development ⁽⁷⁾	13,535	13,641	-	-
Public Transportation ⁽⁴⁾	14	8	91,746	89,653
Sanitation and Health ⁽⁴⁾	-	-	36,851	38,031
Neighborhood Services ⁽⁴⁾	-	-	72,087	98,050
Employee Relations and Special Projects	7,761	8,426	-	-
Miscellaneous and Unallocated	1,914	1,371	-	-
Cost of Issuance, Bonds and Notes	360	4,054	-	-
Capital Projects	413,107	467,769	208,083	229,496
Debt Service:				
Principal Retirement	43,027	54,233	39,831	49,858
Interest	127,620	125,330	49,140	65,216
Arbitrage Rebate	-	-	-	-
Cost of Issuance	-	-	-	-
Total Expenditures	<u>1,387,793</u>	<u>1,505,350</u>	<u>1,282,134</u>	<u>1,385,674</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(177,745)</u>	<u>(239,911)</u>	<u>11,114</u>	<u>(132,723)</u>
Other Financing Sources (Uses):				
Transfers In	5,286	7,130	6,338	11,660
Transfers Out	(32,476)	(28,013)	(16,749)	(8,676)
Transfer to Escrow Agent	-	-	-	(53,974)
Contracts, Notes, and Loans Issued	3,711	222	-	3,891
Bonds Issued	23,459	117,229	253,181	89,340
Other Income	-	-	2,622	8,237
Restatements	(23,063)	-	(104,144)	(136,534)
Total Other Financing Sources (Uses)	<u>(23,083)</u>	<u>96,568</u>	<u>141,248</u>	<u>(86,056)</u>
Net Change in Fund Balances	<u>\$ (200,828)</u>	<u>\$ (143,343)</u>	<u>\$ 152,362</u>	<u>\$ (218,779)</u>
Debt Service as a Percentage of Noncapital Expenditures	17.5%	17.3%	8.3%	10.0%

Footnotes:

- (1) The City began reporting In-Lieu Sales Taxes separate from Sales Taxes beginning with the fiscal year ended June 30, 2005.
(2) The City began reporting Transient Occupancy Taxes separate from Other Local Taxes beginning with the fiscal year ended June 30, 2004.
(3) Amounts reported as Public Safety - Police prior to the fiscal year ended June 30, 2002 includes Public Safety - Fire & Life Safety.
(4) - (7) Multiple classification adjustments were imposed as a result of implementation of GASB Statement No. 34.

Table 4

		Fiscal Year									
		2004	2005	2006	2007	2008	2009				
\$	279,090	\$	325,857	\$	457,908	\$	521,734	\$	573,311	\$	603,574
	26,816		30,263		36,699		36,585		50,274		63,500
	238,430		197,198		227,017		264,587		270,791		233,140
	-		48,220		45,433		-		-		-
	113,209		121,612		136,801		153,574		159,348		140,657
	140,016		152,576		148,001		158,046		146,899		171,192
	30,592		40,724		42,117		41,425		50,693		39,349
	33,870		33,906		35,441		42,932		32,785		34,406
	63,268		77,514		89,438		117,552		129,582		107,784
	50,493		66,283		43,570		79,735		40,413		70,386
	154,559		143,639		58,289		61,977		53,370		52,456
	62,143		91,354		91,287		59,549		23,013		21,593
	129,350		138,794		127,121		159,877		165,910		203,432
	10,462		11,518		25,923		31,027		30,824		25,711
	<u>1,332,298</u>		<u>1,479,458</u>		<u>1,565,045</u>		<u>1,728,600</u>		<u>1,727,213</u>		<u>1,767,180</u>
	198,826		236,706		290,550		267,461		310,814		344,930
	-		-		-		-		-		-
	313,387		347,359		408,474		376,762		388,729		406,657
	152,073		178,553		212,069		202,031		205,660		225,696
	-		-		-		-		-		-
	170,163		180,327		216,038		182,197		195,808		211,759
	-		-		-		-		-		-
	-		-		-		-		-		-
	117,619		140,604		147,977		139,349		135,404		162,969
	42,184		44,327		49,094		44,729		53,957		78,260
	104,205		102,235		112,080		85,544		88,242		73,785
	-		-		-		-		-		-
	-		-		-		-		-		-
	-		-		-		-		-		-
	174,346		175,493		126,583		106,518		132,432		138,634
	49,118		77,952		53,293		68,160		59,228		57,209
	68,800		68,201		68,732		82,928		78,133		78,659
	421		-		-		-		-		-
	-		-		-		5,145		3,618		1,001
	<u>1,391,142</u>		<u>1,551,757</u>		<u>1,684,890</u>		<u>1,560,824</u>		<u>1,652,025</u>		<u>1,779,559</u>
	<u>(58,844)</u>		<u>(72,299)</u>		<u>(119,845)</u>		<u>167,776</u>		<u>75,188</u>		<u>(12,379)</u>
	7,373		10,634		6,975		9,509		10,373		8,246
	(16,474)		(2,366)		(1,784)		(3,546)		(9,756)		(6,590)
	(10,132)		(32,011)		-		(159,690)		(10,676)		-
	27,507		5,435		13,873		13,003		16,063		12,583
	66,168		152,056		217,797		182,328		108,121		115,236
	3,450		3,278		20,609		19,144		36,228		32,392
	-		-		-		-		-		-
	<u>77,892</u>		<u>137,026</u>		<u>257,470</u>		<u>60,748</u>		<u>150,353</u>		<u>161,867</u>
\$	<u>19,048</u>	\$	<u>64,727</u>	\$	<u>137,625</u>	\$	<u>228,524</u>	\$	<u>225,541</u>	\$	<u>149,488</u>
	9.7%		10.6%		7.8%		10.7%		9.3%		8.3%

City of San Diego
Assessed Value and Estimated Value of Taxable Property (Unaudited)
Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	City			
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value
2000	\$ 82,195,239	\$ 6,347,101	\$ (4,606,047)	\$ 83,936,293
2001	89,259,317	6,838,926	(4,955,424)	91,142,819
2002	96,534,652	6,959,602	(4,577,069)	98,917,185
2003	105,602,893	7,230,861	(5,415,535)	107,418,219
2004	115,116,772	6,842,254	(5,690,654)	116,268,372
2005	128,611,940	7,191,819	(5,967,224)	129,836,535
2006	124,598,322	7,063,201	(5,678,208)	125,983,315
2007	137,387,588	7,625,115	(5,861,380)	139,151,323
2008	150,001,428	7,405,798	(6,323,459)	151,083,767
2009	157,927,906	7,873,733	(6,788,981)	159,012,658

Sources: MuniServices, LLC and County of San Diego

Table 5

Redevelopment Agency				
Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Total Direct Tax Rate
\$ 6,637,895	\$ 466,314	\$ (403,072)	\$ 6,701,137	0.198%
7,420,900	482,155	(394,372)	7,508,683	0.205%
8,287,824	526,423	(456,942)	8,357,305	0.208%
9,662,606	593,738	(480,455)	9,775,889	0.212%
9,558,045	483,522	(531,458)	9,510,109	0.222%
10,222,644	505,380	(573,561)	10,154,463	0.233%
14,574,228	633,220	(691,376)	14,516,072	0.326%
17,678,580	896,315	(930,793)	17,644,102	0.333%
20,608,094	894,544	(1,070,838)	20,431,800	0.334%
22,422,105	924,847	(1,146,235)	22,200,717	0.333%

City of San Diego
Direct and Overlapping Property Tax Rates (Unaudited)
(\$1 Per \$100 of Assessed Value)
Last Ten Fiscal Years

Table 6

Fiscal Year Ended June 30	Direct Rate	Overlapping		Total
	Basic County/ City Rate	City of San Diego	Education	
2000	1.00000%	0.00760%	0.09580%	1.10340%
2001	1.00000%	0.00740%	0.09580%	1.10320%
2002	1.00000%	0.00730%	0.09580%	1.10310%
2003	1.00000%	0.00710%	0.09580%	1.10290%
2004	1.00000%	0.00680%	0.00000%	1.00680%
2005	1.00000%	0.00670%	0.00000%	1.00670%
2006	1.00000%	0.01165%	0.10085%	1.11250%
2007	1.00000%	0.01094%	0.08931%	1.10025%
2008	1.00000%	0.01069%	0.08747%	1.09816%
2009	1.00000%	0.01038%	0.07396%	1.08434%

Sources: MuniServices, LLC and County of San Diego

**City of San Diego
Principal Property Tax Payers (Unaudited)
Current Year and Nine Years Ago (In Thousands)**

Table 7

<u>Taxpayer</u>	<u>Taxable Assessed Value</u>	<u>Percent of Total City Taxable Assessed Value</u>
<u>For the Fiscal Year Ended June 30, 2009</u>		
Irvine Co.	\$ 1,718,022	0.95%
Qualcomm, Inc.	1,329,978	0.73%
Kilroy Realty, LP	1,088,952	0.60%
Arden Realty Ltd. Partnership	642,724	0.35%
O C S D Holdings, LLC	520,855	0.29%
Pfizer, Inc.	477,578	0.26%
Fashion Valley Mall, LLC	447,698	0.25%
San Diego Family Housing, LLC	444,676	0.25%
Sea World, Inc.	395,532	0.22%
Host San Diego Hotel, LLC	391,680	0.22%
<u>For the Fiscal Year Ended June 30, 2000</u>		
Qualcomm, Inc.	\$ 513,021	0.61%
Equitable Life Assurance	372,236	0.44%
Sea World, Inc.	264,336	0.31%
Kilroy Realty, LP	264,023	0.31%
Sony Corp of America	240,863	0.29%
Pacific Gateway, Ltd	240,599	0.29%
University Towne Center, LLC	214,175	0.26%
Solar Turbines	208,445	0.25%
Horton Plaza, LLC	184,620	0.22%
Pardee Construction	165,538	0.20%

Sources: 2008-09 MuniServices, LLC and Comprehensive Annual Financial Reports

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City of San Diego
Property Tax Levies and Collections ¹ (Unaudited)
Last Ten Fiscal Years (In Thousands)

Table 8

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2000	\$ 141,963	\$ 137,859	97.11%	\$ 2,366	\$ 140,225	98.78%
2001	155,060	150,900	97.32%	2,506	153,406	98.93%
2002	167,077	163,357	97.77%	2,089	165,446	99.02%
2003	181,687	175,943	96.84%	2,398	178,341	98.16%
2004	199,630	191,224	95.79%	3,175	194,399	97.38%
2005	227,422	213,173	93.73%	3,152	216,325	95.12%
2006	255,211	240,895	94.39%	4,563	245,458	96.18%
2007	272,983	257,034	94.16%	5,865	262,899	96.31%
2008	289,235	271,657	93.92%	8,102	279,759	96.72%
2009	299,935	284,212	94.76%	11,923	296,135	98.73%

Footnote:

¹ Property Tax Levies and Collections for the General Fund and Zoological Exhibits Fund

Source: County of San Diego

City of San Diego
 Ratios of Outstanding Debt by Type (Unaudited)
 Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	Governmental Activities					
	Arbitrage Liability	Capital Lease Obligations	Contracts Payable	Notes Payable	Loans	General Obligation Bonds
2000	\$ -	\$ 14,284	\$ 1,697	\$ 33,606	\$ 5,972	\$ 68,700
2001	-	13,233	3,848	37,962	3,250	63,595
2002	-	38,345	3,597	15,521	28,255	58,095
2003	363	37,701	1,882	8,416	46,117	52,165
2004	262	30,619	1,715	5,998	69,084	45,775
2005	-	30,647	1,715	7,924	62,024	14,530
2006	-	40,541	2,615	7,294	64,199	12,690
2007	-	39,130	2,615	8,555	60,493	10,705
2008	-	61,262	2,615	5,662	70,763	8,580
2009	533	89,519	4,715	4,786	78,347	6,315

Fiscal Year Ended June 30	Business-Type Activities					
	Arbitrage Liability	Capital Lease Obligations	Notes Payable	Loans Payable	Line of Credit	Revenue Bonds Payable
2000	\$ -	\$ 25,807	\$ 1,485,497	\$ 17,256	\$ 3,569	\$ -
2001	-	28,885	1,463,290	60,222	4,169	-
2002*	-	7,612	63,786	-	-	1,433,465
2003	1,812	6,465	-	69,093	-	1,612,200
2004	221	5,008	-	67,054	-	1,731,825
2005	213	3,521	-	63,803	-	1,698,060
2006	193	2,051	-	91,247	-	1,662,705
2007	224	1,006	280,830	101,316	-	1,469,060
2008	586	166	430,830	95,875	-	1,425,445
2009	-	-	-	90,326	-	2,166,906

Footnotes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

*In fiscal year 2002, loans payable were reclassified as notes payable, and notes payable were reclassified as bond payable.

(a) Ratio is calculated using assessed property values. Personal income data is not available.

(b) Ratio is calculated using population data.

Source: Comprehensive Annual Financial Reports

Table 9

Governmental Activities					
Pooled Financing Bonds	Revenue Bonds/ Lease Revenue Bonds/ Certificates of Participation	Special Assessment/ Special Tax Bonds	Tax Allocation Bonds	Tobacco Settlement Asset-Backed Bonds	Total Governmental Activities
\$ -	\$ 448,000	\$ 70,550	\$ 171,101	\$ -	\$ 813,910
-	434,365	128,545	222,751	-	907,549
-	609,235	125,955	275,471	-	1,154,474
-	609,785	123,130	283,310	-	1,162,869
-	591,620	140,545	314,333	-	1,199,951
-	571,285	137,305	415,778	-	1,241,208
-	549,850	133,605	514,845	105,400	1,431,039
-	521,210	145,625	502,804	102,700	1,393,837
34,115	498,950	144,805	548,643	99,370	1,474,765
33,460	579,500	152,270	534,547	95,380	1,579,372

Business-Type Activities			
Total Business-Type Activities	Total Primary Government	Percentage of Assessed Value (a)	Debt Per Capita (b)
\$ 1,532,129	\$ 2,346,039	2.75%	\$ 1.84
1,556,566	2,464,115	2.66%	1.97
1,504,863	2,659,337	2.65%	2.12
1,689,570	2,852,439	2.62%	2.24
1,804,108	3,004,059	2.55%	2.32
1,765,597	3,006,805	2.29%	2.30
1,756,196	3,187,235	2.53%	2.43
1,852,436	3,246,273	2.33%	2.47
1,952,902	3,427,667	2.27%	2.56
2,257,232	3,836,604	2.41%	2.83

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City of San Diego
Ratios of General Bonded Debt Outstanding (Unaudited)
Last Ten Fiscal Years

Table 10

Fiscal Year Ended June 30	General Obligation Bonds (Thousands)	Assessed Valuation (Thousands)	Percentage of Assessed Value (a)	Population	Debt Per Capita (b)
2000	\$ 68,700	\$ 83,936,293	0.082%	1,277,168	\$ 53.79
2001	63,595	91,142,819	0.070%	1,250,700	50.85
2002	58,095	98,917,185	0.059%	1,255,742	46.26
2003	52,165	107,418,219	0.049%	1,275,112	40.91
2004	45,775	116,268,372	0.039%	1,294,000	35.37
2005	14,530	129,836,535	0.011%	1,306,000	11.13
2006	12,690	125,983,315 (c)	0.010%	1,311,162	9.68
2007	10,705	139,151,323	0.008%	1,316,837	8.13
2008	8,580	151,083,767	0.006%	1,336,865	6.42
2009	6,315	159,012,658	0.004%	1,353,993	4.66

Footnotes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(a) Ratio is calculated using assessed property values. Personal income data is not available.

(b) Ratio is calculated using population data.

(c) The City recognized a fluctuation in Taxable Assessed Value in fiscal year 2006 due to a change in the allocation method between the City & the Redevelopment Agency. This methodology change resulted from Management's decision to begin using an external source to calculate statistical information in conjunction with the implementation of GASB 44.

Source: Comprehensive Annual Financial Reports

City of San Diego
Direct and Overlapping Debt (Unaudited)
June 30, 2009 (In Thousands)

Table 11

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/09	% Applicable (1)	City's Share of Debt, 6/30/09
Metropolitan Water District	\$ 293,425	8.897%	\$ 26,106
Palomar Community College District	151,750	25.401%	38,546
San Diego Community College District	628,194	99.910%	627,629
Poway Unified School District School Facilities Improvement District No. 2002-1, 2007-1, 253, 318, & 254	253,318	67.466-65.485%	169,438
San Diego Unified School District	1,550,175	99.913%	1,548,826
Sweetwater Union High School District	347,829	20.255%	70,453
San Ysidro School District	88,702	88.473%	78,477
Other School, High School and Community College Districts	885,704	Various	41,945
Grossmont Healthcare District	85,627	8.030%	6,876
Palomar Pomerado Hospital District	418,568	30.881%	129,258
City of San Diego	6,315	100.000%	6,315
City of San Diego Special Assessment/Special Tax Bonds (3)	152,270	100.000%	152,270
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	29,650	100.000%	29,650
North City West School District Community Facilities District	94,133	100.000%	94,133
Poway Unified School District Community Facilities Districts	303,175	99.609-100.000%	302,982
San Dieguito Union High School District Community Facilities Districts	64,834	39.731-81.063%	32,535
Sweetwater Union High School District Community Facilities Districts	44,237	8.935-100.000%	23,852
Other Special District 1915 Act Bonds	18,997	Various	1,874
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u>3,381,165</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
San Diego County General Fund Obligations	462,405	45.938%	212,420
San Diego County Pension Obligations	986,678	45.938%	453,260
San Diego Superintendent of Schools Certificates of Participation	16,395	45.938%	7,531
Palomar Community College District General Fund Obligations	7,300	25.401%	1,854
Poway Unified School District Certificates of Participation	127,465	71.261%	90,833
Sweetwater Union High School District Certificates of Participation	12,810	20.255%	2,595
Chula Vista School District General Fund Obligations	128,975	4.967%	6,406
San Ysidro School District Certificates of Participation	37,455	88.473%	33,137
Other School, High School and Community College District Certificates of Participation	81,910	Various	2,248
City of San Diego Revenue Bonds, Leased Revenue Bonds, and Certificates of Participation (3)	579,500	100.000%	579,500
Otay Municipal Water District Certificates of Participation	63,635	6.761%	4,302
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>1,394,086</u>
Less: Otay Municipal Water District Certificates of Participation			4,302
Less: Sweetwater Union High School District QZABs supported by investment fund payments			1,013
Less: Santee School District QZABs supported by investment fund payments			96
Less: San Ysidro School District QZABs supported by investment fund payments			4,424
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>1,384,251</u>
GROSS COMBINED TOTAL DEBT (2)			<u>4,775,251</u>
NET COMBINED TOTAL DEBT			<u>\$ 4,765,416</u>

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

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

(3) Amounts for total debt reconcile to Note 5.

City of San Diego
Direct and Overlapping Debt (Unaudited)
June 30, 2009 (In Thousands)
 (Continued)

Table 11

Ratios to 2008-09 Assessed Valuation:

Direct Debt (\$6,315)	0.003%
Total Gross Direct and Overlapping Tax and Assessment Debt	2.64%
Total Net Direct and Overlapping Tax and Assessment Debt	2.63%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$585,815) (1)	0.37%
Gross Combined Total Debt	3.00%
Net Combined Total Debt	3.00%

(1) City of San Diego	\$ 6,315
City Authorities and Certificates of Participation	<u>579,500</u>
	\$ 585,815

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

Source: California Municipal Statistics, Inc. and Comprehensive Annual Financial Report

**City of San Diego
Legal Debt Margin Schedule (Unaudited)
Last Ten Fiscal Years (In Thousands)**

	Fiscal Year			
	2000	2001	2002	2003
Assessed valuation (restated) ¹	\$ 83,936,293	\$ 91,142,819	\$ 98,917,185	\$ 107,418,219
Conversion percentage *	25%	25%	25%	25%
Adjusted assessed valuation	20,984,073	22,785,705	24,729,296	26,854,555
Debt limit percentage **	25%	25%	25%	25%
Debt limit ²	5,246,018	5,696,426	6,182,324	6,713,639
Total net debt applicable to limit: General Obligation Bonds	19,170	18,075	16,920	15,690
Legal debt margin	5,226,848	5,678,351	6,165,404	6,697,949
Total debt applicable to the limit as a percentage of the debt limit	0.37%	0.32%	0.27%	0.23%

Footnotes:

¹ The City recognized a fluctuation in Taxable Assessed Value in fiscal year 2006 due to a change in the allocation method between the City & the Redevelopment Agency. This methodology change resulted from Management's decision to begin using an external source to calculate statistical information in conjunction with the implementation of GASB 44.

² The current debt limitation for Water is 15% of the Adjusted Assessed Valuation, or \$5,962,975, and the debt limitation for other purposes is 10% of the Adjusted Assessed Valuation, or \$3,975,316.

* The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value. The calculations shown above present a conversion of assessed valuation data for each fiscal year from the current 100% valuation to the 25% level that was in effect at the time the legal debt margin was enacted.

** Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation, and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation.

Source: MuniServices, LLC

Table 12

		Fiscal Year									
		2004	2005	2006	2007	2008	2009				
\$	116,268,372	\$	129,836,535	\$	125,983,315	\$	139,151,323	\$	151,083,767	\$	159,012,658
	25%		25%		25%		25%		25%		25%
	29,067,093		32,459,134		31,495,829		34,787,831		37,770,942		39,753,165
	25%		25%		25%		25%		25%		25%
	7,266,773		8,114,783		7,873,957		8,696,958		9,442,735		9,938,291
	14,390		13,010		11,520		9,905		8,170		6,315
	7,252,383		8,101,773		7,862,437		8,687,053		9,434,565		9,931,976
	0.20%		0.16%		0.15%		0.11%		0.09%		0.06%

City of San Diego
Pledged-Revenue Coverage - Water Bonds (Unaudited)
Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	Total System Revenues	Total Maintenance and Operation Costs (Excludes Depreciation)	Net System Revenues ¹	Less: Interest Earnings on Reserve Fund - Senior Obligations	Adjusted Net System Revenues ²
2000	\$ 255,736	\$ 213,358	\$ 42,378	\$ -	\$ 42,378
2001	255,974	214,056	41,918	(54)	41,864
2002	261,333	222,104	39,229	(3,444)	35,785
2003	256,968	226,058	30,910	(1,305)	29,605
2004	267,649	232,193	35,456	(1,296)	34,160
2005	294,904	234,392	60,512	(1,262)	59,250
2006	303,453	242,180	61,273	(1,228)	60,045
2007	336,599	255,486	81,113	(1,346)	79,767
2008	350,770	258,813	91,957	(1,481)	90,476
2009	364,413	263,280	101,133	(2,668)	98,465

¹ Net System Revenues is defined as "System Revenues" less "Maintenance and Operation Costs" of the Water System for the fiscal year.

² Adjusted Net System Revenues is the "Net System Revenues" less "an amount equal to earnings from investments in any Reserve Fund or Reserve Account" for the fiscal year.

³ All Obligations include Senior, Subordinate and State Revolving Fund (SRF) Loans.

Source: Comprehensive Annual Financial Reports

Table 13

Senior Debt Service					All Obligations ³			
Principal	Interest	Total	Less: Senior Interest Earnings	Adjusted Debt Service	Adjusted Debt Service Coverage	Total Debt Service	Aggregate Debt Service Coverage	
\$ -	\$ 18,730	\$ 18,730	\$ -	\$ 18,730	2.26	\$ 18,730	2.26	
-	18,730	18,730	(54)	18,676	2.24	18,730	2.24	
6,780	18,594	25,374	(3,444)	21,930	1.63	25,510	1.54	
7,055	16,308	23,363	(1,305)	22,058	1.34	27,002	1.14	
7,345	14,010	21,355	(1,296)	20,059	1.70	34,861	1.02	
7,645	13,710	21,355	(1,262)	20,093	2.95	34,861	1.74	
7,965	13,390	21,355	(1,228)	20,127	2.98	35,549	1.72	
8,305	13,046	21,351	(1,346)	20,005	3.99	40,759	1.99	
8,675	12,679	21,354	(1,481)	19,873	4.55	43,082	2.13	
9,065	12,289	21,354	(2,668)	18,686	5.27	49,600	2.04	

City of San Diego
Pledged-Revenue Coverage - Sewer Bonds (Unaudited)
Last Ten Fiscal Years (In Thousands)

Fiscal Year Ended June 30	Total System Revenues ¹	Total Maintenance and Operation Costs (Excludes Depreciation)	Net System Revenues ²	Senior Debt Service		
				Principal	Interest	Total
2000	\$ 291,238	\$ 137,007	\$ 154,231	\$ 18,300	\$ 58,755	77,055
2001	283,228	168,853	114,375	22,150	54,905	77,055
2002	310,392	170,022	140,370	23,045	54,009	77,054
2003	334,551	241,822	92,729	24,000	53,046	77,046
2004	296,169	196,823	99,346	25,030	52,020	77,050
2005	322,542	204,163	118,379	26,120	50,935	77,055
2006	320,288	202,111	118,177	27,390	49,662	77,052
2007 ⁴	343,921	202,632	141,289	28,760	48,291	77,051
2008	361,511	211,449	150,062	30,250	46,805	77,055
2009	353,446	197,379	156,067	31,700	45,356	77,056

¹ Beginning in Fiscal Year 2004, the City's methodology for reporting Net System Revenues was changed to exclude interest earnings on Acquisition Bond Proceeds from Total Income. The data presented in this Table has been restated to reflect this change.

² Net System Revenues is defined as "System Revenues" less "Maintenance and Operation Costs" of the Wastewater System for the fiscal year.

³ All Obligations include Senior, Subordinate and State Revolving Fund (SRF) Loans.

⁴ Senior Debt Service principal and interest amounts for FY 2007 were updated for correct amounts.

Source: Comprehensive Annual Financial Reports

Table 14

Senior Debt Service Coverage	All Obligations ³	
	Total Debt Service	Aggregate Debt Service Coverage
2.00	\$ 77,055	2.00
1.48	77,688	1.47
1.82	77,888	1.80
1.20	80,995	1.14
1.29	81,516	1.22
1.54	84,789	1.40
1.53	86,802	1.36
1.83	96,408	1.47
1.95	94,555	1.59
2.03	94,305	1.65

**City of San Diego
Demographic and Economic Statistics (Unaudited)
Last Ten Fiscal Years**

Table 15

Fiscal Year Ended June 30	Population ¹	Personal Income ² (Thousands \$)	Per Capita Personal Income (\$)	Unemployment Rate ³
2000	1,277,168	N/A	N/A	3.2%
2001	1,250,700	N/A	N/A	2.3%
2002	1,255,742	31,859,430	25,371	3.7%
2003	1,275,112	32,794,606	25,719	4.4%
2004	1,294,000	35,896,854	27,741	5.0%
2005	1,306,000	38,523,082	29,497	4.5%
2006	1,311,162	37,749,536	28,791	4.3%
2007	1,316,837	39,302,317	29,846	4.0%
2008	1,336,865	42,678,078	31,924	4.6%
2009	1,353,993	42,857,116	31,652	6.0%

Footnotes:

¹ Population projections are provided by the California Department of Finance Projections.

² Income data is provided by the United States Census Data and is adjusted for inflation.

³ Unemployment data is an annual percentage provided by the EDD's Bureau of Labor Statistics Department.

Sources: 2008-09 MuniServices, LLC, and Comprehensive Annual Financial Reports

**City of San Diego
Principal Employers (Unaudited)
Fiscal Year-End 2009¹**

Table 16

Employer	Number of Employees	Percentage of Total Employment ²
United States Navy ³	55,300	7.91%
San Diego Unified School District ⁴	21,959	3.14%
University of California San Diego	19,435	2.78%
San Diego County ⁵	17,900	2.56%
Sharp Memorial Hospital	14,724	2.11%
City of San Diego ⁶	10,799	1.54%
Kaiser Permanente	7,220	1.03%
University of San Diego	6,086	0.87%
Qualcomm, Inc. ⁷	6,000	0.86%
UC San Diego Medical Center	5,300	0.76%
Total Top Employers	164,723	23.56%

Footnotes:

¹ Past data going back to fiscal year-end 2000 is not available for a 10 year comparison.

² Percentage based on total employment of 699,200 provided by the EDD Labor Force Data.

³ Employee count includes Navy personnel only (civilian/military).

⁴ Employee count is district-wide.

⁵ Employee count is county-wide.

⁶ Employee count is provided by the City of San Diego, Office of the Comptroller - Payroll Division

⁷ Qualcomm's employee count is the same as last year's report. The current year employee count was not available.

Source: 2008-09 MuniServices, LLC

City of San Diego
 Full-time and Part-time City Employees by Function (Unaudited)
 Last Nine Fiscal Years ¹

Table 17

Function	Fiscal Year								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government and Support	1,864	2,015	2,039	1,990	1,944	1,816	1,870	1,979	2,248
Public Safety - Police	2,854	2,875	2,836	2,730	2,774	2,628	2,627	2,712	2,674
Public Safety - Fire and Life Safety	1,286	1,314	1,355	1,352	1,373	1,322	1,333	1,314	1,304
Parks, Recreation, Culture and Leisure	2,041	2,023	2,052	1,822	1,777	1,701	1,663	1,705	1,682
Transportation	490	517	513	501	461	447	339	326	279
Sanitation and Health	164	163	161	161	148	144	129	150	164
Neighborhood Services	267	259	260	235	234	177	148	154	145
Airports	19	20	21	19	17	14	14	15	16
Development Services	480	498	463	524	535	482	426	392	329
Environmental Services	209	222	225	219	219	196	188	164	168
Golf Course	69	70	73	82	81	88	95	88	97
Recycling	99	118	120	119	116	121	108	98	100
Sewer Utility	972	1,052	1,108	1,071	1,050	976	906	863	817
Water Utility	967	997	979	975	943	878	839	829	776
Total Employees	<u>11,781</u>	<u>12,143</u>	<u>12,205</u>	<u>11,800</u>	<u>11,672</u>	<u>10,990</u>	<u>10,685</u>	<u>10,789</u>	<u>10,799</u>

Footnote:

¹ Data only available for the last nine fiscal years.

Source: City of San Diego, Office of the Comptroller - Payroll Division

City of San Diego
Operating Indicators by Function (Unaudited)
Last Four Fiscal Years ¹

Table 18

Function	Fiscal Year			
	2006	2007	2008	2009
<u>Public Safety - Police</u>				
Calls for police services dispatched	626,067	623,940	631,371	668,989
Calls for 9-1-1 emergencies	471,927	518,291	526,391	506,738
<u>Public Safety - Fire and Life Safety</u>				
Fire Department:				
Emergency calls - fire	3,579	3,392	4,445	3,868
Emergency calls - medical/rescue	84,882	87,789	91,932	94,422
Emergency calls - other	12,918	13,010	13,635	13,671
Lifeguard:				
Water rescues	5,075	3,696	4,771	5,233
Other rescues	4,490	3,388	4,334	4,813
Beach attendance	21,277,945	21,253,050	20,275,495	21,166,884
<u>Parks, Recreation, Culture and Leisure</u>				
Parks and Recreation:				
Number of aquatic users ²	333,688	293,300	325,080	311,173
Number of youth served in after school program sites ²	80,837	57,111	88,032	84,140
Library:				
Circulation	7,003,040	7,167,104	7,374,378	7,651,619
Total attendance - all libraries	6,017,790	6,040,091	6,234,038	6,601,210
<u>Sewer Utility</u>				
Average daily sewage flow (millions of gallons)	180.95	175.13	175.29	170.78
Average daily peak - maximum sewage flow ³ (millions of gallons)	224.41	215.67	242.19	268.29
System daily capacity (millions of gallons)	255.00	255.00	255.00	255.00
<u>Water Utility</u>				
Average daily consumption (millions of gallons)	204.74	220.28	204.00	194.00
Maximum daily consumption (millions of gallons)	279.47	291.17	298.00	283.00
Total water consumption (millions of gallons)	74,730	79,606	74,430	70,893
Total water deliveries ⁴ (millions of gallons)	79,486	83,202	80,100	77,014

Footnotes:¹ Historical data for prior years is unavailable.² Estimated figure

³ The National Pollutant Discharge Elimination System (NPDES) permitted treatment capacity is the sum of the design Average Annual Daily Flows (AADF) for Point Loma Wastewater Treatment Plant (PLWTP) and South Bay Water Reclamation Plant (SBWRP). There is no permit restriction for Maximum Daily Flow at PLWTP as long as the AADF is not exceeded. The Peak Wet Weather Flow is the hydraulic capacity of the Point Loma Ocean Outfall.

⁴ Includes filtered and raw water

Source: Citywide departments

City of San Diego
Capital Asset Statistics by Function (Unaudited)
Last Ten Fiscal Years

Function	Fiscal Year			
	2000	2001	2002	2003
<u>Public Safety - Police</u>				
Stations	9	10	10	10
<u>Public Safety - Fire and Life Safety</u>				
Fire stations	43	43	43	43
<u>Parks, Recreation, Culture and Leisure</u>				
Park and recreation sites ¹	416	416	444	460
<u>Transportation</u>				
Miles of streets -asphalt,concrete, & dirt ²	3,820	3,820	3,112	2,985
<u>Airports</u>				
Municipal airports	2	2	2	2
<u>Golf Course</u>				
Municipal golf courses ³	9	9	9	10
<u>Sewer Utility</u>				
Miles of sewers	2,592	2,610	2,620	2,950
Sewer service laterals	263,107	265,212	266,342	268,372
<u>Water Utility</u>				
Miles of water distribution mains	3,125	3,139	3,157	3,280
Water meters in service	261,361	263,468	266,627	267,845
Fire hydrants	23,399	23,476	23,844	24,145

Footnotes:

¹ Statistics for fiscal years 2000-2003 were based on the number of parks, squares, and recreation centers. The department updated the statistics for overall park and recreation sites onward from fiscal year 2004.

² In prior years, miles of streets also included alleys and dirt streets. Since FY 2006, Transportation provided the statistic only for miles of asphalt and concrete streets.

³ Includes City operated as well as leased golf courses.

Sources: Comprehensive Annual Financial Reports, Citywide departments

Table 19

Fiscal Year					
2004	2005	2006	2007	2008	2009
10	10	10	10	10	10
45	45	45	46	47	47
363	367	370	380	380	384
2,985	2,800	2,685	2,700	2,721	2,721
2	2	2	2	2	2
10	10	10	10	10	10
3,028	3,030	2,993	3,018	3,076	3,023
270,365	271,284	271,445	274,014	273,081	273,438
3,317	3,319	3,336	3,381	3,263	3,281
270,022	271,204	272,466	273,304	278,692	274,310
24,428	24,600	24,661	24,905	25,003	25,023

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APPENDIX D

FORM OF BOND COUNSEL OPINION

Upon delivery of the Notes, Hawkins Delafield & Wood LLP, Bond Counsel to the City, proposes to issue an approving opinion in substantially the following form:

City Council of the
City of San Diego
San Diego, California

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of San Diego, California (the "City") in connection with the issuance of its \$163,165,000 aggregate principal amount of 2010-11 Tax and Revenue Anticipation Notes, Series A, Series B and Series C (the "Notes"). The Notes are issued under the authority of Section 92 of the City Charter of the City, Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code (collectively, the "Authorizing Law") and a resolution adopted by the City Council of the City on May 25, 2010, including the completed Accompanying Document thereto (collectively, the "Resolution").

In such connection, we have examined the Resolution, certain estimates, expectations and assumptions made by or on behalf of the City, originals, or copies identified to our satisfaction as being true copies, of such records and proceedings of the City and such other documents, including a certificate of the City relating to certain federal income tax matters (the "Tax Certificate"), and other matters deemed necessary to render the opinions set forth herein.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes not be included in gross income for federal income tax purposes under Section 103 of the Code. Non-compliance with such requirements may cause interest on the Notes to be included in gross income of the owners thereof for federal income tax purposes retroactive to the date of issue irrespective of the date on which such non-compliance occurs or is ascertained. We have examined the Tax Certificate delivered concurrently with the delivery of the Notes, which, in our opinion, establishes procedures under which, if followed, the requirements of the Code can be met.

Based on the foregoing, we are of the opinion that:

(1) The Notes constitute the valid and binding obligations of the City. The principal of and interest on the Notes are payable from the taxes, income, revenue, cash receipts and other moneys received or accrued by the City for the General Fund of the City during the Fiscal Year 2010-11 that are lawfully available for payment of the Notes and the interest thereon.

(2) The Resolution has been duly adopted and constitutes the valid and binding obligation of the City.

(3) Under existing statutes and court decisions, interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code and such interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

In rendering the opinions in paragraph (3) hereof, we have relied upon and assumed the material accuracy of the City's representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, and continuing compliance by the City of the procedures and covenants set forth in the Tax Certificate as to such tax matters.

(4) Interest on the Notes is exempt from State of California personal income tax.

The foregoing opinions are qualified to the extent that the enforceability of the Notes and the Resolution may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California.

Except as stated in paragraphs (3) and (4) above, we express no opinion regarding any other Federal, state or local tax consequences with respect to the Notes or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason. Furthermore, we express no opinion herein as the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Notes, or under state and local tax law.

Very truly yours,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The following information concerning the Depository Trust Company, New York, New York and its book-entry system has been obtained from sources the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued in the aggregate principal amount of the Notes and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the

City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER THE CITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Neither the City nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Notes paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered to DTC.

THE CITY AND THE PAYING AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE CITY OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL, INTEREST OR PREMIUM, IF ANY, EVIDENCED BY THE NOTES PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY 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. NEITHER THE CITY NOR THE PAYING AGENT IS RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE NOTES OR AN ERROR OR DELAY RELATING THERETO.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of July 1, 2010 (the "Disclosure Certificate") is executed and delivered by The City of San Diego (the "City") in connection with the issuance of its \$163,165,000 2010-11 Tax and Revenue Anticipation Notes, Series A, Series B and Series C (collectively, the "Notes"). The Notes are being issued pursuant to that certain resolution of the City adopted on May 25, 2010, including the Accompanying Document thereto dated July 1, 2010 (collectively, the "Resolution"). The proceeds of the Notes are being used to finance certain cash flow requirements of the City and pay costs of issuance with respect to the Notes. In connection therewith, the City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Notes and in order to assist the Participating Underwriter in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"EMMA System" means the MSRB's Electronic Municipal Market Access System.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"National Repository" shall mean the MSRB.

"Official Statement" means the Official Statement, dated June 23, 2010, relating to the Notes.

"Participating Underwriter" shall mean any of the original Underwriters of the Notes required to comply with the Rule in connection with offering of the Notes.

"Repository" shall mean each National Repository, if any.

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

Section 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Notes.
- (vii) Modifications to rights of Note owners.
- (viii) Contingent or unscheduled Note calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the Notes.
- (xi) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the City shall promptly file a notice of such occurrence with the National Repository through the EMMA System. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Notes pursuant to the Resolution.

(d) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, Dissemination Agent shall file a notice of such occurrence with the National Repository with a copy to the City. Notwithstanding the foregoing notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the holders of affected Notes pursuant to the Resolution.

Section 4. 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 Notes. If such termination occurs prior to the final maturity of the Notes, the City shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

Section 5. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent may resign as Dissemination Agent by providing thirty days written notice to the City. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived (provided no amendment that modifies or increases its duties or obligations of the Dissemination Agent shall be effective without the consent of the Dissemination Agent), provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 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 Notes, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Notes in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Notes.

Section 7. 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 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 notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 8. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any holder or beneficial owner of the Notes 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 Resolution, and the sole remedy under this Disclosure Certificate in the event of

any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Note owners, or any other party. Other than in the case of negligence, gross negligence or willful misconduct of the Dissemination Agent, the Dissemination Agent shall not have any liability to the Note owners or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from any breach of any obligation of the Dissemination Agent. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Notes, and shall create no rights in any other person or entity.

THE CITY OF SAN DIEGO

By: _____
Authorized Signatory

Attest:

City Clerk

APPROVED AS TO FORM:
JAN I. GOLDSMITH, City Attorney

By: _____
Name: _____
Deputy City Attorney



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272