WILLKIE FARR & GALLAGHER LLP **MEMORANDUM**

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Lance Witmondt on May 12, 2006

DATED: July 28, 2006

On Friday, May 12, 2006, Sharon Blaskey and Heath Rosenthal, in Willkie Farr & Gallagher's ("Willkie") capacity as counsel to the Audit Committee of the City of San Diego, interviewed Lance Witmondt. Mr. Witmondt was represented by counsel, Kimberly Greer and David Bayless, of Morrison & Foerster. The interview took place in a conference room on the third floor of the San Diego City (the "City") Administration Building and lasted approximately one and a half hours.

The following memorandum reflects my thoughts, impressions and opinions regarding our meeting with Mr. Witmondt, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

Warnings

At the outset of the interview, Ms. Blaskey explained that Willkie represents the Audit Committee. Ms. Blaskey stated that although the material discussed during the interview may be protected by either the work product doctrine or the attorney-client privilege, in the likely event that the Audit Committee issued a report, the privilege would be lost. Ms. Blaskey also informed Mr. Witmondt that the Audit Committee is cooperating with the Department of Justice and the Securities and Exchange Commission and may share information gathered in Mr. Witmondt's interview with those or other authorities who are conducting similar investigations. Ms. Blaskey asked that Mr. Witmondt keep the contents of the interview confidential. Mr. Witmondt asked if the Audit Committee would be sharing information gathered during his interview with the City Attorney's Office. Ms. Blaskey responded that the Audit Committee would not be sharing information with the City Attorney's Office at that time.

Background

Mr. Witmondt stated that he began working as Councilmember Brian Maienschein's Chief of Staff in December 2000. He had not worked for the City previously. Ms. Blaskey asked how Mr. Witmondt came to work for Councilmember Maienschein. Mr. Witmondt said that he and Councilmember Maienschein had been friends for 25 years and he was Councilmember Maienschein's campaign manager. Mr. Witmondt did not have any

background in government. He attended San Diego State University. Upon graduation, Mr. Witmondt went into his family's business as a general manager of a commercial janitorial service and stayed in that position for seven years. Ms. Blaskey asked Mr. Witmondt if he had any professional certifications and Mr. Witmondt stated that he did not. Ms. Blaskey asked Mr. Witmondt if he had any financial or legal training and Mr. Witmondt responded that he did not.

Councilmember Maienschein's Office

Ms. Blaskey asked Mr. Witmondt who was on Councilmember Maienschein's staff. Mr. Witmondt stated that he was Councilmember Maienschein's Chief of Staff and his role was to oversee Councilmember Maienschein's office. He said that John Rivera served as Councilmember Maienschein's Chief of Policy/Deputy Chief of Staff. Mr. Rivera deals with issues that appeared on the City Council docket such as land use, pension and sewer issues. Mr. Witmondt said that Mr. Rivera had worked for Councilmember Maienschein since 2002 and took over the position of Chief of Policy from Clint Carney when Mr. Carney left in 2004. Mr. Witmondt said that Christine Young was Councilmember Maienschein's office manager and was in charge of scheduling and intake. Ms. Young began working for Councilmember Maienschein in December 2000. Mr. Witmondt stated that Khoa Nguyen was a legislative and community analyst who began working in Councilmember Maienschein's office in the middle of 2002. Mr. Witmondt said that Christine Millay was a community representative who also assisted with press issues, and Brittany Rankin was a community representative who began working for Councilmember Maienschein in 2002. Ms. Blaskey asked what role a community representative played in Councilmember Maienschein's office. Mr. Witmondt explained that community representatives took care of any calls and concerns for their assigned community and were the front line for Councilmember Maienschein in that specific community. He said that Courtney Smith was also a community representative, and she began working for Councilmember Maienschein in 2004.

Ms. Blaskey asked Mr. Witmondt to describe his role and responsibilities as Chief of Staff. Mr. Witmondt explained that he was in charge of Councilmember Maienschein's office; worked with all of the staff, assigned who went with Councilmember Maienschein to what meetings; worked with Mr. Rivera and the community representatives; worked closely with Councilmember Maienschein on the large issues, and handled press for Councilmember Maienschein. Mr. Blaskey asked how issues were generally brought to Mr. Witmondt's attention. Mr. Witmondt responded that mail was opened by Ms. Young. Mr. Witmondt looked at everything that came into the office, threw out junk mail, and Councilmember Maienschein was provided with most of the mail. Councilmember Maienschein then distributed the mail to the appropriate staff person. Ms. Blaskey asked if Mr. Witmondt ever distributed the mail without Councilmember Maienschein seeing it first. Mr. Witmondt answered that he would distribute mail without first giving it to Councilmember Maienschein if he felt that Councilmember Maienschein did not have to see that mail. Mr. Witmondt added that he read everything before he passed the mail on to Councilmember Maienschein. If there was mail that dealt with an issue on which Mr. Witmondt was working, Councilmember Maienschein would pass it back to him. Mr. Witmondt said that if Councilmember Maienschein passed mail to another staffer and they needed Mr. Witmondt's help with the issue, that staffer would ask Mr. Witmondt for assistance. Ms. Blaskey asked if Mr. Witmondt had knowledge of the mail other staffers received. Mr. Witmondt stated that he did not, but said that he did have knowledge of

what other staffers were working on. Ms. Blaskey asked if Mr. Witmondt briefed Councilmember Maienschein on the issues for which Mr. Witmondt was responsible. Mr. Witmondt stated that he did. He explained that the issues given to him by Councilmember Maienschein tended to be the more controversial ones.

Ms. Blaskey asked Mr. Witmondt how, if at all, the structure of Councilmember Maienschein's office had changed since Councilmember Maienschein initially took office. Mr. Witmondt stated that the office was very similar to how it was in 2000. He said that he took on the role of working with the press a year and a half after Councilmember Maienschein took office. Ms. Blaskey asked if any of the other current staffers had been working for Councilmember Maienschein since he took office. Mr. Witmondt responded that he was the only staff member that had been with Councilmember Maienschein from day one, with the exception of Ms. Young who began two weeks after he did.

Ms. Blaskey asked about the communications between the City Manager and Councilmember Maienschein's office. Mr. Witmondt said the communication depended on the issues and different people in Councilmember Maienschein's office had different contacts in the City Manager's office, depending on the issue. He explained that sometimes they communicated with the City Manager's office through a City form called a "route slip." Ms. Blaskey asked about the communications between the City Attorney's and Councilmember Maienschein's offices. Mr. Witmondt said that the communications depended on the issue. Ms. Blaskey asked about the communications between the Treasurer's and Councilmember Maienschein's offices. Mr. Witmondt stated that there were few occasions when the Councilmember Maienschein's office communicated with the Treasurer's office. He said maybe their office interacted with the Treasurer's office when their constituents had a dispute with the Treasurer's office. Ms. Blaskey asked if Councilmember Maienschein's office had contact with lobbyists. Mr. Witmondt stated that if a lobbyist called, the Chief of Policy was the first contact on major issues. Mr. Witmondt stated that sometimes he got involved with lobbyists. He also said that if a staff member was in charge of a specific issue and a lobbyist called on that issue, the lobbyist would be directed to that person.

Ms. Blaskey asked if there was a point person in Councilmember Maienschein's office who dealt with pension related issues. Mr. Witmondt stated that the person who dealt with pension issues was Mr. Carney. Ms. Blaskey asked if Mr. Witmondt knew who Mr. Carney's primary contact in the City Manager's office was regarding pension issues. Mr. Witmondt said that he did not know. Ms. Blaskey asked if Mr. Witmondt had a point person in the City Manager's office on the pension issues. Mr. Witmondt stated that he did not.

Ms. Blaskey asked if there was a point person in Councilmember Maienschein's office who dealt with Wastewater related issues. Mr. Witmondt said that he believed Mr. Carney also dealt with Wastewater issues and that Richard Mendes (Deputy City Attorney) was Mr. Carney's main contact in the City Manager's office on those matters. Ms. Blaskey asked if Mr. Witmondt had a contract in the City Manager's office on the Wastewater issues. Mr. Witmondt stated that he did not.

Pension

Ms. Blaskey asked if Mr. Witmondt was familiar with the Blue Ribbon Committee ("BRC") Report. Mr. Witmondt stated that he was only aware of the BRC Report through document production in the recent investigations. He said that he knew there was a BRC at that time, but he only remembered that the BRC was looking at ways to make the City more efficient. He added that he did not see the BRC Report at the time it was issued. Ms. Blaskey asked if Mr. Witmondt recalled learning about the BRC conclusions or learning about concerns generally about how the pension was being funded. Mr. Witmondt stated that he did not learn about those things until they came out a couple of years ago during the various investigations.

Mr. Witmondt stated that Councilmember Maienschein became part of the Rules Committee in December 2002. Ms. Blaskey asked if Mr. Witmondt attended the Rules Committee meetings. Mr. Witmondt responded that he did sit in on some of the meetings and the Chief of Policy sat in on all of them. Ms. Blaskey asked if Mr. Witmondt attended a Rules Committee meeting about the funding of the pension. Mr. Witmondt said that nothing particular about any Rules Committee stuck out in his mind, including topics about how the pension system was going to be funded. Ms. Blaskey asked who briefed Councilmember Maienschein on Rules Committee matters. Mr. Witmondt said that the Chief of Policy usually briefed Councilmember Maienschein about the Rules Committee, but that Mr. Witmondt would look at the Rules Committee docket and binders and sometimes brief Councilmember Maienschein as well. The binders contained rules and agenda items. Ms. Blaskey asked if he recalled a binder containing a recommendation from the San Diego City Employees Retirement System ("SDCERS") Board; Mr. Witmondt said that he did not.

Ms. Blaskey showed Mr. Witmondt Exhibit 1, a February 12, 2003 e-mail from Dr. John Rivera to him. He remembered receiving the e-mail. Ms. Blaskey asked if the e-mail came from Councilmember Maienschein's Chief of Policy, Mr. Rivera. Mr. Witmondt stated that it did. Ms. Blaskey asked if Mr. Rivera is a lawyer. Mr. Witmondt responded that he is not. Ms. Blaskey asked if Mr. Rivera was working with Councilmember Maienschein at the time of the e-mail. Mr. Witmondt said he was. Ms. Blaskey commented that the e-mail seemed to indicate that Mr. Rivera briefed Mr. Witmondt. Mr. Witmondt stated that the pension issue obviously did go to the Rules Committee and he definitely recalled seeing the e-mail, and he said it was a briefing. Ms. Blaskey asked if Mr. Witmondt recalled what was being discussed about the pension in the e-mail. Mr. Witmondt responded that he only recalled that the pension system and health retirement benefits were being discussed, but he did not remember why those topics were being discussed.

Ms. Blaskey asked what "the plan" was, as referred to in the e-mail. Mr. Witmondt stated that he did not recall. Ms. Blaskey read the first two sentences of the e-mail to Mr. Witmondt: "The brief strategy follows our discussion. It asks several questions which establish Brian as fiscally responsible, position him to support the plan if answered satisfactorily, and also position him to vote no later if the plan supported by his colleagues is too questionable." Mr. Witmondt said that he guessed the plan referred to MP-2. Ms. Blaskey noted that MP-2 was passed by July 2002 and passed by ordinance a few months later. She asked if the question to support MP-2 would have been discussed after it was already passed. Mr. Witmondt responded that was possible because some issues were revisited. Ms. Blaskey stated that the BRC Report

was issued in February 2002 and the SDCERS Board was subsequently asked to respond to the BRC Report. She asked Mr. Witmondt if he recalled that the SDCERS Board was asked to make a presentation to the Rules Committee. Mr. Witmondt responded he did not, and stated that he also did not recall the City Manager's approach discussed in the brief attached to the e-mail. Ms. Blaskey asked if Mr. Witmondt recalled discussing the SDCERS response to the BRC with Councilmember Maienschein. Mr. Witmondt stated that he did not recall if he discussed this with Councilmember Maienschein and did not recall a meeting with Councilmember Maienschein on this issue. Ms. Blaskey asked whether Mr. Rivera would have briefed Councilmember Maienschein on a Rules Committee issue if Mr. Witmondt did not. Mr. Witmondt said yes, but he did not know if Mr. Rivera in fact did brief Councilmember Maienschein on this issue. Later in the interview, Mr. Witmondt clarified that no one briefed Councilmember Maienschein on closed sessions, including those closed sessions that dealt with MP-2. He also stated that Councilmember Maienschein could not discuss closed sessions with him.

Ms. Blaskey noted the background section on the brief attached to the e-mail and asked what Mr. Witmondt's understanding of MP-2 was at the time of the e-mail. Mr. Witmondt stated that he did not have a whole lot of understanding about MP-2 then, but he had a lot better understanding of it now. Mr. Witmondt stated that he did not recall having any interaction with Councilmember Maienschein on the pension issue. Ms. Blaskey asked if Councilmember Maienschein asked any of the questions in brief attached to the e-mail at the February 2, 2003 Rules Committee meeting. Mr. Witmondt stated that he could not remember. Ms. Blaskey asked if the City Manager made a new proposal around that time. Mr. Witmondt stated that he did not recall.

Disclosure

Ms. Blaskey asked Mr. Witmondt to describe the bond disclosure distribution process. Mr. Witmondt stated that the process was the same as all other Council action items: The docket was released on Wednesday, the Clerk's office brought backup materials the next day, the materials were distributed in Councilmember Maienschein's office as described earlier in the interview, and the Chief of Policy distributed the docket. Mr. Witmondt reviewed all of the information for completeness once the Chief of Policy put it together. Ms. Blaskey asked what that review would entail. Mr. Witmondt responded that, for example, he would look to see if the disclosure document represented that it had back-up materials that those materials were present. Ms. Blaskey asked Mr. Witmondt to describe a docket matrix. Mr. Witmondt said that a docket matrix had a brief description of the item, the item number, a recommended vote for Councilmember Maienschein, some information about the item, some questions Councilmember Maienschein may want to ask, and if the item was complex, a brief would be attached. He added that Councilmember Maienschein was given a binder with backup information and a matrix prior to the meeting. Mr. Witmondt also said that bond documents were in the City Clerk's binder, and he would look to make sure all of the bond documents were in the binder. He said that either he or the Chief of Policy brought the binder to Councilmember Maienschein. Mr. Witmondt explained that the Chief of Policy always dealt with the larger items. Ms. Blaskey asked if the Chief of Policy would review the binder. Mr. Witmondt responded that he thought the Chief of Policy would look through the binder to make sure everything was present that was supposed to be.

Ms. Blaskey asked if Mr. Witmondt or the Chief of Policy received any formal training on reviewing disclosure documents. Mr. Witmondt stated that he did not, but he did not know if the Chief of Policy did. Ms. Blaskey asked if the Chief of Policy reviewed the bond documents themselves. Mr. Witmondt stated that he did not know for sure, but he said he thought the Chief of Policy would. Ms. Blaskey asked what Mr. Witmondt would do with the bond offering documents. Mr. Witmondt responded that he would look at backup material to see if anything was missing from the bond document. Ms. Blaskey asked if he ever received a substantive briefing on a bond offering document. Mr. Witmondt stated that he did not recall. Referring again to the matrix, he said that sometimes it would be a full page, including questions and comments and he thought he recalled seeing a matrix dealing with bond offering documents. Ms. Blaskey asked if he ever read a bond offering. Mr. Witmondt said he has looked through them. Ms. Blaskey asked if Mr. Witmondt ever read through the bond document with the purpose of understanding it and Mr. Witmondt said he recalled doing so once for a public safety offering.

Ms. Blaskey showed Mr. Witmondt Exhibit 2, a copy of the 2002 Ballpark Offering, and asked him if he ever saw it. Mr. Witmondt stated that he recalled reviewing the Ballpark Offering. Ms. Blaskey asked what he was looking for when he read it. Mr. Witmondt responded that he looked to see that it made sense and that there was nothing missing. He said also that he would look to see if numbers he thought would be there were missing. Ms. Blaskey asked Mr. Witmondt if he recalled reading descriptions in the offering. Mr. Witmondt stated that would be the part of the offering he would review. Ms. Blaskey asked if he reviewed the Comprehensive Annual Financial Report ("CAFR") attached to the bond document. Mr. Witmondt stated that he recalled seeing the CAFR. Ms. Blaskey asked what he would do with the CAFR. Mr. Witmondt said he would look through it to see if it would make sense and see if anything was missing. He said he thought he would take this action in conjunction with looking at an offering as opposed to looking at the CAFR on its own. Ms. Blaskey asked if he recalled any heightened attention on the Ballpark Offering. Mr. Witmondt stated that he did not. Ms. Blaskey asked if he recalled raising questions to anyone regarding bond documents. Mr. Witmondt said he did not. Ms. Blaskey asked if Mr. Witmondt recalled discussing the Ballpark Offering documents with Councilmember Maienschein. Mr. Witmondt said he did not recall a specific conversation with Councilmember Maienschein about that offering.

Wastewater

Ms. Blaskey asked if Mr. Witmondt ever learned that there was an issue with how the City was charging utility users for sewer treatment. Mr. Witmondt said he learned about that issue through the recent investigations and City Attorney Michael Aguirre's report. Ms. Blaskey asked who the point person in Councilmember Maienschein's office was on Wastewater issues. Mr. Witmondt said it was the Chief of Policy, which would have been Mr. Carney or Mr. Rivera. Ms. Blaskey asked about Mr. Witmondt's current understanding of the Wastewater issue. Mr. Witmondt said he knew what Mr. Aguirre said in his report that the City was not in compliance with the law and a Cost of Service Study was conducted. Ms. Blaskey asked if he recalled a company named Kelco ever lobbying Councilmember Maienschein. Mr. Witmondt said he did not, but that he was familiar with the company. Ms. Blaskey asked if he was familiar with the company ISP Alginates. Mr. Witmondt said that the name ISP Alginates did not sound familiar.

Diann Shipione

Ms. Blaskey asked when Mr. Witmondt learned about Diann Shipione's (SDCERS Board member) allegations. Mr. Witmondt responded that he learned about Ms. Shipione's allegations at some point after she made them. Ms. Blaskey asked if he knew about the allegations she made at a November 18, 2002 City Council meeting. He said he did not know about her allegations around that time. Ms. Blaskey asked Mr. Witmondt about other people's perception of Ms. Shipione. Mr. Witmondt stated that he did not know who Ms. Shipione was before she made the allegations.

Rating Agencies

Ms. Blaskey asked if Mr. Witmondt had any contact with the rating agencies. He said he did not. Ms. Blaskey asked who the contact person in Councilmember Maienschein's office was with the rating agencies. Mr. Witmondt said he did not know.

WF&G

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EXHIBIT 1

Email message text
Object type: [GW.MESSAGE.MAIL.Internet]
Item Source: [Received]
Message ID: [3E49B36E.CCP.SDCOUNCIL.100.1366971.1.5666.1]
From: ["Dr. John Rivera" <xtrajus@lawinfo.com>]
To: [;Lance Witmondt;LWitmondt@sandiego.gov]
Subject: [Pension brief]
Creation date: [2/12/2003 2:36:00 AM]
In Folder: [PS&NS]
Attachment File name: [c:\44924\LWitmondt\3817.1-TEXT.htm]
Attachment File name: [c:\44924\LWitmondt\3817.2-Feb 12 03 Rules Brief Item _2 Pension and retiree health benefits Brian's copy.doc]
Attachment File name: [c:\44924\LWitmondt\3817.3-Mime.822]
Message: [
Hi Lance,

The brief strategy follows our discussion. It asks several questions which establish Brian as fiscally responsible, position him to support the plan if answered satisfactorily, and also position him to vote no later if the plan supported by his colleagues is too questionable. This protects him as we discussed.

Look forward to working with you on this as the issue develops-J

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PREPARED BY: John
MEETING: **Rules Committee, Wednesday, February 12, 2003**
ITEM: # 2 – Pension and retiree health benefits

NOTE: This brief takes the position that you are fiscally responsible. All the questions establish this and call for a more fiscally responsible approach. They also justify you rejecting the Manager's approach to funding pension, related obligations and health insurance until this approach can be better substantiated. Satisfactory answers to your questions could provide this substantiation and, at a later time, justify your support for a less than full funding ratio. Unsatisfactory answers could justify your eventual non-support.

Taking these steps will position you for protection should the majority of your colleagues decide to support a fiscally irresponsible pension funding strategy.

ISSUE:

What policies should be adopted to guarantee a fiscally responsible pension plan funding ratio, and what policies should be adopted regarding negotiating and funding contingent benefits and health insurance to guarantee the City's ability to meet its obligation to retirees?

BACKGROUND:

- 2/02 Mayor's Blue Ribbon Committee on City Finances issued report including recommendations for funding pension and retiree heath benefits.
- City Manager asked San Diego City Employees Retirement System (SDCERS)to review report and comment on projected pension benefits, revenue sources and current value of retiree health benefits.
- Retirement fund has suffered increasing shortfalls due to cuts in the City's contribution rate and a market declines over the past 3 years.
- Retirement fund has paid retirees a "13th check" every year since 1980 except for this year because it is paid out of excess earnings and there weren't any. 2002's 13th check payment was paid out of Retirement Fund reserves.

ANALYSIS:

- Only 3-4 years left for health coverage for current retirees
- 1.1 billion needed to cover health insurance for current and future retirees
- City's retirement fund is still $2.5 billion strong. Over long run, retirement fund investment returns have exceeded actuarial earnings assumption of 8%.
- Funds available to meet obligations to retirees fall short by about 22.7% (100 – 77.3 = 22.7)
- "Corridor Funding" – City contributions to the retirement fund are less than needed to meet obligations. Manager's Proposal II requires increasing contributions each year from now until 2009 when the contribution could reach $240 million.
- Response confirms Blue Ribbon summary stating:

1. The City is not paying the full cost being incurred for future pension and retiree health benefits out of the current year's budget, and

2. There is significant projected growth in required annual pension costs which City's budget must fund.

QUESTIONS/TALKING POINTS:

<u>The Funding Ratio – Vested Benefits</u>

1. Is the Manager's Proposal II contrary to the charter?—Payment plan rather than full payment.

2. What funding ratio, or range of ratios, would guarantee the City's ability to meet its obligation to retirees? Does the current funding ratio guarantee full pension benefits to the year 2028?

3. What alternatives are available for addressing the $720 million unfunded actuarial accrued liability?

4. How much more, beyond Manager's Proposal II, would it cost the City to include contingent benefits and health insurance in the funding ratio?

5. Where is the money coming from to pay for Manager's Proposal II?

6. Why don't we switch from the Projected Unit Credit (PUC) actuarial funding method to the more conservative Entry Age Normal (EAN) method now, rather than in 2009, so that we have less of a chance to overestimate our ability to meet pension obligations?

7. What is an acceptable funding ratio?

8. What would need to be done to reach full funding in 2028?

9. What are funding variations? Full funding, pay back slowly, modify retirement plan? What are various options for addressing contingent benefits and health insurance? What would those plans look like?

10. What are the advantages and disadvantages of issuing Pension Obligation Bonds to pay for the unfunded liability?

11. How much would the Contribution Rate have to increase to cover future actuarial funding?

12. Has any major city in the nation not been able to pay its pension obligations as a result of adopting too low of a funding ratio?

Contingent Benefits

1. When we have excess realized earnings in the future, should we first set aside a certain percentage into a reserve to stave off future budget and earnings "famines" like we are experiencing now, before paying contingent benefits?

2. Why aren't we including the Corbett lawsuit payment as a "priced" benefit since it must eventually be paid, rather than a "contingent" benefit so we can more accurately plan for it each year?

3. Should investment returns should be averaged over 5 or 10 years, rather than computed each year, for purposes of making contingent payments, to accommodate market slumps and rises?

4. Should the Corbett payment be funded by increased contributions and made part of the pension plan, rather than be funded by "excess earnings"?

5. What would be the consequences of incorporating all contingent benefits into future funding calculations (ie. not leave them tied to "excess earnings" because they have come to be expected by retirees)?

6. Should contingent benefits be negotiated differently, and the Muni Code amended, for future employees?

Health Benefits – Municipal Code: Pay as you go vs. contractual

1. How should we modify the health insurance "pay-as-you-go" approach? (change the benefit, fund it from sources other than the retirement fund, raise the annual employer contribution to the retirement fund, or other options?)

2. Should the matter of paying for retiree health insurance be taken to the voters?

3. Should health insurance be funded as part of the pension plan's funding calculations because it has come to be expected by retirees?

4. Should health insurance be negotiated differently, and the Muni Code amended, for future employees?

FISCAL IMPACT:

Current policy results in a fiscally irresponsible approach to funding retirement, related benefits, and health insurance for retirees relying too heavily on future market conditions and future generations of San Diegans.

RECOMMENDATION:

1. Table acceptance of the Manager's report;

2. Direct the Manager to return with options that:

   a. Guarantee a more fiscally responsible pension plan funding ratio (by addressing questions raised regarding issues such as the $720 million unfunded actuarial accrued liability and how the City's annual contributions will be paid), and

   b. Provide a more fiscally responsible way for the City to meet its contingent benefit obligations and to address health insurance for retirees through the actuarial period ending 2028.

EXHIBIT 2

NEW ISSUE

Ratings: See "Ratings" herein

Due to the pendency of the Ballpark Litigation (as defined and described in "LITIGATION—**Litigation Involving the Ballpark Project**"), Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Webster & Anderson, Oakland, California ("Co-Bond Counsel"), are providing a qualified opinion as to whether the interest on the 2002 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and from State of California personal income taxes Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2002 Bonds. For additional information, see "TAX MATTERS" and "LITIGATION—**Litigation Involving the Ballpark Project**" herein and APPENDIX F—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSES AND OPINIONS and APPENDIX I—FORM OF CO-BOND COUNSEL QUALIFIED OPINION hereto.

$169,685,000
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2002
(Ballpark Project)

Dated: Date of Delivery

Due: February 15, as shown on the inside cover page hereto

The Public Facilities Financing Authority of the City of San Diego (the "Authority") is issuing its Lease Revenue Bonds, Series 2002 (Ballpark Project) (the "2002 Bonds") (i) to finance a portion of the cost of building a state-of-the-art baseball park (the "Ballpark") and a public park to be located adjacent to the Ballpark (the "Park" and, together with the Ballpark and the grounds and walkways immediately surrounding the Ballpark and the Park, the "Ballpark Facility"), (ii) to fund the Reserve Account for the 2002 Bonds; (iii) to pay costs of issuance with respect to the 2002 Bonds; (iv) to pay a portion of interest payable on the 2002 Bonds for the first 30 months from the date of issuance of the 2002 Bonds (with the balance being paid from Base Rental Payments payable under the Ballpark Facility Lease (as hereinafter defined)); and (v) to reimburse certain advances made by the City of San Diego (the "City"), Padres L.P. (the "Padres") and the Redevelopment Agency of the City (the "Redevelopment Agency") toward Ballpark Facility costs and related infrastructure costs (the Ballpark Facility and the related infrastructure, together with certain land acquisitions and improvements, are collectively referred to as, the "Ballpark Project"). In order to effect such financing, the Authority and the City will enter into a Ballpark Facility Lease, to be dated as of February 1, 2002 (the "Ballpark Facility Lease"), between the Authority, as lessor, and the City, as lessee, whereby the City will lease the Ballpark Facility and the land on which it is located, excluding certain improvements to be owned by the Padres (the "Leased Property"), from the Authority. The 2002 Bonds will be issued pursuant to an Indenture, to be dated as of February 1, 2002 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The 2002 Bonds are payable from and secured by a pledge of revenues, consisting primarily of lease payments to be paid by the City and received by the Authority with respect to the Leased Property (the "Base Rental Payments") and certain other monies as described in the Indenture (collectively, the "Revenues"). The Base Rental Payments are subject to abatement in the event of damage, destruction, condemnation or title defects with respect to the Leased Property, as more particularly described in the Ballpark Facility Lease. In addition, the City's obligation to pay full Base Rental Payments does not arise until substantial completion of the Ballpark Facility A portion of the interest payable on the 2002 Bonds for the first 30 months from the date of issuance of the 2002 Bonds will be funded by the proceeds of the 2002 Bonds. It is contemplated that Base Rental Payments will directly fund the balance of current interest payable on the 2002 Bonds during such 30-month period and thereafter, subject to the terms of the Ballpark Facility Lease. Construction of the Ballpark Facility is currently scheduled for completion within 24 months after the issuance of the 2002 Bonds. However, should the completion of the Ballpark Facility be delayed beyond the above-referenced 30-month period, the City's duty to pay Base Rental Payments would be limited to approximately 35.3% of the debt service on the 2002 Bonds. For additional information, see "RISK FACTORS" herein.

Interest due on the 2002 Bonds is payable semiannually on February 15 and August 15 of each year (each, an "Interest Payment Date"), commencing August 15, 2002. For additional information regarding the 2002 Bonds, see "THE 2002 BONDS—**Description of the 2002 Bonds**" herein. The 2002 Bonds will be delivered in definitive form and shall remain in such form until the occurrence of certain events described in "PLAN OF DISTRIBUTION." The City shall make Base Rental Payments to the Trustee, as assignee of the Authority under the Assignment Agreement (as defined herein) for the use and possession of the Leased Property during each annual period. The Trustee shall deposit such Base Rental Payments in the Bond Fund established under the Indenture Such Base Rental Payments, if paid in full, are designed, in both time and amount, to pay when due the principal of and interest on the 2002 Bonds. Pursuant to the Indenture, the Trustee will, on each Interest Payment Date, apply funds available in the Bond Fund, in the amounts required to make principal and interest payments due with respect to the 2002 Bonds.

The 2002 Bonds are subject to optional redemption (at par on or after February 15, 2005), mandatory and extraordinary redemption For additional information regarding redemption of the 2002 Bonds, see "THE 2002 BONDS—**Redemption Provisions**" herein.

Payment of the principal of and interest on the 2002 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the 2002 Bonds, subject to the terms of such policy as described herein

Ambac

For additional information regarding the financial guaranty insurance policy, see "SECURITY AND SOURCES OF PAYMENTS FOR THE 2002 BONDS—**Financial Guaranty Insurance Policy**" herein. The Bond Insurer also has agreed to provide a forward commitment to provide a surety for one-half of the reserve requirement, subject to the conditions more fully described in Footnote 2 to the Table under the caption "SOURCES AND USES OF THE 2002 BOND PROCEEDS," and "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—**Debt Service Reserve Account**" herein.

INVESTMENT IN THE 2002 BONDS IS SUBJECT TO CERTAIN RISKS, INCLUDING LITIGATION RISKS AND COMPLETION RISKS AS FURTHER DESCRIBED IN "RISK FACTORS—LITIGATION RELATING TO THE BALLPARK PROJECT" AND "RISK FACTORS—BALLPARK PROJECT FUNDING AND COMPLETION RISKS" AND CERTAIN RESTRICTIONS ON RESALE, INCLUDING THE RIGHT OF FIRST REFUSAL BY THE UNDERWRITER, AS DESCRIBED IN "RISK FACTORS—THE 2002 BONDS ARE SUBJECT TO CERTAIN RESTRICTIONS ON RESALE AND A RIGHT OF FIRST REFUSAL AND THE EXERCISE OF CERTAIN CALL OPTIONS BY THE UNDERWRITER."

SEE "LITIGATION—LITIGATION AND A RELATED MATTER INVOLVING THE BALLPARK PROJECT" HEREIN AND APPENDIX F—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSES AND OPINIONS AND APPENDIX I—FORM OF CO-BOND COUNSEL QUALIFIED OPINION HERETO FOR FURTHER INFORMATION REGARDING PENDING LITIGATION WHICH COULD AFFECT THE VALIDITY OF THE 2002 BONDS OR THE BALLPARK FACILITY LEASE AND THE AVAILABILITY OF THE EXEMPTION FROM FEDERAL AND CALIFORNIA PERSONAL INCOME TAXES FOR INTEREST ON THE 2002 BONDS. THE OPINION OF CO-BOND COUNSEL IS QUALIFIED AS BEING SUBJECT TO THE OUTCOME OF SUCH LITIGATION.

NEITHER THE 2002 BONDS NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS UNDER THE BALLPARK FACILITY LEASE CONSTITUTES AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER NEITHER THE 2002 BONDS NOR THE OBLIGATION OF THE CITY TO MAKE SUCH BASE RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. FOR ADDITIONAL INFORMATION, SEE "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS," AND "RISK FACTORS" HEREIN.

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

The 2002 Bonds are being offered to a limited group of sophisticated institutional investors, as described in "PLAN OF DISTRIBUTION." Under the terms of the plan of distribution and as described in "PLAN OF DISTRIBUTION," Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter") will have an independent right to optionally call the 2002 Bonds from investors and a right of first refusal to purchase the 2002 Bonds, and each investor must, among other things, execute and deliver an investor representation letter, substantially in the form of APPENDIX J—FORM OF INVESTOR REPRESENTATION LETTER hereto, prior to purchasing the 2002 Bonds.

The 2002 Bonds will be offered when, as and if executed, subject to the approval as to legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Webster & Anderson, Oakland, California, Co-Bond Counsel, and to certain other conditions. The Co-Bond Counsel opinion is qualified as being subject to the outcome of the Ballpark Litigation. For additional information, see APPENDIX F—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSES AND OPINIONS and APPENDIX I—FORM OF CO-BOND COUNSEL QUALIFIED OPINION hereto. Certain legal matters for the Authority and the City will be passed upon by Casey Gwinn, Esq., City Attorney of the City of San Diego and General Counsel to the Authority, for the Underwriter by its internal counsel and by O'Melveny & Myers LLP and for the Bond Insurer by its internal counsel. It is anticipated that the certificates for the 2002 Bonds will be available for delivery in New York, New York, on or about February 15, 2002.

Merrill Lynch & Co.

February 14, 2002

$169,685,000

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2002
(Ballpark Project)

MATURITY SCHEDULE

$ 18,460,000	7.15% Term Bond due February 15, 2012	Price: 100%
$ 48,940,000	7.60% Term Bond due February 15, 2022	Price: 100%
$102,285,000	7.70% Term Bond due February 15, 2032	Price: 100%

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the City. This Offering Document does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2002 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Certain statements contained in this Offering Document reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements, whether or not expressly so described or identified herein, are intended solely as forward-looking statements, are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Offering Document. The summaries or references to the Indenture, the Ballpark Facility Lease, the Assignment Agreement, the Site Lease, the Continuing Disclosure Agreement, Principal Ballpark Project Documents and other documents, agreements and statutes referred to herein and the description of the 2002 Bonds included in this Offering Document, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entireties by reference to each such document or statute. All references made to various documents herein are qualified in their entirety by reference to the actual forms thereof, copies of which are available upon request with payment of copying, mailing and handling charges by contacting the City at the following address: The City of San Diego, City Clerk, 202 "C" Street, MS 2A, San Diego, California 92101, Attention: City Clerk. All capitalized terms used in this Offering Document (unless otherwise defined herein) shall have the meanings set forth in the Indenture or the Ballpark Facility Lease.

Certain information set forth herein has been obtained from sources other than the City, the Redevelopment Agency, the Centre City Development Corporation or the Authority, which information is believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the City. The Underwriter has reviewed the information in this Offering Document in accordance with, and as a part of, its responsibility under 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 and it is not to be construed as the promise or guarantee of the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Offering Document nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Offering Document is submitted in connection with the sale of the 2002 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

CITY OF SAN DIEGO
CITY COUNCIL

Dick Murphy, *Mayor*

Scott Peters
Byron Wear
Toni Atkins
George Stevens

Brian Maienschein
Donna Frye
Jim Madaffer
Ralph Inzunza

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn
City Attorney

Ed Ryan
City Auditor and Comptroller

Patricia T. Frazier
Deputy City Manager

Charles Abdelnour
City Clerk

Mary E. Vattimo
City Treasurer

PUBLIC FACILITIES FINANCING AUTHORITY
BOARD OF DIRECTORS

Joseph W. Craver
Chairman

Samuel Brown
Vice Chairman

Michael T. Uberuaga

L. Renee Comeau
Secretary

Ed Ryan
Treasurer

CO-BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Webster & Anderson
Oakland, California

CO-FINANCIAL ADVISORS

Kitahata & Company
San Francisco, California

A.G. Edwards & Sons, Inc.
Cleveland, Ohio

Municipal Capital Management, Inc.
Los Angeles, California

TRUSTEE

Wells Fargo Bank, National Association
Los Angeles, California

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OFFERING DOCUMENT

$169,685,000
PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2002
(Ballpark Project)

INTRODUCTION

This Offering Document, which includes the cover page and appendices hereto, is provided to furnish certain information in connection with the issuance and sale of the Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002 (Ballpark Project) in the aggregate principal amount of $169,685,000 (the "2002 Bonds"). The 2002 Bonds, initially in certificated form, will be issued pursuant to an Indenture, to be dated as of February 1, 2002 (the "Indenture"), between the Public Facilities Financing Authority of the City of San Diego, a California joint powers agency (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The Authority is a joint exercise of powers authority created by the City of San Diego (the "City") and the Redevelopment Agency of the City (the "Redevelopment Agency") pursuant to a Joint Exercise of Powers Agreement, dated May 14, 1991, as amended and restated. The purpose of the Authority is to assist with the financing of certain public capital facilities and improvements of the City or the Redevelopment Agency. The Authority is the issuer of the 2002 Bonds and the lessor of the Ballpark Facility (as defined below) and the land on which it is located, excluding certain improvements to be owned by the Padres (the "Leased Property") under the Ballpark Facility Lease, to be dated as of February 1, 2002 (the "Ballpark Facility Lease"), between the Authority, as lessor, and the City, as lessee. For additional information regarding the Authority and other participants in the development of the Ballpark Project, see **"PRINCIPAL PARTICIPANTS IN THE DEVELOPMENT OF THE BALLPARK PROJECT."**

Purpose of the 2002 Bonds

The proceeds of the 2002 Bonds will be used: (i) to finance a portion of the cost of building a state-of-the-art baseball park (the "Ballpark") and a public park located adjacent to the Ballpark (the "Park") (the Park, the Ballpark and the grounds and walkways immediately surrounding the Ballpark and Park are together referred to as the "Ballpark Facility"); (ii) to fund the Reserve Account for the 2002 Bonds; (iii) to pay costs of issuance with respect to the 2002 Bonds; (iv) to pay a portion of interest payable on the 2002 Bonds during the first 30 months from the date of issuance of the 2002 Bonds (with the balance being paid from Base Rental Payments payable under the Ballpark Facility Lease); and (v) to reimburse certain advances made by the City, Padres L.P. (the "Padres") and the Redevelopment Agency toward Ballpark Facility costs and related infrastructure costs (the Ballpark Facility and the related infrastructure, together with certain land acquisitions and improvements are collectively referred to as, the "Ballpark Project").

The Redevelopment Project, the Ballpark Project and the Ballpark Facility

The Ballpark Project is part of a larger urban revitalization project to be located in the East Village neighborhood of downtown San Diego (the "Redevelopment Project") undertaken by the City, the Redevelopment Agency, the Centre City Development Corporation (the "CCDC"), the Padres and other private developers. In addition to the development of the Ballpark Project, the Redevelopment Project also contemplates the development of certain hotels, retail and residential facilities, office space, parking facilities and other improvements, described more fully in **"THE REDEVELOPMENT PROJECT."**

The Ballpark Project consists of the Ballpark Facility, the acquisition of certain land for the Ballpark Facility and other related land acquisitions, improvements and infrastructure. When last submitted to the City Council in November 2001, the estimated overall budget for the Ballpark Project was $449.4 million. Currently, the estimated cost of the Ballpark Project is approximately $456.5 million. It is expected that the

estimated cost of the Ballpark Project will be funded from the following sources: $130.4 million from the proceeds from the sale of the 2002 Bonds[1], $76.4 million from the Redevelopment Agency, $153.2 million from the Padres, up to $21.0 million from the proceeds from the sale of certain surface parking lots and $75.5 million from City equity. For additional information regarding the sources of funding for (and ability to fund) the Ballpark Project, see "**PLAN OF FINANCE FOR THE BALLPARK PROJECT.**"

In connection with the Ballpark Project and the Redevelopment Project, a Memorandum of Understanding Concerning a Ballpark District, Construction of the Baseball Park and the Redevelopment Project (the "MOU") between the City, the Redevelopment Agency, the CCDC and the Padres, was approved by 59.6 percent of the citizens voting in the general election of the City of San Diego on November 3, 1998. The MOU provides for the acquisition, construction and installation of the Ballpark Project, hotels containing a minimum of 850 rooms, retail and residential facilities, office space, parking facilities and other improvements as more fully described herein. For additional information, see "**THE BALLPARK PROJECT**" and "**THE REDEVELOPMENT PROJECT.**"

Pursuant to the MOU, the City shall provide not more than $225.0 million toward the construction of the Ballpark Project. Certain components of the Ballpark Project will be constructed, installed and owned by the Padres, which have agreed to contribute approximately $153.2 million toward the cost of the Ballpark Project (which amount includes (i) the difference between the original estimated cost of the Ballpark Facility of $267.5 million and the current estimated cost of $294.1 million* and (ii) a current estimate of approximately $7.1 million in excess land acquisition costs). The Padres also will be responsible for any Ballpark Facility costs in excess of $294.1 million* (except those costs associated with change orders requested by the City), certain additional excess land acquisition costs and certain excess infrastructure costs. Upon completion, the Padres will be responsible for the operation and management of the Ballpark Facility and the City will be responsible for contributing not more than $3.5 million annually (subject to certain offsets and inflationary adjustments) to the operation and maintenance of the Ballpark Facility. For additional information regarding the Ballpark Facility, see "**THE BALLPARK FACILITY—Ownership,**" "**THE BALLPARK FACILITY—Revenues and Expenses,**" and "**PLAN OF FINANCE FOR THE BALLPARK PROJECT.**"

Risk Factors

See "**LITIGATION—Litigation Involving the Ballpark Project,**" **APPENDIX F—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSES AND OPINIONS** and **APPENDIX I—FORM OF CO-BOND COUNSEL QUALIFIED OPINION** for further information regarding issues raised in pending litigation which could affect the validity of the 2002 Bonds or the Ballpark Facility Lease, under which the Base Rental Payments provide the primary source of payments on debt service on the 2002 Bonds, and whether interest on the 2002 Bonds is exempt from federal and California personal income taxes.

This financing involves a number of other risk factors, some of which are specific to the City, and others that relate to lease financings generally. In addition, the 2002 Bonds are subject to certain restrictions on resale, including the right of first refusal by the Underwriter to purchase the 2002 Bonds and the potential exercise of certain call rights as to the 2002 Bonds by the Underwriter. For additional information, see "**RISK FACTORS,**" "**PLAN OF DISTRIBUTION**" and **APPENDIX J—FORM OF INVESTOR REPRESENTATION LETTER.**

Security and Sources of Payment for the 2002 Bonds

The 2002 Bonds are payable from and secured by Revenues and certain amounts on deposit in the funds and accounts established under the Indenture. Revenues consist primarily of all Base Rental Payments made by the City pursuant to the Ballpark Facility Lease. Base Rental Payments shall be paid by the City from any and all legally available funds. The City's obligation to make full Base Rental Payments is subject to substantial completion of the Ballpark Facility, the possibility of the Ballpark Facility Lease being declared invalid, and to abatement if, by reason of material damage to, destruction or condemnation of, or title defects with respect to, the

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[1] Net amount of available proceeds from the 2002 Bonds will be less than this amount and the difference reflects expected interest earnings on such proceeds and certain interest earnings on the Reserve Account.

* See "**THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

Leased Property, there is substantial interference with the City's right to use and possess the Leased Property. For additional information, see **"RISK FACTORS—Abatement"** and **"LITIGATION—Litigation Involving the Ballpark Project."**

In addition, payment of the principal of and interest on the 2002 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the 2002 Bonds. For additional information regarding the financial guaranty insurance policy, see **"SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Debt Service Reserve Account"** and **"SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS— Financial Guaranty Insurance Policy."**

Miscellaneous

This Introduction is not a summary of this Offering Document. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Offering Document, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Offering Document. The offering of the 2002 Bonds to potential investors is made only by means of the entire Offering Document.

Brief descriptions of Principal Participants in the Development of the Ballpark Project, Principal Documents, Schedule of Key Events, Sources and Uses of Bond Proceeds, Plan of Finance, Risk Factors, the Ballpark Project, Ballpark Project Insurance and Completion Guarantees, the Redevelopment Project, the 2002 Bonds, Security and Sources of Payment for the 2002 Bonds and various other topics follow. Such descriptions and summaries do not purport to be comprehensive or definitive. All references made to various documents herein are qualified in their entirety by reference to the actual forms thereof, copies of which are available upon request with payment of copying, mailing and handling charges by contacting the City at the following address: The City of San Diego, City Clerk, 202 "C" Street, MS 2A, San Diego, California 92101, Attention: City Clerk. All capitalized terms used in this Offering Document (unless otherwise defined herein) shall have the meanings set forth in the Indenture or the Ballpark Facility Lease.

A brief description of the City is provided in **APPENDIX A—THE CITY OF SAN DIEGO.** Certain audited financial statement information relating to the City's general funds is provided in **APPENDIX B—EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2001.** Summaries of the Indenture, a Site Lease to be executed between the City and the Authority (the "Site Lease"), the Ballpark Facility Lease, and the Assignment Agreement are provided in **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.** Summaries of the MOU, the Ballpark Infrastructure Design/Build Agreement, the Joint Use and Management Agreement, the Ballpark Design/Build Procurement Consultant Agreement, the Ballpark Facility Design/Build Contract, the Guaranty Agreement, the Implementation Agreement, the Second Implementation Agreement, the MLB Commitment and the Custody Agreement (all as defined herein) are provided in **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS.** A copy of Orrick, Herrington & Sutcliffe LLP's legal analyses and opinions regarding issues raised in the pending litigation which could affect the validity of the Ballpark Facility Lease or the 2002 Bonds or the tax exemption for interest payable on the 2002 Bonds is provided in **APPENDIX F—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSES AND OPINIONS.** A form of the Continuing Disclosure Agreement of the City with respect to the 2002 Bonds is provided in **APPENDIX G—FORM OF CONTINUING DISCLOSURE AGREEMENT.** A form of the financial guaranty insurance policy is provided in **APPENDIX H—FORM OF FINANCIAL GUARANTY INSURANCE POLICY.** A form of Co-Bond Counsel's qualified legal opinion is provided in **APPENDIX I—FORM OF CO-BOND COUNSEL QUALIFIED OPINION.** A form of Investor Representation Letter is provided in **APPENDIX J—FORM OF INVESTOR REPRESENTATION LETTER.**

PRINCIPAL PARTICIPANTS IN THE DEVELOPMENT OF THE BALLPARK PROJECT

Set forth below are brief descriptions of each of the principal participants in the development of the Ballpark Project. For additional information regarding the Ballpark Project and the various participants' roles, responsibilities and financial obligations with respect to such project, see **"PLAN OF FINANCE FOR THE BALLPARK PROJECT," "THE BALLPARK PROJECT," "BALLPARK PROJECT INSURANCE AND**

COMPLETION GUARANTEES," "THE BALLPARK FACILITY" and "THE REDEVELOPMENT PROJECT."

The Authority

The Public Facilities Financing Authority of the City of San Diego was established pursuant to a Joint Exercise of Powers Agreement, dated May 14, 1991, as amended and restated, between the City and the Redevelopment Agency. The purpose of the Authority is to assist with the financing of certain public capital facilities and improvements of the City or the Redevelopment Agency. The Authority has no taxing power. The Authority is the issuer of the 2002 Bonds and the lessor of the Leased Property under the Ballpark Facility Lease.

The City

With a population of approximately 1.3 million residents, the City is the seventh largest city in the nation and the second largest city in the State of California. The City's economic base consists of a diverse core of high tech industries, including telecommunications, bioscience and software development, complemented by defense and tourism, two mainstays of the City's economy. The City's traditional sectors of defense and tourism have historically realized steady growth. The City's defense industry, formerly concentrated in aerospace, is now almost entirely devoted to meeting the military's needs in the areas of information systems and applications of computer technology. There can be no assurance that the economy of the City will not be negatively affected by the slowing economies of the State of California and the United States, and the consequences of the recent attacks on New York, NY and Washington D.C./Arlington, VA (the "Attacks") and responses thereto. Since the Attacks, published newspaper articles have reported on staff layoffs and reduced work hours at hotels within the City due to lower occupancy rates and reduction of scheduled airline flights to and from the City due to reduced passenger loads. Due to the slowing economy, prior to the Attacks, for the first two months of the current fiscal year ended August 31, 2001, Transient Occupancy Tax ("TOT") revenues were down by approximately 6% from the same period in the prior fiscal year. Due to the Attacks and the continuing downturn in the economy, for the first five months ended November 30, 2001, TOT revenues were down by approximately 13.5% from the same period of the prior fiscal year. Sales Tax ("Sales Tax") revenues to the City for the first six months (ended December 31, 2001) of the current fiscal year were approximately 1% above the Sales Tax revenues received for the same period of the prior fiscal year. Through the first six apportionments (ended January 16, 2002) of Fiscal Year 2002, Property Tax ("Property Tax") revenues received by the City were up approximately 7% from the same period in the prior fiscal year. Motor Vehicle License Fee ("Motor Vehicle License Fee") revenues to the City for the first six months (ended December 31, 2001) of the current fiscal year were approximately 5% above the Motor Vehicle License Fee revenues received for the same period of the prior fiscal year. It is anticipated that the City Manager will present a report on the City's Fiscal Year 2002 financial status to the City Council during February 2002. This report will include an update on revenues and the impact of current economic conditions.

Subject to the uncertainties created by the slowing economies of the State of California and United States and the Attacks, the City believes that its visitor industry could benefit over time from the opening of the expansion to the San Diego Convention Center (the "Convention Center") in September 2001, which has approximately doubled the size of the facility.

The City, along with the Redevelopment Agency and the CCDC, are responsible for the planning and construction of the infrastructure component of the Ballpark Project. In addition, under the MOU, the City is responsible for contributing up to $225.0 million to fund the construction of the Ballpark Project. However, the Redevelopment Agency agreed to assume responsibility for acquiring $19.1 million worth of land and infrastructure costs that were previously part of the City's contribution to the Ballpark Project. As a result, the City's contribution to the Ballpark Project is currently not expected to exceed $205.9 million. The City will have at least a 70% divided majority interest in the Ballpark Facility, and will contribute not more than $3.5 million per year (subject to offsets and certain inflationary adjustments) for the operation and maintenance of the Ballpark.

The Padres

Padres L.P. is a Delaware limited partnership and the sole owner of the San Diego Padres Major League Baseball franchise (the "Franchise"). The Padres acquired the Franchise in 1994. The City was awarded the Franchise in 1968, and the Franchise has been located in the City continuously since the award. Under the MOU, the Padres are committed to play Major League Baseball games at the Ballpark while any of the 2002 Bonds remain

outstanding, up to 30 years, but in no event less than 22 years, and the Padres have an option to extend such period of time for two additional five-year terms. The Padres are responsible for the design and the construction of the Ballpark Facility. Under the Ballpark Design/Build Procurement Consultant Agreement, however, the City, the Padres, the Redevelopment Agency, CCDC, and Padres Construction, L.P. ("PCL"), an affiliate of the Padres, agreed that the Padres would delegate their obligations with respect to the design and construction of the Ballpark Facility under the MOU to PCL. The Padres will contribute approximately $153.2 million toward the cost of the Ballpark Project (which amount includes (i) the difference between the original estimated cost of the Ballpark Facility of $267.5 million and the current estimated cost of $294.1 million* and (ii) approximately $7.1 million in excess land acquisition costs). The Padres also will be responsible for any Ballpark Facility costs in excess of $294.1 million* (except those costs associated with change orders requested by the City), certain additional excess land acquisition costs and certain excess infrastructure costs. The Padres will own improvements in and to the Ballpark Facility amounting up to, but not exceeding, 30% of the original Ballpark Facility estimate of $267.5 million for the term of the Joint Use and Management Agreement, after which all portions of the Ballpark Facility owned by the Padres will automatically be transferred to the City. It is contemplated that the City Council of the City (the "City Council") will consider, in the near future, a proposal under which the Padres would also pay an additional $6.0 million and receive title to land on which would be built a parking garage containing at least 1,000 parking spaces available for use for the Ballpark Facility (the "P1 Parking Garage"). Should the City Council not approve an agreement, the City will cause the land to be acquired, and lease it to the Padres which will still have the obligation to build the P1 Parking Garage.

Based on financial and certain other information provided by the Padres, without the infusion of capital or borrowing proceeds, the Padres will not be able to fund their remaining Ballpark Project financial obligations; there are no current commitments by partners of the Padres to fund capital contributions necessary to fulfill the Padres' obligations; and the Padres have not obtained commitments for their contemplated borrowings. Neither the City nor the Authority can make any prediction as to the ability of the Padres to obtain such borrowings.

The information contained herein regarding the Padres and their affiliates has been provided by the Padres and, except as otherwise noted and except for descriptions of the rights and duties of the Padres and their affiliates under agreements or undertakings to which the City or the Redevelopment Agency is a party, has not been verified by the City, the Redevelopment Agency or the Authority.

The Redevelopment Agency

The Redevelopment Agency was activated on May 6, 1958, by action of the City Council. At the same time, the City declared itself to be the Redevelopment Agency. The elected Mayor of the City (the "Mayor") and the members of the City Council also serve as members of the board of the Redevelopment Agency (the "Redevelopment Agency Board"), although the Redevelopment Agency is a separate, legally constituted body. The Redevelopment Agency is charged with the responsibility of eliminating blight within its redevelopment project areas through the process of redevelopment. The Redevelopment Agency is responsible for the acquisition of certain land associated with the Ballpark Project.

The Centre City Development Corporation

In August 1976, the City Council designated the CCDC as the operating manager of redevelopment projects in the downtown area of the City (the "Centre City"). As such, it is responsible for the planning, implementation, and administration of such projects. The CCDC currently manages the Horton Redevelopment Project and the Centre City Redevelopment Project. The CCDC is managed by a board of directors, appointed by the Mayor and the City Council, consisting of seven individuals, and a professional staff. The CCDC will coordinate the Redevelopment Agency's land acquisitions associated with the Ballpark Project and the development process for the private ancillary development surrounding the Ballpark Project. For additional information regarding litigation which may affect the validity of the 2002 Bonds and Ballpark Facility Lease, see, **"LITIGATION—Litigation Involving the Ballpark Project—*Simmons v. City of San Diego, et al.*—CCDC Director Matter."**

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* See **"THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract*"** for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

The San Diego Unified Port District

The San Diego Unified Port District (the "District") is a Port District established by special legislation in 1962. It currently operates San Diego International Airport/Lindbergh Field (the "Airport") as well as a variety of other facilities located within the tidelands trust property which was conveyed to the District by the City for use in furtherance of commerce, navigation, fisheries and regional recreation. Except for the operations of the Airport, the principal operations of the District are the leasing of tidelands trust property for development by private enterprise and for which the District receives rental income as lessor. The Ballpark Facility will be located close to the Convention Center, which is located on the tidelands trust property of the District. Subject to approval by the Executive Officer of the State Lands Commission, the City expects that the District will purchase, for up to $21.0 million from its Car Rental Fee Fund, four surface parking lots that are located approximately two blocks east of the Ballpark Facility and within the vicinity of the Convention Center (the "Surface Parking Lots") from the City to serve the needs of the expanded Convention Center. However, this could be affected by the outcome of certain pending litigation against the District and the City relating to the District's commitment to purchase and the City's ability to sell the Surface Parking Lots (see "**RISK FACTORS—Ballpark Project Funding and Completion Risks—*Litigation Affecting the Ballpark Project Could Cause Further Delays in Construction***"), any future litigation or the consequences of recently passed legislation under which the Airport operations of the District, including certain related assets and revenues, would be split off into a new and separate agency. In addition, since the Attacks, the District has offered alternative optional rental deferral programs to most of its tourist businesses and to hotel tenants, which alternatives could adversely affect the District's financial resources. If, due to litigation, economic conditions or otherwise, the District is unable to purchase the Surface Parking Lots, the City and the Redevelopment Agency would provide the funds necessary to develop the Surface Parking Lots.

The information contained herein regarding the District has been provided by the District and, except for descriptions of the rights and duties of the District under agreements or undertakings to which the City or the Redevelopment Agency is a party, has not been verified by the City, the Redevelopment Agency or the Authority.

PRINCIPAL DOCUMENTS

The following tables provide definitions and summary descriptions for each of the key documents relating to the issuance of the 2002 Bonds and the Ballpark Project.

Documents Relating to the Issuance of the 2002 Bonds

Document Name	Description
Indenture	The Indenture, dated as of February 1, 2002, between the Authority and the Trustee, provides for the terms relating to the 2002 Bonds.
Site Lease	The Site Lease, dated as of February 1, 2002 (the "Site Lease"), between the City and the Authority, provides for the lease of the real property portion of the Ballpark Facility from the City to the Authority. Such real property, along with the Ballpark Facility, is subleased back to the City pursuant to the Ballpark Facility Lease.
Ballpark Facility Lease	The Ballpark Facility Lease, dated as of February 1, 2002, between the Authority and the City, provides for the lease of the Leased Property from the Authority to the City. Subject to substantial completion of the Ballpark Facility, the City will make full Base Rental Payments, subject to abatement, which will be used to pay debt service on the 2002 Bonds.
Assignment Agreement	The Assignment Agreement, dated as of February 1, 2002, between the Authority and the Trustee, governs the assignment of all rights to receive the Base Rental Payments under the Ballpark Facility Lease from the Authority to the Trustee.

Document Name	Description
Financial Guaranty Insurance Policy	The policy of insurance issued by the Bond Insurer which insures the payment of principal and interest when due on the 2002 Bonds.
Forward Commitment to Provide Reserve Account Surety	The forward commitment of the Bond Insurer to provide a surety to fund one-half of the Reserve Account. For additional information, see Footnote 2 to the Table under the caption **"SOURCES AND USES OF THE 2002 BOND PROCEEDS."**

Documents Relating to the Ballpark Project

Document Name	Description
MOU	The Memorandum of Understanding Concerning a Ballpark District, Construction of a Baseball Park and a Redevelopment Project by and among the City, the Redevelopment Agency, the CCDC, and the Padres, approved by 59.6 percent of the citizens voting in the general election of the City on November 3, 1998, memorializes the agreement among the parties to the MOU of the essential terms and conditions regarding the ballpark and redevelopment project. The original expiration of the MOU was March 31, 2000 and has been extended on a number of occasions, most recently to February 19, 2002.
Ballpark Infrastructure Design/Build Agreement	The Ballpark Infrastructure Design/Build Agreement, dated as of December 14, 1999, which has since its date of execution, been amended or restated on a number of occasions, most recently on January 28, 2002 (the "Ballpark Infrastructure Design/Build Agreement"), between the City and Sverdrup Civil, Inc., provides for the performance by Sverdrup Civil, Inc. of the infrastructure related work in connection with the Ballpark Project.
Joint Use and Management Agreement	The Joint Use and Management Agreement, dated as of February 1, 2000 (the "Joint Use and Management Agreement"), between the City and the Padres, governs the rights and duties of the City and the Padres with respect to the use and operation of the Ballpark Facility.
Ballpark Design/Build Procurement Consultant Agreement	The Ballpark Design/Build Procurement Consultant Agreement, dated as of February 1, 2000 (the "Ballpark Design/Build Procurement Consultant Agreement") by and among the City, the Redevelopment Agency, the CCDC, the Padres, and Padres Construction, L.P., governs the selection of the entity for managing the design and construction process of the Ballpark Facility and provides for the implementation of the Ballpark Facility Design/Build Contract.
Ballpark Facility Design/Build Construction Contract	The Ballpark Facility Design/Build Construction Contract, dated as of February 1, 2000 (the "Ballpark Facility Design/Build Contract"), between Padres Construction, L.P. and San Diego Ballpark Builders (the "SDBB"), provides for the construction of the Ballpark Facility by the SDBB, a joint venture comprised of Clark Construction Group, Inc., Nielsen Dillingham Builders, and Douglas E. Barnhart, Inc.
Guaranty Agreement	The Guaranty Agreement Concerning the Ballpark Design/Build Procurement Consultant Agreement, dated as of February 1, 2000 (the "Guaranty Agreement"), from the Padres to and for the benefit of the City, the Redevelopment Agency, the CCDC, the Authority, and the Trustee, provides that the Padres will guarantee complete and timely payment and performance by Padres Construction, L.P. of all of Padres Construction, L.P.'s obligations and

Document Name	Description
	responsibilities under the Ballpark Design/Build Procurement Consultant Agreement.
Ballpark and Redevelopment Project Implementation Agreement	The Ballpark and Redevelopment Project Implementation Agreement, dated as of February 25, 2000 (the "Implementation Agreement"), by and among the City, the Redevelopment Agency, the CCDC, and the Padres, implements the purpose and intent of the MOU and modifies, in part, the rights and obligations of the parties as set forth in the MOU by addressing certain matters relating to the infrastructure improvements, land acquisition costs, the City's parking obligations, certain costs of environmental remediation, and other related matters.
Second Ballpark and Redevelopment Project Implementation Agreement	The Second Ballpark and Redevelopment Project Implementation Agreement, dated as of November 30, 2001 (the "Second Implementation Agreement"), by and among the City, the Redevelopment Agency, the CCDC, and the Padres, (i) implements the purpose and intent of the MOU; (ii) modifies, in part, the rights and obligations of the parties as set forth in the MOU; (iii) increases the Redevelopment Agency's investment in the Ballpark Project to $76.4 million, plus an additional amount of $8.5 million for certain contingent expenses; (iv) accepts a guaranty from John Moores and the Padres, more fully described in "THE REDEVELOPMENT PROJECT—Hotels;" and (v) releases the City's first priority lien and security interest in the Franchise vested by the Security Agreement, dated as of April 1, 1999, as amended by the Ballpark Design/Build Procurement Consultant Agreement (the "Security Agreement"), by and between the Padres and the City; among other things.
Reaffirmation Agreement	The Reaffirmation Agreement, dated as of December 20, 2001 (the "Reaffirmation Agreement"), by and among the City, the Redevelopment Agency, CCDC and the Padres, reaffirms each party's intent to be bound by the MOU and related agreements.
TOT Guaranty Agreement	The TOT Guaranty Agreement, dated as of December 20, 2001, provides for certain payments to the City if the Four Star Hotel (as defined herein) is not opened and operating by April 2004 and will not become operative unless the Redevelopment Agency and JMI Realty, Inc. ("JMIR") extend the Disposition and Development Agreement for the development of the Four Star Hotel to and including December 31, 2003.
MLB Commitment	The Irrevocable Guaranty Agreement, dated as of February 15, 2002 (the "MLB Commitment"), provides a guaranty from Major League Baseball, an unincorporated association ("MLB"), of up to $45.8 million, payable upon written demand to MLB by the Custody Agent, with the consent of the Bond Insurer, promptly on or after April 1, 2002, to cover certain payment requirements of the Padres to the Design and Construction Fund if such requirements are not met by the Padres. The MLB Commitment will expire on October 1, 2002, if not previously called upon.
Custody Agreement	The Custody Agreement, dated as of February 15, 2002 (the "Custody Agreement"), by and among the City, the Redevelopment Agency, the Padres, Padres Construction, L.P., and Wells Fargo Bank, National Association, as custody agent, provides for deposits into and the priorities of withdrawals of funds from the Design & Construction Fund, the fund from which the remaining Ballpark Facility costs and certain land acquisition and infrastructure costs will be funded.

See **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS, APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS, "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Debt Service Reserve Account"** and **"SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Financial Guaranty Insurance Policy"** for a more complete description of certain documents listed above.

SCHEDULE OF KEY EVENTS

The following table provides some key events and actual or projected dates relating to the issuance of the 2002 Bonds and the Ballpark Project. Certain unforeseen events could prevent the projected dates from occurring as scheduled.

Event	Actual/Projected Date
MOU approved by San Diego voters	November 1998 (Actual)
Commencement of work on Infrastructure	January 2000 (Actual)
Commencement of work on Ballpark Facility	May 2000 (Actual)
Suspension of work on Ballpark Facility	October 2000 (Actual)
Guaranteed maximum cost established for the construction of the Ballpark Facility	November 2001 (Actual)
Guaranteed maximum price established for the Ballpark Infrastructure Design/Build Agreement	October 2001 (Actual)[1]
Completion of land acquisition for footprint of the Ballpark Facility	January 2002 (Actual)
Recommencement of work on Ballpark Facility	Date of closing of the sale and issuance of the 2002 Bonds (Projected)
Substantial completion of the Infrastructure	Approximately 24 months after the closing date for the sale and issuance of the 2002 Bonds (Projected)
Substantial completion of the Ballpark Facility	Approximately 24 months after the closing date for the sale and issuance of the 2002 Bonds (Projected)
Approximate time through which a portion of the interest on the 2002 Bonds will be capitalized (the balance is payable from Base Rental Payments under the Ballpark Facility Lease)	Approximately 30 months after the closing date for the sale and issuance of the 2002 Bonds (Projected)

(1) See **"THE BALLPARK PROJECT—Infrastructure Work—*Ballpark Infrastructure Design/Build Agreement*"** for additional information regarding the development and expiration of the guaranteed maximum price.

SOURCES AND USES OF THE 2002 BOND PROCEEDS

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

Sources	
Principal Amount	$ 169,685,000
Total	$ 169,685,000
Uses	
Deposit to Design and Construction Fund	$ 120,308,440 (1)
Deposit to Reserve Account	$ 15,040,690 (2)
Interest Account	$ 20,275,581 (3)
Costs of Issuance	$ 11,990,132 (4)
Underwriter's Discount	$ 2,070,157
Total	$ 169,685,000

(1) Includes $4,679,128 in reimbursements for Ballpark Project advances by the City, the Padres and the Redevelopment Agency.

(2) It is expected that 50% of the amount deposited in the Reserve Account will fund the final draws of the City's funds in the Design and Construction Fund, provided the City can certify that the construction of the Ballpark Facility is on schedule, whereupon the Bond Insurer will issue a surety in an amount equal to such draw for the Reserve Account. If the City cannot certify that the construction of the Ballpark Facility is on schedule, the Bond Insurer will not issue a surety and the City will need to deposit from its general funds, into the Design and Construction Fund, an amount equal to 50% of the amount in the Reserve Account. An appropriation of an amount of up to one-half of the amount deposited in the Reserve Account, if necessary, has been authorized by the City Council.

(3) Amount, which, together with expected interest income thereon and interest income on the Reserve Account, will fund a portion of interest payable on the 2002 Bonds for approximately 30 months from the date of delivery of the 2002 Bonds (with the balance being paid from Base Rental Payments payable under the Ballpark Facility Lease).

(4) Costs of Issuance include fees and expenses of the Co-Financial Advisors, Co-Bond Counsel and the Trustee, expenses for obtaining ratings on the 2002 Bonds, Offering Document printing costs, the premium for the Financial Guaranty Insurance Policy, other costs related to the issuance of the 2002 Bonds, and litigation expenses incurred incident to the Ballpark Project. Costs of Issuance include approximately $5.6 million that has been spent by the City to date, which amount is in addition to advances for certain Ballpark Project advances, and will be reimbursed to the City from the proceeds of the 2002 Bonds.

PLAN OF FINANCE FOR THE BALLPARK PROJECT

The Ballpark Project

The Ballpark Project consists of the Ballpark Facility, the acquisition of certain land for the Ballpark Facility and other related land acquisitions, improvements and infrastructure. The Ballpark Facility will occupy approximately 18 acres in the East Village neighborhood of downtown San Diego, bordered by J Street on the north, 7th Avenue on the west, 10th Avenue on the east, Park Boulevard on the south, and a frontage road along the railroad tracks between Park Boulevard and 7th Avenue. The Ballpark Facility is expected to hold up to 46,000 people by means of approximately 42,000 fixed seats, and the balance by means of a combination of standing room and picnic and lawn seating areas in the Park.

When last submitted to the City Council in November 2001, the overall budget for the Ballpark Project was $449.4 million. Currently, the estimated cost of the Ballpark Project is approximately $456.5 million. This estimate consists of $294.1 million* for the construction of the Ballpark Facility, $107.1 million[1] for the acquisition of land, which includes the Ballpark Facility footprint, $51.3 million for infrastructure, and $4.0 million for additional obligations under the Implementation Agreement, which includes costs relating to infrastructure and insurance.

Interim Expenditures

Set forth in the following table is information relating to (i) expenditures through January 15, 2002 on (a) the Ballpark Facility, (b) land acquisition relating to the Ballpark Project, (c) infrastructure work relating to the Ballpark Project, and (d) obligations under the Implementation Agreement; and (ii) the amounts spent by the City, the Redevelopment Agency and the Padres through such date. Certain amounts shown below are estimates and are provided from sources other than the City (the amounts of which have not been independently verified by the City and Authority).

Estimated Aggregate Expenditures Through January 15, 2002

Ballpark Facility (exclusive of land)	$ 61,700,000
Land Acquisition (inclusive of land for the Ballpark Facility)	$ 85,000,000
Infrastructure Work	$ 19,500,000 (1) (2)
Implementation Obligations	$ 600,000
Total	$ 166,800,000

Estimated Sources of Payments for Expenditures Through January 15, 2002

City	$ 32,200,000 (2) (3)
Redevelopment Agency	$ 74,600,000 (4)
Padres	$ 60,000,000 (5)
Total	$ 166,800,000

(1) This amount does not include $16.0 million of certain utility relocation costs which will be the responsibility of the "dry utility" providers or the Padres.
(2) This amount includes approximately $2.3 million that (i) has been authorized for use by the City for certain infrastructure work and (ii) is currently being spent by the City.
(3) Approximately $3.8 million will be reimbursed from proceeds of the 2002 Bonds.
(4) Approximately $0.2 million will be reimbursed from proceeds of the 2002 Bonds.
(5) Approximately $0.6 million will be reimbursed from proceeds of the 2002 Bonds.

Under the MOU, the Ballpark Design/Build Procurement Consultant Agreement, and the Implementation Agreement, the Padres are required to fund all costs of the Ballpark Facility in excess of the original Ballpark Facility estimate of $267.5 million and the Padres and the Redevelopment Agency are required to fund certain excess costs relating to land acquisitions for the Ballpark Project. For additional information, see **"Sources of Funds from the Padres"** and **"THE BALLPARK PROJECT—Land Acquisition Program."**

* See **"THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract*"** for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

[1] For additional information regarding the aggregate values estimated by the Redevelopment Agency of properties yet to be sought through condemnation, see Footnote 2 to the Table under **"THE BALLPARK PROJECT—Land Acquisition Program."**

Sources and Uses of Ballpark Project Funds

The currently estimated sources and uses of funding for the Ballpark Project are as follows:

Sources	
Proceeds from Sale of 2002 Bonds	$ 130,400,000 (1)
Redevelopment Agency	76,400,000 (2)
Padres	153,200,000 (3)
Proceeds from Sale of Surface Parking Lots	21,000,000 (4)
City Equity	75,500,000 (5)
Total	$ 456,500,000
Uses	
Ballpark Facility	$ 294,100,000 (6)
Land Acquisition	107,100,000 (7)
Infrastructure Work	51,300,000 (8)
Implementation Agreement Obligations	4,000,000 (9)
Total	$ 456,500,000

(1) Net amount of available proceeds from the 2002 Bonds will be less than this amount and the difference reflects expected interest earnings on such proceeds and certain interest earnings on the Reserve Account.

(2) This does not include the possible need for as much as $10.0 million for certain increases in land acquisition costs, if any, over $110.0 million up to $130.0 million, which amount the Redevelopment Agency has been authorized to spend by the execution of the Implementation Agreement. This amount is not reflected in the estimated amounts for the Ballpark Project set forth herein, but is authorized to be spent by the Redevelopment Agency, if necessary. The City, the Redevelopment Agency, the CCDC, and the Padres have approved an increase in the Redevelopment Agency's contribution to $76.4 million, plus an additional $8.5 million for certain contingent expenses, all under the Second Implementation Agreement.

(3) This amount includes a current estimate of land acquisition costs in excess of $100.0 million. The Padres are responsible for the first $10.0 million in land acquisition costs in excess of $100.0 million and fifty percent of any excess over $110.0 million up to $130.0 million. For additional information regarding the aggregate values estimated by the Redevelopment Agency of properties yet to be sought through condemnation, see Footnote 2 to the Table under "THE BALLPARK PROJECT—**Land Acquisition Program.**"

(4) See "PLAN OF FINANCE FOR THE BALLPARK PROJECT—**Sources of Funds from the District**" for information regarding the purchase of the Surface Parking Lots by the District, or the City and the Redevelopment Agency.

(5) This amount does not include $21.0 million, which would be needed to finance the acquisition and improvements of the Surface Parking Lots if the District is unable for any reason to fund the same pursuant to the Parking Lot Purchase Agreement. It is expected that the City (subject to the City's overall financial commitment limit to the Ballpark Project of $225.0 million) and the Redevelopment Agency would fund such amount. The City Council has authorized such amount for expenditure up to $19.1 million (subject to such overall financial commitment limit), with the balance having been authorized for expenditure by the Redevelopment Agency.

(6) See "THE BALLPARK PROJECT—**Ballpark Facility**—***Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

(7) This amount includes $6.0 million for the cost of the land acquisition for the P1 Parking Garage. It is contemplated that in the near future, the City Council will consider an amendment to the Implementation Agreement, which would reduce the land acquisition estimate by $6.0 million to reflect the commitment of the Padres to purchase, for that amount, the land for the P1 Parking Garage. If such an arrangement is approved by the City Council, the amount of the Redevelopment Agency's commitment to sources would be reduced by an equal amount. Should that modification not occur, the City will cause the land for the P1 Parking Garage to be acquired with Redevelopment Agency funds and the Padres will lease the land from the City and construct the P1 Parking Garage. The Redevelopment Agency believes it has the current funds available to fund this cost if necessary.

(8) The original estimated amount for Infrastructure Work as set forth in the MOU was $61.6 million and included the construction costs for the P1 Parking Garage. Pursuant to the Implementation Agreement, the Padres assumed construction of the P1 Parking Garage, thereby reducing the Infrastructure Work estimate by $10.3 million, which represents the estimated cost of constructing the P1 Parking Garage, but not the land cost.

(9) It is contemplated that in the near future, the governing body of the Redevelopment Agency will approve an amendment to the Implementation Agreement whereby the Redevelopment Agency and the Padres will each pay an equal share of an anticipated additional $6.5 million that will be required for certain environmental mitigation costs.

Details regarding the sources of funds for the respective contributions from the Padres, the Redevelopment Agency, and the District follow.

Sources of Funds from the Padres

Pursuant to the MOU and the Implementation Agreement, the Padres are to contribute at least $153.2 million, which includes the Padres' portion of both the current land acquisition costs estimate of $107.1 million and the current Ballpark Facility estimate of $294.1 million*. As of January 15, 2002, the Padres have advised the City that they have expended approximately $60.0 million (of which $580,000 will be reimbursed to the Padres from the proceeds of the 2002 Bonds). In addition, MLB has agreed to provide the MLB Commitment, guaranteeing the Padres' funding obligation up to an amount of $45.8 million. Pursuant to the Custody Agreement, if the Padres deliver cash or an acceptable letter of credit, or a combination thereof, equal to the amount of the MLB Commitment, prior to a draw thereon, the MLB Commitment will be released. In addition, the Padres may reduce their cash contribution, whether generated by cash or a draw on the MLB Commitment, by an amount equal to the face amount of any acceptable letter of credit deposited with the Custody Agent. For additional information, see **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Custody Agreement** and **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—MLB Commitment**. The Padres have advised the City that the funds for the Padres' contributions will come from (i) private franchise utility contributions; (ii) a cash equity contribution; (iii) contribution of food and beverage equipment; and (iv) debt financings. In addition, under the MOU, the Ballpark Design/Build Procurement Consultant Agreement, and the Implementation Agreement, the Padres are required to fund all costs in excess of the original Ballpark Facility estimate of $267.5 million, certain excess costs of land acquisition, and certain excess infrastructure costs, if any, in connection with the Ballpark Project. The following is a table describing the funding sources of the Padres, or credits therefor, which are recognized by the MOU:

Source [1]	Amount
Cash	$ 125.4 million [2] [3]
Private Utility In-Kind Contribution	$ 16.0 million
Concessionaire Equipment Obligation	$ 11.8 million
Total	$ 153.2 million [3]

(1) The City has not independently verified the Padres' sources of funding.
(2) Of this amount, approximately $60.0 million has been expended as of January 15, 2002.
(3) For additional information regarding the aggregate values estimated by the Redevelopment Agency of properties yet to be sought through condemnation, see Footnote 2 to the Table under **"THE BALLPARK PROJECT—Land Acquisition Program."**

The Padres have executed and delivered to the City, the Security Agreement, dated as of April 1, 1999, which grants the City a first priority security lien on the Franchise to secure the Padres' obligation to deposit their first $50.0 million into the Design and Construction Fund. The original Security Agreement was to remain in effect until such time as the Padres had fulfilled such funding obligation. Under the Ballpark Design/Build Procurement Consultant Agreement, the Security Agreement was amended also to secure funding of any cost overruns for the Ballpark Facility. However, under the Second Implementation Agreement, the City Council has approved an amendment to the Security Agreement, which will release the City's lien so as to accommodate a lien on the Franchise to be granted by the Padres in favor of MLB to secure the repayment by the Padres of up to $45.8 million, which may be advanced by MLB under the MLB Commitment. Such MLB lien will continue so long as the MLB Commitment is outstanding or funded and not repaid by the Padres. At such time as the MLB lien is released, the City will re-file its lien as to the Padres' franchise, so as to provide security for Ballpark Facility construction cost overruns.

The MOU provides that agreements with private franchise utility companies for utility relocations and equipment will be credited to the Padres. The value of the relocation of utilities in connection with the Ballpark Project has been estimated at $16.0 million. In addition to amounts spent to date by the Padres for which the Padres

* See **"THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract*"** for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

will not be reimbursed, the Padres have advised the City that they have executed and delivered a long-term contract with Sportservice Corporation, a major national provider of concession services, that would require the concessionaire to install food and beverage equipment valued at $11.8 million.

The Padres have informed the City that they do not have a defined long-term financing plan and that, initially, funding for the remaining amounts expected to be needed to complete the Ballpark Facility on an interim basis, will be funded by short-term borrowings. Based on financial and certain other information provided by the Padres, without the infusion of capital or borrowing proceeds, the Padres will not be able to fund their remaining Ballpark Project financial obligations; there are no current commitments by partners of the Padres to fund capital contributions necessary to fulfill the Padres' obligations; and the Padres have not obtained commitments for their contemplated borrowings. Neither the City nor the Authority can make any prediction as to the ability of the Padres to obtain such borrowings. Should the Padres be unable to issue any or all of such notes and the Padres are unable to finance their obligation through other sources, the construction of and the expected completion date for the Ballpark Facility could be adversely affected. The MLB Commitment would be available to fund up to $45.8 million of the Padres' funding commitment for the Ballpark Facility but would not be sufficient to cover cost overruns payable by the Padres over the current Ballpark Facility estimate of $294.1 million,* nor would it cover any amounts due from the Padres for land acquisition or infrastructure cost overruns.

The Padres have advised the City that the Padres, in connection with their financing for the Ballpark Facility, may assign certain of their rights and obligations under the Joint Use and Management Agreement, to a wholly-owned subsidiary. Any such assignment would be accompanied by a guaranty in favor of the City by the Padres of the performance by their subsidiary of the Padres' obligations under the Joint Use and Management Agreement. The terms of such financing will not include the right of the Padres' lender to terminate the rights of either the Padres or their subsidiary to use and occupy the Ballpark Facility under the Joint Use and Management Agreement or any of the Ballpark Project related agreements, as a remedy in the event the Padres default in their repayment of their financing obligation.

Sources of Funds from the Redevelopment Agency

Initially, under the MOU, the Redevelopment Agency was to invest $50.0 million in the Ballpark Project. This investment was previously increased to $61.0 million in the Implementation Agreement, and was increased further to an aggregate of $76.4 million by action of the City Council and the Redevelopment Agency taken on November 20, 2001 to increase the Redevelopment Agency's investment. This does not include an additional $8.5 million approved by the Redevelopment Agency in November 2001 for use related to the Ballpark Project. For additional information regarding the sources of funds from the Redevelopment Agency for the Ballpark Project, see Footnote 2 to the Table under the caption "**Sources and Uses of Ballpark Project Funds.**" This also does not include approximately $40.2 million which the Redevelopment Agency has repaid to the City for longstanding loans. (In December 2001, the Redevelopment Agency issued tax allocation bonds and used a portion of the proceeds to repay this amount to the City.) The City is using an equal amount of general funds as a part of its contribution for the Ballpark Project.

As of January 15, 2002, the Redevelopment Agency had expended approximately $74.6 million for the Ballpark Project (of such amount expended, the Redevelopment Agency expects to be reimbursed for approximately $0.2 million from the proceeds of the 2002 Bonds). The Redevelopment Agency expects to fund its entire commitment of $76.4 million with equity and proceeds of existing bond issuances.

Sources of Funds from the District

The Ballpark Project includes certain parking improvements, including land acquisition and construction activities relating to the Surface Parking Lots. At the time the MOU was approved by the voters of the City in November 1998, it was recognized, that based upon the projected size of the Ballpark Project, an additional $21.0 million would be needed for the Ballpark Project; as of that time a source had not been identified. Subsequently, as a result of negotiations between the City and the District, it was agreed that, subject to approval of the State Lands Commission, the District would acquire the Surface Parking Lots for a total price of $21.0 million.

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* See "**THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

The District has informed the City that the District believes that the development of the Surface Parking Lots is also needed to serve the Convention Center and the expansion of that facility. The original agreement was not approved by the State Lands Commission, which placed conditions upon future approval. The original agreement was replaced, incorporating provisions addressing the conditions required by the State Lands Commission, by the Purchase and Sale Agreement and Joint Escrow Instructions, dated October 1, 2001 (the "Parking Lot Purchase Agreement"), between the City and the District. The State Lands Commission delegated its approval authority to the Executive Officer of the State Lands Commission ("Executive Officer", who is considering the matter.

Pursuant to the Parking Lot Purchase Agreement, prior to the closing of the purchase transaction, the City must acquire or cause to be acquired the land for the Surface Parking Lots and improve the same to the reasonable satisfaction of the District by performing paving, striping, lighting, fencing, landscaping, and all other improvements necessary to cause the Surface Parking Lots to be suitable for use as surface parking facilities. Within 14 business days of approval by the Executive Officer, the District must pay the City the lesser of $14.0 million or what has then currently accumulated in the District's Car Rental Fee Fund (the "Fund") (currently estimated by the District to be approximately $10.3 million). To provide for the remaining funds, the District will deposit into an escrow account, funds as they continue to accumulate in the Fund (currently estimated by the District to be approximately $3 million per year), to be drawn upon as needed by the City, provided that the City first demonstrates that it has acquired title to or legal right to possession of the Surface Parking Lots. The District must approve, in its reasonable discretion, any subsequent withdrawal from the escrow account. Subject to overall Executive Officer approval, the land comprising the Surface Parking Lots is to be condemned by the Redevelopment Agency using funds advanced by the District. In addition, to the extent the District has advanced sums from the Fund, the District also will finance the cost of the Surface Parking Lots improvements and adjacent infrastructure improvements. If the District is unable to purchase the Surface Parking Lots, the City (subject to the City's $225.0 million overall maximum contribution to the Ballpark Project) and the Redevelopment Agency will purchase and develop the Surface Parking Lots but may scale back expected improvements thereon. The City Council has authorized the use of up to $19.1 million in City funds (subject to such $225.0 million overall maximum contribution) and the Redevelopment Agency has authorized the use of Redevelopment Agency funds, in the event that implementation of the Parking Lot Purchase Agreement is delayed or precluded. Hence, while the City is responsible to the District for delivery of the Surface Parking Lots pursuant to the Parking Lot Purchase Agreement, the funds necessary to acquire and develop the Surface Parking Lots are expected to be a combination of those of the District, the City and the Redevelopment Agency.

The City has not reviewed information as to the financial resources of the District available to purchase the Surface Parking Lots. There is currently pending against the District and the City, litigation challenging the power of the District to purchase and the power of the City to sell, the Surface Parking Lots. Additional litigation or legal challenges could occur. In addition, recently passed legislation, which will separate from the District, the Airport and related land and operations, could have a material adverse effect on the financial resources of the District. According to newspaper reports, upon signing the bill, the Governor requested the same be amended as promptly as possible to provide for District operational control of the Airport until at least 2004. There is no assurance such amending legislation will be enacted. On October 23, 2001, the Board of Commissioners for the District authorized a rent relief program for "tourist oriented tenants" (hotel operators, restaurants, specialty retailers, harbor excursions, vehicle tours, sport fishing, and rental car operators). One relief option permits the payment of only percentage rents during the period September 1, 2001 through February 28, 2002, and the deferral of payment of minimum rents during that period, should percentage rents be less than minimum rents. Any balance must be paid by the later of April 20, 2002 or 30 days following the end of a lease's current accounting year. Alternatively, such tenants could agree to postpone the due dates for September and October, 2001 rent payments, which are paid in arrears, for six months. While it is believed that this program could adversely affect the cash flow of the District, the City has no direct information from the District as to the result or impact of such rental payment deferral program.

As mentioned above, should pending or prospective litigation prevent the District or the City from performing under the Parking Lot Purchase Agreement; should approval not be obtained from the Executive Officer of the State Lands Commission; should the prospective financial resources of the District not be sufficient; or should there be a delay in the funding by the District due to the lack of accumulation of revenues in the Fund, then the City (within its $225.0 million cap) and the Redevelopment Agency shall be collectively responsible for some or all of the $21.0 million.

RISK FACTORS

The following is a discussion of certain risk factors, which should be considered, in addition to all other matters set forth in this Offering Document, in evaluating the investment quality of the 2002 Bonds. This discussion does not purport to be comprehensive or definitive.

Pending Litigation Could Affect the Validity of the 2002 Bonds and the Ballpark Facility Lease and the Tax Exemption of Interest on the 2002 Bonds

See **"LITIGATION—Litigation Involving the Ballpark Project," APPENDIX F—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSES AND OPINIONS,** and **APPENDIX I—FORM OF CO-BOND COUNSEL QUALIFIED OPINION** for information regarding the issues raised in pending legal challenges which could affect the validity of the 2002 Bonds or the Ballpark Facility Lease and whether the interest on the 2002 Bonds is excluded from federal and State of California personal income taxes. Should challenges as to the validity of the 2002 Bonds be successful, the City may not have a duty to make Base Rental Payments under the Ballpark Facility Lease, which Base Rental Payments are intended to provide debt service payments on the 2002 Bonds. Under such circumstances, the sole source for payment on the 2002 Bonds, other than the Reserve Account, would be the financial guaranty insurance policy issued by the Bond Insurer. Co-Bond Counsel are providing a qualified legal opinion as to the validity of the 2002 Bonds and the Ballpark Facility Lease as well as to interest on the 2002 Bonds being exempt from federal and California personal income taxes, as being subject to the outcome of such litigation. If the 2002 Bonds were held to be invalid, then there would not be a municipal obligation upon which interest could be paid, as a consequence of which interest on the 2002 Bonds, theretofore or thereafter received, would not be exempt from federal and California personal income taxes. Investors who do not report the interest as taxable income could be responsible for the payment of federal and personal income taxes as well as interest and penalties thereon.

Pending Litigation Potentially Adversely Affecting the General Funds of the City

See **"LITIGATION—Litigation Potentially Adversely Affecting the General Funds of the City"** regarding other litigation matters which potentially may have an adverse effect on the general funds of the City and, as a result, may adversely affect the City's ability to make Base Rental Payments.

The 2002 Bonds are Subject to Certain Restrictions on Resale and Rights of First Refusal In Favor Of and the Exercise of Certain Call Options by the Underwriter

Resales and transfers of the 2002 Bonds are subject to various restrictions. These restrictions include limitations on who may be a buyer or transferee and on the minimum denomination of a sold or transferred 2002 Bond. In addition, the Underwriter will retain a right of first refusal on all resales or transfers of the 2002 Bonds by investors. As a result, investors may be limited in their ability to sell or transfer the 2002 Bonds. Such restrictions may also impact the sale price or transfer price of the 2002 Bonds. For additional information, see **"PLAN OF DISTRIBUTION"** and **APPENDIX J—FORM OF INVESTOR REPRESENTATION LETTER.**

In addition, if any of the 2002 Bonds, the Indenture or the Ballpark Facility Lease is held to be void or invalid by a final decision of a court of last resort in any of the Ballpark Litigation (as defined and described in **"LITIGATION—Litigation Involving the Ballpark Project"**), the Underwriter (at the direction of the City and with funds provided by the City) may call the 2002 Bonds from investors, provided that, among other things, such call must be exercised on not less than 30 days nor more than 60 days notice by the Underwriter to record holders and must be effective as of a date that is not more than 270 days following the date of entry of such final decision. If the 2002 Bonds are called by the Underwriter, investors will bear the risk of any then-available reinvestment opportunities. For additional information, see **"PLAN OF DISTRIBUTION"** and **APPENDIX J—FORM OF INVESTOR REPRESENTATION LETTER.**

Ballpark Project Funding and Completion Risks

The City's obligation to pay approximately 64.7% of the Base Rental Payments is contingent upon the completion of the Ballpark Facility. Thus, any delays in the completion of the Ballpark Facility could have an adverse effect on the funds available for payment of debt service on the 2002 Bonds. Numerous factors, including, but not limited to, discovery of unforeseen site conditions, such as hazardous waste or soil conditions, work

stoppages, legal challenges, prolonged eminent domain proceedings, significant changes in the scope of the Ballpark Project or financial difficulties of contractors, could significantly delay or prevent completion of the Ballpark Project.

Prior to the substantial completion of the Ballpark Facility, a portion of the interest payable for the first 30 months from the date of issuance of the 2002 Bonds will be funded by the proceeds of the 2002 Bonds (with the balance being paid from Base Rental Payments payable under the Ballpark Facility Lease). See also "**THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract***" for information regarding the availability of insurance payments equal to the daily current interest accrued on the 2002 Bonds for up to 184 days of current interest, if, as the result of any negligence or intentionally harmful act or omission by the contractor, substantial completion of the Ballpark Facility is delayed beyond a date that is 4 months and 60 days after the currently expected Substantial Completion Date (as defined herein) of 24 months after the closing date of the issuance and sale of the 2002 Bonds (subject to extension in the case of force majeure and subject to the requirement that PCL shall have fully utilized its contingency allocation in endeavoring to meet the timely performance of its contractual obligations and shall have mitigated losses incurred as a result of any negligent or intentionally harmful act or omission by a licensed general contractor under such a design/build construction contract). Amounts payable under the policy are reduced by any liquidated damages paid to PCL by SDBB, whether or not paid by PCL to the Trustee.

PCL has a similar obligation to pay Liquidated Damages (as defined herein), which obligation may be offset by payment of the insurance. This amount would be sufficient to cover approximately 6 months of interest on the 2002 Bonds. In addition, PCL is expected to obtain "delay in startup" business income insurance under which, if physical damage or destruction to the Ballpark occurs during construction from a covered peril and delays are encountered to reconstruct, there will be available "soft costs" insurance up to $100.0 million; up to the first $38.25 million of such amount will go to the Trustee to pay the interest that accrues on the 2002 Bonds during any delay in substantial completion of the Ballpark Facility beyond 730 days after the date of the first notice to proceed issued by the City after January 1, 2002 (the "Substantial Completion Date") (with a fifteen day waiting period, except for the peril of earthquake, for which the waiting period is thirty days) due to casualty and other perils covered by the policy, the principal ones of which are fire and earthquake. However, the amount available for soft costs coverage for delays resulting from earthquake damage during construction, as well as the amount available for reconstruction, in the aggregate is only $100.0 million, and any soft costs amount available will be used first to pay up to $38.25 million in interest payments on the 2002 Bonds. The policy is a standard builder's all-risk policy for the Ballpark Facility and certain parts of the Ancillary Development (as defined herein) known as "East Village Square." To the extent insurance is available under both policies, payment under the business income insurance of a "delay in startup" nature will occur first.

The insurance coverage, however, may be limited, depending on the reason and scope of delay. For additional information regarding the availability of insurance for the Ballpark Project, see "**BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES—Insurance Available for Completion of the Ballpark Project—*Insurance on Design, Construction and Timely Completion of the Ballpark Facility.***"

Funding Risks

As described in "**PLAN OF FINANCE FOR THE BALLPARK PROJECT,**" each of the City, the Padres, the Redevelopment Agency, and subject to the approval of the Executive Officer of the State Lands' Commission, the District has an obligation to fund certain portions of the total Ballpark Project. The inability of any of the parties to finance its contribution could significantly delay or prevent the completion of the Ballpark Project. Specifically, the City does not have specific information on the means by which the District will finance its commitment or of its ability to do so. The City and Redevelopment Agency have funds available, if necessary, to replace the District's commitment. Based on financial and certain other information provided by the Padres, without the infusion of capital or borrowing proceeds, the Padres will not be able to fund their remaining Ballpark Project financial obligations or land acquisition or infrastructure cost overrun obligations; and there are no current commitments by partners of the Padres to fund capital contributions necessary to fulfill the Padres' obligations. The Padres have also advised the City they are still seeking funding commitments, part of the proceeds of which the Padres would use for their Ballpark Facility funding commitment. In the event the Padres are unable to fund their commitment or obtain interim funding, such inability could have an adverse impact on the completion of the Ballpark Project. The MLB Commitment would be available to fund up to $45.8 million of the Padres funding commitment for the Ballpark Facility but would not be sufficient to cover cost overruns payable by the Padres over

the current estimated amount of $294.1 million,* nor would the MLB Commitment cover any amounts due from the Padres for land acquisition or infrastructure cost overruns (currently estimated to be approximately $7.1 million).

Acquisition of Land

As of January 15, 2002, approximately $85.0 million (of which $72.8 million has been spent by the Redevelopment Agency) has been spent for parcels that have been acquired or are in the process of being acquired or condemned for the Ballpark Project. The estimated cost for acquiring the remainder of the land and the estimated amount for related litigation and consultants' costs aggregate $22.1 million, but in some instances may change based upon valuations which may be established in pending or future condemnation proceedings. See "**THE BALLPARK PROJECT—Land Acquisition Program**" for information regarding the land acquired and to be acquired by the Redevelopment Agency.

The current estimate of land acquisition costs is approximately $107.1 million. Under the Implementation Agreement, the Padres are solely responsible for land acquisition costs above $100.0 million up to a maximum total of $110.0 million. If land acquisition costs exceed $110.0 million, the Padres and the Redevelopment Agency are each required to pay 50% of additional land acquisition costs up to a maximum total of $130.0 million. While the Redevelopment Agency believes it has sufficient funds to cover such costs, the inability of the Padres or the Redevelopment Agency to fund such costs could significantly delay or prevent completion of the Ballpark Project. Based on financial and certain other information provided by the Padres, without the infusion of capital or borrowing proceeds, the Padres will not be able to fund their remaining land acquisition obligations; there are no current commitments by partners of the Padres to fund capital contributions necessary to fulfill the Padres' obligations; and the Padres have not obtained commitments for their contemplated borrowings. Neither the City nor the Authority can make any prediction as to the ability of the Padres to obtain such borrowings.

Guaranteed Maximum Cost of the Budgeted Amount Under the Ballpark Facility Design/Build Construction Contract Does Not Include Certain Recommencement Costs and Delays in Recommencement of Construction Could Increase Costs

SDBB had committed to a guaranteed maximum cost with regard to components of the Ballpark Facility comprising all of the current Ballpark Facility construction estimate under the Ballpark Facility Design/Build Construction Contract. Although SDBB has provided a guaranteed maximum cost of $233.4 million for the actual construction of the Ballpark, such amount does not include adjustments for certain suspension costs or price escalations accruing after October 1, 2001. An allowance for these costs and price escalations through February 13, 2002 is included in the $294.1 million Ballpark Facility estimate by the deduction of up to $3.0 million in contractually permissible, discretionary deductible items. The Padres have advised the City that costs associated with the delays in recommencement beyond February 13, 2002 could result in cost increases for the Ballpark Facility at the rate of approximately $1.0 million or more a month for approximately 64% of the subcontracted work and cost increases for the balance of the subcontracted work that, while anticipated to be modest initially, could also increase significantly if such delays are substantial. There can be no assurance that the final costs of the Ballpark Facility will not exceed the current Ballpark Facility estimate of $294.1 million, especially if recommencement is delayed substantially beyond February 13, 2002. See "**THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of the Ballpark Facility due to delays in the recommencement of construction. Although the Padres are responsible for any increase in the cost of development of the Ballpark Facility over the current Ballpark Facility estimate of $294.1 million (except those increases in cost associated with change orders requested by the City), if the Padres are unable to fund any such cost overruns, the development and completion of the Ballpark Project may be delayed significantly and otherwise adversely impacted.

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* See "**THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

Guaranteed Maximum Price Has Not Been Established For a Portion of the Budgeted Amount for the Infrastructure Work

Although a guaranteed maximum price has been established under the Ballpark Infrastructure Design/Build Agreement, it does not cover $3.3 million of the Infrastructure budget which is outside the scope of the Ballpark Infrastructure Design/Build Agreement, and certain portions of the Infrastructure Work are anticipated to be shifted from the scope of the Ballpark Infrastructure Design/Build Agreement which would result in the loss of the guaranteed maximum price for such work. Under the Implementation Agreement, the Padres have agreed to pay up to $500,000 in additional infrastructure costs, if the infrastructure budget is exceeded. If the cost for such work exceeds the budgeted amount, including the additional $500,000 paid by the Padres, the City (subject to its $225.0 million overall maximum contribution to the Ballpark Project), the Redevelopment Agency, the CCDC and the Padres must endeavor cooperatively to locate additional funding. Should such event occur, the inability of the parties to find additional funding could delay or prevent the completion of the Ballpark Project. See "***Funding Risks***" for information regarding the funding risks. For additional information regarding the Infrastructure Work, see "**THE BALLPARK PROJECT—Infrastructure Work.**"

Parking

The Final Subsequent Environmental Impact Report for the Ballpark Project and Ancillary Development (the "FSEIR") requires that 2,383 new parking spaces be provided for Major League Baseball games played at the Ballpark Facility. If the 2,383 required spaces are not provided, an additional significant impact could result that would require further environmental review and mitigation to allow the Ballpark Facility to operate, which could potentially delay the opening of the Ballpark Facility. The City, CCDC, and the Padres are working together to identify and offer adequate parking to meet the requirements of the FSEIR and to coordinate that parking with what will be provided for use by the Ancillary Development projects. If the 2,383 new parking spaces are not provided, Base Rental Payments pursuant to the Ballpark Facility Lease may be subject to abatement as described in "**Abatement.**"

Litigation Affecting the Ballpark Project Could Cause Further Delays in Completion

There has been substantial litigation brought against the City and the Redevelopment Agency (as well as the District), relating to the Ballpark Project. In addition, the City has brought actions of its own, one to prevent an initiative ballot measure seeking to terminate the City's obligations under the MOU and the other to validate certain ratifying actions taken by the City Council relating to the Ballpark Project. Litigation brought against the City and the Redevelopment Agency for the most part has been brought on behalf of specific plaintiffs by a single attorney (exclusive of litigation brought against the District, and in which the City is now a defendant, or which involved the adequacy of the FSEIR). This litigation has substantially delayed the issuance of the 2002 Bonds and the full funding of the City's investment in the Ballpark Project.

Exclusive of the condemnation proceedings (dealing solely with valuation) initiated by the Redevelopment Agency, a total of 16 separate lawsuits have been filed against the City (13 such suits) or by the City or Redevelopment Agency (three such suits). All of the cases that have gone to trial have been decided in favor of the City or Redevelopment Agency with two of such cases still on appeal, one case subject to appeal and one case awaiting trial. For additional information regarding the issues raised in the litigation relating to the Ballpark Project, see "**LITIGATION—Litigation Involving the Ballpark Project,**" **APPENDIX F—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSES AND OPINIONS** and **APPENDIX I—FORM OF CO-BOND COUNSEL QUALIFIED OPINION.**

In a letter dated September 20, 2001, the attorney who brought a significant number of the lawsuits relating to the Ballpark Project threatened taking future actions pertaining to the Ballpark Project. It is uncertain what the nature or form of any such action would be, if any, or what effects any such action might have on the completion of the Ballpark Project. In a letter dated January 7, 2002, the same attorney questioned whether the City was obligated to make payments to the Bond Insurer if the Bond Insurer were making debt service payments on the 2002 Bonds, implying that such payments by the City may be illegal. As was found in the Simmons case, no such obligation existed. For additional information, see "**LITIGATION—Litigation Involving the Ballpark Project—*Simmons v. City of San Diego, et al.***" The Padres have informed the City that, on January 8, 2002, the Padres filed a complaint for malicious prosecution against the same attorney, alleging that such attorney acted

maliciously in bringing numerous claims against the Padres, that several of the claims filed by the attorney were not supported by any facts indicating that the claims were tenable and that the attorney's true motivation for bringing the claims was to improperly derail or delay the Ballpark Project, and seeking relief for damages incurred in the form of litigation costs and attorney's fees, as well as punitive damages. According to the Padres, an amended complaint was filed on February 5, 2002 (adding similar allegations regarding the Other Allegations in Simmons) and served on or about February 6, 2002. There can be no assurance that the Padres' complaint will not be further amended or that any other action will not be taken, nor can any prediction be made as to the outcome of the litigation.

There is also litigation pending against the District and the City and currently awaiting a trial on the merits, which seeks to prevent the District from utilizing its funds to purchase and to prevent the City from conveying, the Surface Parking Lots. Other litigation may occur. If the District is not permitted to purchase the Surface Parking Lots for $21.0 million, the City (subject to the City's $225.0 million overall maximum contribution to the Ballpark Project) and the Redevelopment Agency will purchase and develop the Surface Parking Lots and may scale back on expected improvement costs. The City Council has authorized such amount for expenditure up to $19.1 million (subject to the City's $225.0 million overall maximum contribution to the Ballpark Project), with the balance having been authorized for expenditure by the Redevelopment Agency.

Should any pending litigation be decided adversely against the City or should there be any further litigation directly or indirectly to prevent the City from using funds toward the Ballpark Facility after the 2002 Bonds are issued, the completion of the Ballpark Facility could be delayed or prevented. A portion of the current interest payable on the 2002 Bonds for up to approximately the first 30 months from the date of issuance of the 2002 Bonds will be funded by the proceeds of the 2002 Bonds (with the balance being paid from Base Rental Payments under the Ballpark Facility Lease). Should litigation prevent the completion of the Ballpark Facility within this 30-month capitalized interest period, the City would only be under a duty to pay 35.3% of the Base Rental Payments under the Ballpark Facility Lease until it had substantial use and occupancy of the Ballpark Facility. However, should litigation declare the Ballpark Facility Lease invalid, the City would have no duty to make any Base Rental Payments. No prediction can be made as to the nature of any future litigation or the outcome thereof.

In the event the Ballpark Litigation (as defined and described in **"LITIGATION—Litigation Involving the Ballpark Project"**) is decided in favor of the City, the Ballpark Facility may be eligible for a tax-exempt refunding and, if a tax-exempt refunding is then available and economic, it is expected the City would consider defeasing and redeeming the 2002 Bonds at the earliest possible date. The 2002 Bonds are subject to an optional call, at par plus accrued interest, but with no premium, on or after February 15, 2005. For additional information, see **"THE 2002 BONDS—Redemption Provisions—*Optional Redemption*."** See also **"PLAN OF DISTRIBUTION"** for information regarding a call right in favor of the Underwriter with respect to the 2002 Bonds if the Ballpark Litigation is decided against the validity of the 2002 Bonds, the Indenture or Ballpark Facility Lease.

Seismic Risks and Other Events of Force Majeure

The Ballpark Project is located within a seismically active area, and damage from an earthquake can range from total destruction of the Ballpark Project, to destabilization or liquefaction of the soils, to little or no damage at all. PCL has obtained earthquake insurance for the Ballpark Facility and the East Village Square for coverage up to $100.0 million annual aggregate during the construction of the Ballpark Facility. There is no guarantee that such insurance will fully cover any loss resulting from a seismic activity during the construction of the Ballpark Facility. In addition, the City is not required to maintain earthquake coverage pursuant to the terms of the Ballpark Facility Lease and it is therefore expected that the Padres will not be required to maintain such insurance under the Joint Use and Management Agreement.

Construction and operation of the Ballpark Project are also at risk from other events of force majeure, such as damaging storms, winds and floods, tsunamis, fires and explosions, strikes and lockouts (but excluding strikes or lockouts affecting Major League Baseball), sabotage, wars, blockades, riots and spills of hazardous substances, among other events. Construction and operations may also be stopped or delayed from non-casualty events such as discovery of archaeological artifacts, changes in law, revocation or revision of permits, and litigation, among other things.

Depending upon the nature and scope of military activities in which the United States becomes involved in response to the Attacks and responses thereto, it is possible that the completion of the Ballpark Facility could be delayed due to the availability of qualified labor or materials. Although it cannot be determined which, if

any, adverse effects may occur, all of the steel for the Ballpark Facility has been purchased and is on site and most of the remaining structural materials are believed to be available within the United States. While certain façade treatments of the Ballpark Facility are being sought from at least one Asian country, should the same be unavailable, a substitute material could be utilized.

As described in **"Ballpark Project Funding and Completion Risks"** and **"BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES,"** capitalized interest is expected to provide a portion of the current interest payments for only up to approximately 30 months (with Base Rental Payments under the Ballpark Facility Lease funding the balance) and insurance policies may only provide limited additional funds for debt service on the 2002 Bonds and then only in limited circumstances. Also, availability of the insurance may be limited depending on the reason and scope of delay.

Limited Obligations

The Base Rental Payments are payable from the general funds of the City. Neither the 2002 Bonds nor the obligation of the City to make Base Rental Payments under the Ballpark Facility Lease constitutes an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the 2002 Bonds nor the obligation of the City to make such Base Rental Payments constitutes an indebtedness of the City, the State of California, or any political subdivision thereof, within the meaning of any constitutional or statutory debt limitation or restriction.

Limited Recourse Upon Default; No Acceleration of Base Rental

Failure by the City to make Base Rental Payments or other payments required to be made under the Ballpark Facility Lease, or failure by the City to comply with any other terms, covenants or conditions contained in the Ballpark Facility Lease or Indenture for a period of 30 days after written notice of such failure has been given by the Authority or the Trustee, constitutes an Event of Default under the Ballpark Facility Lease and permits the Authority or the Trustee to pursue any and all remedies available under the terms of the Ballpark Facility Lease. In the Event of a Default, notwithstanding anything in the Ballpark Facility Lease or in the Indenture to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE BASE RENTAL PAYMENTS OR OTHERWISE DECLARE ANY BASE RENTAL PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE, NOR SHALL THE AUTHORITY OR THE TRUSTEE HAVE ANY RIGHT TO REENTER OR RELET THE LEASED PROPERTY.

The enforcement of any remedies provided in the Ballpark Facility Lease and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Leased Property, the Authority or the Trustee may commence an action to recover any unpaid Base Rental Payments and enforce, by writ of mandate, any other term or provision of the Ballpark Facility Lease. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Ballpark Facility Lease, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments.

The enforceability of the rights and remedies of the registered owners of the 2002 Bonds and the obligations incurred by the City are also subject to the following: Title 11 of the United States Code (the "Bankruptcy Code") and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the Federal or State government, if initiated, could subject the registered owners of the 2002 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of the principal legal documents or their rights.

Limited Insurance Coverage

The Ballpark Facility Lease obligates the City to keep in force insurance against the loss and use of the Ballpark Facility as a result of damage to the Leased Property caused by fire, lightning, vandalism, sprinkler

system leakage, and boiler loss; there is no requirement to maintain earthquake insurance. The Ballpark Facility Lease also obligates the City to keep in force insurance against loss of use and occupancy of the Ballpark Facility as a result of any such damage for up to two years.

The City and the Authority make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Ballpark Facility Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repairs or replacement or to pay principal of and interest on the 2002 Bonds when due. In addition, certain insurance may not be available for the Leased Property, and even if available, certain risks may not always be covered. For additional information regarding insurance on the Ballpark Project, see "**BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES.**"

Bankruptcy Risks

The City is a unit of state government and therefore is not subject to the involuntary procedures of the Bankruptcy Code. However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding and an owner of a 2002 Bond would be treated as a creditor in a municipal bankruptcy. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purposes of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the occurrence of unsecured or court-approved secured debt which may have a priority of payment superior to that of registered owners of 2002 Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt without the consent of all of the registered owners of 2002 Bonds, which plan may restructure, delay, compromise, or reduce the amount of the claim of the registered owners if the Bankruptcy Court finds that such a plan is fair and equitable. In addition, the Bankruptcy Code might invalidate any provision of the Ballpark Facility Lease or the 2002 Bonds that makes the bankruptcy or insolvency of the City an Event of Default.

General Funds/Base Rental Payments

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

There are no legal limitations on the ability of the City to enter into other obligations that may constitute additional charges against its general funds. To the extent that additional obligations are incurred by the City, the general funds available to make Base Rental Payments may be decreased. The City is currently liable on other obligations payable from its general funds and may incur additional obligations payable from its general funds. For additional information regarding the City's other obligations, see **APPENDIX A—THE CITY OF SAN DIEGO—Bonded and Other Indebtedness.**

Abatement

Base Rental Payments may be abated in accordance with the Ballpark Facility Lease if there is substantial interference with the City's use and possession of any portion of the Leased Property due to damage, destruction, title defect, or condemnation. The amount of abatement shall be such that the resulting Base Rental Payments represent fair consideration for the use and possession of the remaining portions of the Leased Property as to which such damage, destruction, title defect or condemnation do not substantially interfere with the use and right of possession by the City. Such abatement shall continue for the period commencing with the date of the substantial interference due to damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective, or

condemned. Such reduced or abated Base Rental Payments, together with other monies available to the Trustee, may not be sufficient, after exhaustion of applicable use and occupancy insurance proceeds and depletion of amounts in the Reserve Account and in the Interest and Principal Accounts of the Bond Fund, to pay principal of and interest on the 2002 Bonds in full or in a timely manner. The failure of the City to make Base Rental Payments because of an abatement would not, under such circumstances, constitute a default under the Ballpark Facility Lease.

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

The Ballpark Facility Lease requires the City to apply casualty insurance proceeds to repair, reconstruct, or replace the Leased Property if to do so would fully restore the Leased Property. In the event that the casualty insurance proceeds are not sufficient to fully restore the Leased Property, the City may elect, but is not required, to budget and appropriate additional funds and fully restore the Leased Property, subject to complying with any applicable law or voter requirements. If the City does not make such election and the available casualty proceeds are at least sufficient to redeem all of the Outstanding 2002 Bonds, at par plus accrued interest, then the proceeds shall be used for that purpose. In the event the proceeds are not so sufficient, the City may elect, but is not required, to budget and appropriate additional funds so that the available casualty proceeds and such additional funds are sufficient to redeem all of the Outstanding 2002 Bonds at par plus accrued interest, in which case the same shall be used for this purpose. Further, the Ballpark Facility Lease provides that if there are not sufficient Net Proceeds received from casualty insurance so as to redeem all of the Outstanding 2002 Bonds and the City elects not to budget and appropriate additional funds necessary to redeem all of the Outstanding 2002 Bonds, then such proceeds will be used to repair, reconstruct, or replace the Leased Property. For additional information regarding the Ballpark Facility Lease and insurance available for the Ballpark Project, see **"BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES"** and **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Ballpark Facility Lease.**

The amount of Net Proceeds received from an award in condemnation or payment under a title insurance policy will depend upon the extent of the condemnation of, or title defects relating to, the Leased Property. If any portion of the Leased Property has been affected by condemnation or a title defect which will result in an abatement of Base Rental Payments payable by the City under the Ballpark Facility Lease, then the Trustee shall use Net Proceeds available from condemnation or any policy of title insurance to redeem Outstanding 2002 Bonds.

Proposition 62

For a discussion of the potential impact of the Proposition 62 decision on the City's finances, see **APPENDIX A—THE CITY OF SAN DIEGO—Municipal Government and Financial Information.**

Proposition 218

On November 5, 1996, the voters of the State approved an initiative to amend the California Constitution known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 requires voter approval of general or special taxes imposed by the City, and subjects local taxes, assessments, fees and charges to the possibility of reduction or repeal through the initiative power. For a discussion of the potential impact of Proposition 218 on the City's finances, see **APPENDIX A—THE CITY OF SAN DIEGO—Municipal Government and Financial Information.**

Other Financial Matters

Due to recent economic downturns in the State of California and the United States and the consequences of the Attacks and responses thereto, it is possible that the general revenues of the City will decline, particularly those based on tourism and conventions. Due to the slowing economy, prior to the Attacks, for the first two months of the current fiscal year ended August 31, 2001, TOT revenues were down by approximately 6% from the same period in the prior fiscal year. Due to the Attacks and the continuing downturn in the economy, TOT

revenues for the first five months (ending November 30, 2001) were down by approximately 13.5% from the same period of the prior fiscal year. Sales Tax revenues to the City for the first six months (ended December 31, 2001) of the current fiscal year were approximately 1% above the Sales Tax revenues received for the same period of the prior fiscal year. Through the first six apportionments (ended January 16, 2002) of Fiscal Year 2002, Property Tax revenues received by the City were up approximately 7% from the same period in the prior fiscal year. Motor Vehicle License Fee revenues to the City for the first six months (ended December 31, 2001) of the current fiscal year were approximately 5% above the Motor Vehicle License Fee revenues received for the same period of the prior fiscal year. It is anticipated that the City Manager will present a report on the City's Fiscal Year 2002 financial status to the City Council during February 2002. This report will include an update on revenues and the impact of current economic conditions. However, at present, the magnitude of the TOT revision is unknown. See **"PRINCIPAL PARTICIPANTS IN THE DEVELOPMENT OF THE BALLPARK PROJECT—The City"** for information regarding newspaper articles describing events suggesting the reduction of tourism in the City since the Attacks. Furthermore, if the opening of the largest of the three hotel projects to be built by an affiliate of the Padres is delayed beyond April 1, 2004, the City will be relying upon an unsecured obligation of John Moores (the principal owner of the Padres) and the Padres to pay to the City "in lieu" payments for a portion of the expected (but not received) TOT revenues. For additional information, see **"THE REDEVELOPMENT PROJECT—Hotels."** Certain other financial matters may have a detrimental impact on the City's general funds, and, accordingly, may reduce the City's ability to make Base Rental Payments. See **"LITIGATION—Litigation Potentially Adversely Affecting the General Funds of the City"** for information regarding pending litigation which could adversely affect the City's general funds. See **APPENDIX A—THE CITY OF SAN DIEGO—Municipal Government and Financial Information–Fiscal Year 2000** and **Vehicle License Fee Reduction** for information on the loss of vehicle license fee revenue by the City; **APPENDIX A—LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIIIA of the California Constitution** for information regarding pending litigation in another County in California which could have possible adverse effects on the amount of property tax revenues available to the City; and **APPENDIX A—THE CITY OF SAN DIEGO—Bonded And Other Indebtedness—Proposed Additional General Fund Lease Commitments** for information on the possible incurrence by the City of additional financial obligations payable from the general funds on a parity with Base Rental Payments.

THE BALLPARK PROJECT

The Ballpark Project consists of the Ballpark Facility, the acquisition of certain land for the Ballpark Facility and other related land acquisitions, improvements and infrastructure. The Ballpark Facility will occupy approximately 18 acres in the East Village neighborhood of downtown San Diego, bordered by J Street on the north, 7th Avenue on the west, 10th Avenue on the east, Park Boulevard on the south, and a frontage road along the railroad tracks between Park Boulevard and 7th Avenue. The following discussion describes certain components of the Ballpark Project.

The origins of the Ballpark Project can be found in the MOU, which was executed by the City, upon direction given by the voters through the adoption of "Proposition C" in November 1998. The MOU in broad terms set parameters for the nature and scope of the project and imposed certain financial commitment limits, only some of which could be modified. In City v. Dunkl and Zoebisch v. Abdelnour, a California Court of Appeal found that the agreements implementing the MOU, such as the Implementation Agreement, were administrative acts and therefore not subject to voter initiative or voter referendum, and that the only legislative act was the MOU, which was approved by the voters.

Since the approval by the voters, there have been a number of changes or modifications to the rights and obligations of the parties set forth in the MOU. By virtue of increases in the construction costs, the estimated cost for the design and construction of the Ballpark Facility (which increase, the MOU requires the Padres to pay) has been increased from $267.5 million to $294.1 million* and may increase further. As a consequence of the terms of the Implementation Agreement and the Second Implementation Agreement, the total of the estimate for the Infrastructure Work (the "Infrastructure Estimate") is $51.3 million. The current total estimate for land acquisition costs (the "Land Acquisition Estimate") has increased from $100.0 million to $107.1 million. Initially, under the MOU, the Redevelopment Agency was to invest up to $50.0 million in the Ballpark Project. This investment has been previously increased to $61.0 million, and has been increased further to an aggregate $76.4 million by action of the City Council and the Redevelopment Agency taken on November 20, 2001 to increase the

* See "***Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

Redevelopment Agency's investment. This does not include an additional $8.5 million approved by the Redevelopment Agency board in November 2001 for use related to the Ballpark Project. For additional information regarding the sources of funds from the Redevelopment Agency for the Ballpark Project, see Footnote 2 to the Table under the caption **"PLAN OF FINANCE FOR THE BALLPARK PROJECT—Sources and Uses of Ballpark Project Funds."** Furthermore, the City's financing plan no longer contemplates reliance to pay debt service on the building of a convention center expansion "headquarters hotel" referred to in the MOU and its generation of TOT. In addition, the original obligation under the MOU of the City to purchase certain lands and develop the P1 Parking Garage has been modified pursuant to the Implementation Agreement such that the City will purchase or cause to be purchased the land for the P1 Parking Garage, which the City will lease to the Padres and on which the Padres will be required to build the P1 Parking Garage. In addition, it is contemplated that in the near future, the City Council will consider an amendment to the Implementation Agreement, which would further require the Padres (rather than the City) to purchase the land and construct the P1 Parking Garage. The expiry date of the MOU has been extended on a number of occasions with the current extension set to expire on February 19, 2002. Upon satisfaction of the conditions subsequent in the MOU, including those related to the City's funding obligation, the MOU is extended by its terms to the final maturity of the 2002 Bonds.

Pursuant to the MOU, the City Council may agree to amend or modify the MOU without a vote of the electorate only if the amendments or modifications do not materially (i) decrease the rights or increase the obligations of the City; (ii) increase the financial commitments of the City; or (iii) decrease revenue to the City. In the opinion of the City Attorney of the City, any changes heretofore made in the rights and obligations of the parties set forth in the MOU are valid and binding and do not require voter approval, and the City Council has so found.

Ballpark Facility

General

The current Ballpark Facility estimate is $294.1 million*, which includes a guaranteed maximum cost for the construction budget under the Ballpark Facility Design/Build Construction Contract of $233.4 million. See **"RISK FACTORS – Ballpark Project Funding and Completions Risks –** ***Guaranteed Maximum Cost of the Budgeted Amount Under the Ballpark Facility Design/Build Construction Contract Does Not Include Certain Recommencement Costs and Delays in Recommencement of Construction Could Increase Costs"*** for a discussion of the impact of the current delay (and possible future delays) in recommencement on such guaranteed maximum cost. The design for the Ballpark Facility, which includes all working drawings, is completed and is included in the Ballpark Facility Design/Build Construction Contract. The Ballpark is designed as a steel and concrete structure designed to fit into the general design of other nearby San Diego structures. The Ballpark Facility will have capacity for 46,000 spectators, with 42,000 fixed seats. The Ballpark Facility will have 60 to 63 luxury suites and player and fan amenities consistent with other newly constructed major league baseball parks. The Park, which will be located immediately adjacent to the Ballpark's center field, will be open to the public when there is not an event taking place and will be surrounded by new retail, office and, potentially, residential development.

Construction of the Ballpark Facility began in May 2000 and was suspended in October 2000 due to certain outstanding litigation related to the Ballpark Project. It is anticipated that the Ballpark Facility construction will recommence shortly after receipt by the City of the proceeds from the 2002 Bonds.

HOK Sport of Kansas City ("HOK") is the executive architect of the Ballpark Facility. HOK has been involved in more than 500 projects dedicated solely to sports architecture. The Major League Baseball parks designed by HOK include Comerica Park in Detroit, Michigan, Enron Field in Houston, Texas, and Pacific Bell Park in San Francisco, California.

Ballpark Facility Design/Build Contract

The City, acting exclusively by and through PCL, as its procurement consultant, (the City, in such capacity is referred to as the "Principal"), has entered into the Ballpark Facility Design/Build Contract with SDBB, a joint venture comprised of Clark Construction Group, Inc., a Maryland corporation, Nielsen Dillingham Builders, a Nevada corporation, and Douglas E. Barnhart, Inc., a California corporation.

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* See ***"Ballpark Facility Design/Build Contract"*** for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

PCL has retained Hines Interests Limited Partnership (the "Development Manager") to act as the development manager for the construction of the Ballpark Facility. The Development Manager is a real estate development company with offices in 71 cities and 12 countries. Over the past forty years, the Development Manager has completed 552 projects totaling 143 million square feet. The Clark Construction Group, Inc. is a general contracting firm that has completed such sports facility projects as the FedEx Field in Washington, D.C. and the Oriole Park at Camden Yards in Baltimore, Maryland.

The Ballpark Facility Design/Build Contract requires SDBB to construct the Ballpark Facility based on working drawings and specifications of the architect selected by PCL. According to the Padres, SDBB had committed to a guaranteed maximum cost (the "GMC") with respect to the construction of all components of the Ballpark Facility for an aggregate amount of $233.4 million under the Ballpark Facility Design/Build Contract, but this amount does not include adjustments for certain suspension costs or price escalations accruing after October 1, 2001. An allowance for these costs through February 13, 2002 is included in the current Ballpark Facility estimate of $294.1 million. The current Ballpark Facility estimate is based upon the assumption that recommencement of work on the Ballpark would have occurred on or about January 1, 2002 and includes an estimate of approximately $1.25 million for certain suspension costs accruing after October 1, 2001 and before January 1, 2002. The Padres, which are responsible for Ballpark Facility costs in excess of the current Ballpark Facility estimate of $294.1 million, have advised the City that they were able to maintain the Ballpark Facility estimate at $294.1 million for costs accruing up to February 13, 2002, by the deduction of up to $3.0 million in contractually permissible, discretionary deductible items. The Padres have advised the City that costs associated with the current delay in recommencement beyond February 13, 2002 will result in cost increases for the Ballpark Facility at the rate of approximately $1.0 million or more per month for approximately 64% of the subcontracted work and cost increases for the balance of the subcontracted work that, while anticipated to be modest initially, could also increase significantly if such delays are substantial. There can be no assurance that the final costs of the Ballpark Facility will not exceed the current Ballpark Facility estimate of $294.1 million, especially if recommencement occurs significantly after February 13, 2002.

SDBB has committed in the Ballpark Facility Design/Build Contract to a contractor's contingency in an amount equal to $9.75 million, which may be used only for (i) overtime necessary to meet the schedule; (ii) the purchase of items that may have been omitted from SDBB's awarded sub-contracts, but which nonetheless constitute the scope of work; and (iii) any other costs as mutually agreed to in writing by the Principal and SDBB. The amount for these contingencies is included in the current GMC of $233.4 million.

Other components of the current Ballpark Facility estimate of $294.1 million, which are not included in the GMC, include architecture and engineering fees and reimbursables, non-construction related costs associated with recommencement of construction, utility connection fees, permits and fees, certain insurance costs, a certain portion of the furniture, fixtures, and equipment, project office costs, and project management costs. A Principal's construction contingency, which is approximately $6.0 million, and which is outside of the GMC, may be used by the Principal for a variety of costs, including but not limited to (i) cost increases over the GMC resulting from delays in construction which are not the result of the contractor's breach; (ii) scope changes; and (iii) errors and omissions on the drawings not covered by the Ballpark Facility Design/Build Contract.

To allow certain work to move forward prior to the receipt of proceeds from the 2002 Bonds, the City, the Padres, and PCL agreed that, at the Padres' risk, the notice to proceed with on-site construction related activities (the "Project Site Notice to Proceed") could be issued prior to the issuance of the 2002 Bonds. The City issued such Project Site Notice to Proceed in May 2000, and will issue a second Project Site Notice to Proceed upon the issuance of the 2002 Bonds. Approximately 21.0% of the current Ballpark Facility estimate of $294.1 million had been spent as of January 15, 2002 on various portions of the Ballpark Facility, including all demolition activities, all foundation work, some portion of the underground utility work, partial construction of the concrete structure, and work relating to the creation of the main seating bowl of the Ballpark.

The expected Substantial Completion Date will be approximately 24 months after the closing of the sale and issuance of the 2002 Bonds, assuming that a second Project Site Notice to Proceed is issued on such date. The Substantial Completion Date may be extended if there is a delay caused by (i) failure of the City, the Development Manager, or PCL to perform any of their respective obligations under the Ballpark Facility Design/Build Contract (subject to any applicable cure periods) or any intentional or reckless malfeasance by the Principal or the Principal's agents or employees or the Principal's failure to make progress when due (including any applicable cure periods), or any other activity on the job site by the City, the Development Manager, or PCL which

delays certain critical paths of the work as described in the Ballpark Facility Design/Build Contract (which does not include actions of the City acting in its governmental capacity); (ii) unusual and extreme weather; (iii) war or national conflicts; (iv) fires; (v) floods not caused by SDBB; (vi) civil disturbances; (vii) embargoes; (viii) riot; (ix) vandalism caused by the City or its separate contractors; (x) sabotage caused by the City or its separate contractors; (xi) labor disputes; (xii) unavoidable casualties; or (xiii) changes in laws. These types of delays would not be covered by the Liquidated Damages.

Based on financial and certain other information provided by the Padres, without the infusion of capital or borrowing proceeds, the Padres will not be able to fund their remaining Ballpark Project financial obligations; there are no current commitments by partners of the Padres to fund capital contributions necessary to fulfill the Padres' obligations; and the Padres have not obtained commitments for their contemplated borrowings. Neither the City nor the Authority can make any prediction as to the ability of the Padres to obtain such borrowings. The MLB Commitment would be available to fund up to $45.8 million of the Padres funding commitment for the Ballpark Facility but would not cover cost overruns payable by the Padres which results in an overall actual cost of the Ballpark Facility exceeding the current budgeted amount of $294.1 million.* Under the Ballpark Design/Build Procurement Consultant Agreement, PCL has agreed to obtain an insurance policy pursuant to which the insurer will pay an amount equal to the daily current interest accrued on the 2002 Bonds for up to 184 days of current interest, if substantial completion of the Ballpark Facility is delayed beyond the date that is 4 months and 60 days after the currently expected Substantial Completion Date solely as a result of any negligent or intentionally harmful act or omission by SDBB, and subject to the requirement that PCL shall have fully utilized its contingency allocation in endeavoring to meet the timely performance of its contractual obligations and shall have mitigated losses incurred as a result of any negligent or intentionally harmful act or omission by a licensed general contractor under such a design/build construction contract. Amounts payable under the policy are reduced by any liquidated damages paid to PCL by SDBB, whether or not paid by PCL to the Trustee. The insurer may take up to 30 days to investigate a claim for payment. A force majeure event will not be the basis for a payment under the policy and could delay a payment under the policy beyond the time for which capitalized interest is available to pay a portion of interest on the 2002 Bonds. The Ballpark Design/Build Procurement Consultant Agreement provides that the City shall be an additional insured under such insurance policy and all proceeds under such insurance policy shall be paid to the Trustee. However, the City has waived its right to be an additional insured.

In addition, PCL is obtaining "delay in startup" business income insurance under which, if physical damage or destruction to the Ballpark occurs during construction from a covered peril and delays are encountered to reconstruct, there will be available "soft costs" insurance up to $100.0 million; up to the first $38.25 million of such amount will go to the Trustee to pay the interest that accrues on the 2002 Bonds during any delay in substantial completion of the Ballpark Facility beyond the Substantial Completion Date (with a fifteen day waiting period, except for the peril of earthquake, for which the waiting period is thirty days) due to casualty and other perils covered by the policy, the principal ones of which are fire and earthquake. However, the amount available for soft costs coverage for delays resulting from earthquake damage during construction, as well as the amount available for reconstruction, in the aggregate is only $100.0 million, and any soft costs amount available will be used first to pay up to $38.25 million in interest payments on the 2002 Bonds. The policy is a standard builder's all-risk policy for the Ballpark Facility and the East Village Square. To the extent insurance is available under both policies, payment under the business income insurance of a "delay in startup" nature will occur first. For additional information regarding insurance available for the Ballpark Project, see **"BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES—Insurance Available for Completion of the Ballpark Project."**

The Padres have guaranteed the obligations of PCL as outlined in the Ballpark Design/Build Procurement Consultant Agreement. See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Ballpark Design/Build Procurement Consultant Agreement** for additional information regarding the Padres' guarantee of obligations of PCL.

See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Ballpark Facility Design/Build Contract** for additional information on the Ballpark Facility Design/Build Contract.

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* See *"Ballpark Facility Design/Build Contract"* for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

Chilled Water Facility

It is contemplated that the Ballpark Facility will not have its own chilled water facility, which is required for the operation of air conditioning within the Ballpark Facility. However, the Padres, JMI Realty, Inc. ("JMIR") or any of their affiliates has agreed to construct a common chilled water facility that will serve the Ballpark Facility, as well as other projects within the Ballpark Project and the Redevelopment Project. In connection with the development of such chilled water facility, it is further contemplated that the City will authorize the placement of pipes in the public rights-of-way without the requirement for a franchise agreement or imposition of a franchise fee, unless such chilled water facility begins to serve segments of the public other than the City facilities or the Padres' or JMIR's private developments, in which case a franchise agreement will be required. Failure of the Padres, JMIR, their affiliates, or any other party to provide a chilled water facility may result in the Ballpark Facility not having air conditioning until an alternative source is found. In anticipation of such an event, the Ballpark Facility is designed with connections for a temporary truck trailer mounted chiller that can provide cooling for the Ballpark Facility in the event that the chilled water facility is not available.

Infrastructure Work

General

The Ballpark Project includes roads, sidewalks, other public facilities, and public utilities related to the Ballpark Facility (the "Infrastructure Work"). Under the MOU, the City, the Redevelopment Agency, and the CCDC are responsible for the design and construction of the Infrastructure Work, the budget for which totals $51.3 million, and includes, approximately: (i) $27.6 million to cover the costs under the Ballpark Infrastructure Design/Build Agreement; (ii) approximately $16.0 million for dry utility work, including the relocation of electrical, gas, cable, fiber optics, and telecommunications facilities, which is to be funded by the private franchise utility companies performing the work; (iii) $2.6 million for planning and predevelopment work; and (iv) $5.1 million for other costs, including City project administration costs, owner controlled insurance program costs, demolition costs, consultants costs and other infrastructure improvements. As of January 15, 2002, expenditures for Infrastructure Work have totaled approximately $19.5 million (of which $15.1 million is associated with the Ballpark Infrastructure Design/Build Agreement). These amounts include approximately $2.3 million that (i) has been authorized for use by the City for certain infrastructure work and (ii) is currently being spent by the City. See **"PLAN OF FINANCE FOR THE BALLPARK PROJECT"** for information regarding the sources of funding for the major components of the Ballpark Project, including the Infrastructure Work component.

Ballpark Infrastructure Design/Build Agreement

The Infrastructure Work to be performed under the Ballpark Infrastructure Design/Build Agreement includes certain demolition and removal of existing structures, coordination of dry utility relocation work, railroad modifications, and the construction of the Surface Parking Lots, new streets, streetscapes, and landscaping to support the Ballpark Project.

The Ballpark Infrastructure Design/Build Agreement provides for a set amount not-to-exceed $27.6 million for a portion of the infrastructure work related to the Ballpark Project, which consists of two components: a guaranteed maximum price ("GMP") not-to-exceed $26.5 million and certain reimbursable costs not-to-exceed $1.1 million. The GMP is comprised of all hard construction costs and the fixed fee necessary for the construction and design of the work under the Ballpark Infrastructure Design/Build Agreement, and includes a contingency fund which may be available to fund change orders if it contains sufficient surplus as determined by the mutual agreement of the City and Sverdrup Civil, Inc., a Design and Construction Manager (the "DCM").

Further, it is expected that a certain portion of the Infrastructure Work estimated to cost approximately $7.2 million currently within the scope of the Ballpark Infrastructure Design/Build Agreement is anticipated to be removed from the scope of the Ballpark Infrastructure Design/Build Agreement. The City expects to contract for such portion of the Infrastructure Work together with an additional $3.3 million of Infrastructure Work currently outside the scope of the Ballpark Infrastructure Design/Build Agreement, and estimates that such portions of the Infrastructure Work will be completed by the Substantial Completion Date.

As of January 15, 2002, the City has expended approximately $15.1 million under the Ballpark Infrastructure Design/Build Agreement for work which includes elements relating to the clearing of the Ballpark Facility footprint, which is a critical activity for the construction of the Ballpark Facility. This amount includes approximately $2.3 million that has been authorized for use by the City for certain infrastructure work and is currently being spent by the City. Specific elements include demolition activities; work related to wet utilities; preparation of 100% of the design documents for the new public rights-of-way and 100% of the design documents for the Surface Parking Lots; preparation of the final GMP; and preparation of bidding plans and project procedures.

The Ballpark Infrastructure Design/Build Agreement provides that any costs in excess of the GMP shall be the sole responsibility of the DCM, unless the City approves a change order authorizing an increase in the GMP. The City will pay to the DCM compensation in installments based on a phased funding schedule agreed to by the City and the DCM. As an incentive to minimize costs, and complete the contracted work for less than the GMP, the City will pay the DCM an additional fee from funds remaining in the contingency fund subsequent to the completion of the work under the Ballpark Infrastructure Design/Build Agreement.

The anticipated substantial completion date for the work under the Ballpark Infrastructure Design/Build Agreement is March 31, 2002, which does not include approximately $7.2 million in aggregate budgeted for Infrastructure Work that is anticipated to be removed from the Ballpark Infrastructure Design/Build Agreement. (The portion of the work that is anticipated to be removed from, or is outside the scope of, the Ballpark Infrastructure Design/Build Agreement is expected to be completed by the opening of the Ballpark Facility.) The March 31, 2002 date can only be extended by a change order approved by the City authorizing such extension. No extension of time will be granted by the City unless the DCM can demonstrate that the extension of the completion date was necessitated by unforeseeable causes beyond the control and without the fault or negligence of both the DCM and its contractors or suppliers. The Ballpark Infrastructure Design/Build Agreement also provides for up to 20 working days to account for weather delay or force majeure events affecting the ability of the DCM or its contractors, subcontractors, or suppliers to perform their respective work.

The Ballpark Infrastructure Design/Build Agreement obligates the DCM to provide performance and payment bonds in favor of the City. However, to avoid duplication of bond costs, the DCM, acting as the City's agent, is requiring subcontractors to provide performance and payment bonds for all demolition and construction work. The payment bonds will be in an amount equal to 80% of the GMP pertaining to such remaining work and will cover the performance by the DCM and its subcontractors of the Ballpark Infrastructure Design/Build Agreement work and payments owing by the DCM to its contractors and subcontractors. The City will reimburse the DCM for the bond premiums from the construction budget.

See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Ballpark Infrastructure Design/Build Agreement** for additional information regarding the Ballpark Infrastructure Design/Build Agreement.

Land Acquisition Program

The current land acquisition estimate for the Ballpark Project totals approximately $107.1 million. This estimate covers land assembly costs relating to property under the Ballpark Facility, certain new public rights-of-way, the parking facilities, and East Village Square, which is adjacent to the Park and is a component of the Redevelopment Project. The land assembly costs for such property includes the purchase price, the relocation of eligible tenants, goodwill payments for relocated businesses, and indirect expenses associated with acquisition of the property, all of which are included in the current estimate. The land has been, or will be acquired by condemnation or threat of condemnation by the Redevelopment Agency, or by negotiated sale by the Redevelopment Agency and the Padres. It is contemplated that the City Council will consider an amendment in the near future to the Implementation Agreement, which would reduce the land acquisition estimate by $6.0 million to reflect the commitment of the Padres to purchase, for that amount, the land for the P1 Parking Garage. If such an arrangement is approved by the City Council, the amount required to be contributed to the Ballpark Project by the Redevelopment Agency will be reduced by an equal amount. See Footnote 7 to the Table under the caption **"PLAN OF FINANCE FOR THE BALLPARK PROJECT—Sources and Uses of Ballpark Project Funds,"** for additional information regarding the acquisition of land for the P1 Parking Garage. See **"THE REDEVELOPMENT PROJECT"** for additional information regarding East Village Square.

The following table shows, as of January 15, 2002, the status of land acquisitions the Ballpark Facility and the remainder of the Ballpark Project:

	Amount on Deposit, Paid or Expected to be Paid
A. Ballpark Facility	
1. Aggregate amount paid for parcels acquired and for which values have been agreed upon.	$ 60,100,000[1]
2. Amount of aggregate deposits paid for parcels acquired but for which there are valuation disputes.	$ 0
B. Remainder of the Ballpark Project	
1. Aggregate amount paid for parcels acquired and for which values have been agreed upon.	$ 22,200,000
2. Amount of aggregate deposits paid for parcels acquired but for which there are valuation disputes.	$ 2,400,000
3. Aggregate values estimated by the Redevelopment Agency of properties yet to be sought through condemnation after issuance and sale of the 2002 Bonds.	$ 20,300,000[2]
Subtotal	$ 105,000,000
C. Estimated Cost of Litigation and Consultants' Costs	$ 2,100,000
Total	$ 107,100,000[2]

(1) This amount does not include a claim filed in the amount of $8.0 million for relocation costs by a property owner who has agreed to a value on the property in question and has conveyed title.

(2) According to the Redevelopment Agency, the current estimate for acquisition values for properties yet to be sought is a range between approximately $18.3 million to $20.3 million.

The Implementation Agreement specifies that the Padres will be solely responsible for land acquisition costs above $100.0 million up to a maximum total acquisition cost of $110.0 million. The Implementation Agreement specifies that, if necessary, the Padres will pay 50%, and the Redevelopment Agency will pay 50% of additional land acquisition costs in excess of $110.0 million up to a maximum total acquisition cost of $130.0 million. There is no agreement for payment should the maximum amount exceed $130.0 million and if land acquisition costs were to exceed $130.0 million, it may cause a delay in the completion of the Ballpark Project as more fully discussed in "**RISK FACTORS—Ballpark Project Funding and Completion Risks.**"

According to current land acquisition estimates, the amount payable by the Padres for land acquisition costs in excess of $100.0 million will be $7.1 million. Based on financial and certain other information provided by the Padres, without the infusion of capital or borrowing proceeds, the Padres will not be able to perform their commitment to pay for such excess land acquisition costs; there are no current commitments by partners of the Padres to fund capital contributions necessary to fulfill the Padres' obligations; and the Padres have not obtained commitments for their contemplated borrowings. Neither the City nor the Authority can make any prediction as to the ability of the Padres to obtain such borrowings. The MLB Commitment does not cover this category of the Padres' obligation for land acquisition cost overruns.

Pursuant to the Ballpark Facility Lease, the City must deliver, or cause to be delivered, to the Trustee by the Closing Date a California Title Land Title Association leasehold policy or policies, or a commitment to such policy or policies, with respect to the Leased Property. See **"BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES"** for additional information pertaining to the required leasehold policy. The Redevelopment Agency conveyed fee title to all of the property that comprises the Ballpark Facility site to the City on January 25, 2002 and the City will obtain such title insurance required under the Ballpark Facility Lease on or before the Closing Date.

Permits and Licenses

The Parking Lot Purchase Agreement providing for the sale of the Surface Parking Lots by the City to the District must receive final approval by the Executive Officer of the California State Lands Commission before any funds can be distributed by the District. Notwithstanding the foregoing, all regulatory approvals needed for the Ballpark Project construction have been obtained.

BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES

Insurance Available for Completion of the Ballpark Project

Insurance on Design, Construction and Timely Completion of the Ballpark Facility

The Implementation Agreement provides that the Redevelopment Agency and the CCDC will procure a comprehensive insurance policy to cover unknown environmental risks or hazardous materials arising from sub-surface conditions discovered during the construction of the Ballpark Project. See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Implementation Agreement** for additional information regarding the insurance requirements under the Implementation Agreement.

In compliance with the Ballpark Design/Build Procurement Consultant Agreement, PCL is obtaining certain insurance policies, including the following:

(i)(a) Builder's standard all-risk insurance for the Ballpark Facility and East Village Square for all risks, including earthquakes and floods. The insurance policy, which is cancelable on 60 days notice, will cover up to $382.0 million per occurrence (except for earthquakes, for which there is a $100.0 million annual limit), and has a $25,000 deductible per occurrence for all losses, except losses from floods and earthquakes. The deductible for losses resulting from floods is $100,000 per occurrence, and the deductible for losses resulting from earthquakes is 5% of the value of the Ballpark Facility at the time of loss subject to a minimum of $100,000 per occurrence.

(b) As part of the builder's standard all-risk policy, business income insurance of a "delay in startup" nature (builder's risk soft cost) in an amount of $100.0 million,[1] including up to $38.25 million due to the occurrence of casualty or similar perils covered by the policy, which includes fire and earthquake. All such business income insurance up to the lesser of, the interest that accrues on the 2002 Bonds during any delay in substantial completion of the Ballpark Facility beyond the Substantial Completion Date or $38.25 million, shall be paid to the Trustee. The right to payment does not commence for a period of fifteen days after the delay event in the case of all perils (except for earthquakes, in which case the period is 30 days.)

(ii) Owner's protective professional indemnity insurance in an amount of $25.0 million per claim and aggregate.

All insurance referred to in paragraphs (i) and (ii) is being obtained from a provider having a rating not less than A-VII from A.M. Best. PCL is a named insured under the builder's risk insurance and the business income insurance policies.

In addition, PCL is obtaining an insurance policy pursuant to which the insurer will pay an amount equal to the daily current interest accrued on the 2002 Bonds for up to 184 days of current interest, if substantial completion of the Ballpark Facility is delayed beyond the date that is 4 months and 60 days after the currently

[1] The agreement only requires $38.25 million, but PCL is obtaining $100.0 million.

expected Substantial Completion Date, solely as a result of any negligent or intentionally harmful act or omission by a licensed general contractor under a design/build construction contract entered into by PCL on behalf of the City for the design and construction of a portion of the Ballpark Facility (and in any event, not as a result of any force majeure event or any act or omission of the City, the CCDC, the Redevelopment Agency, any person controlled by or under common control with any of them, or any of their respective employees, shareholders, officers or directors). The policy requires that PCL shall have fully utilized its contingency allocation in endeavoring to meet the timely performance of its contractual obligations and shall have mitigated losses incurred as a result of any negligent or intentionally harmful act or omission by a licensed general contractor under such a design/build construction contract. Amounts under the policy may not be payable if PCL has not fully utilized its contingency allocation in endeavoring to meet the timely performance of its contractual obligations or has not mitigated losses incurred as a result of any negligent or intentionally harmful act or omission by a licensed general contractor under such a design/build construction contract. Amounts payable under the policy are reduced by any liquidated damages paid to PCL by SDBB, whether or not paid by PCL to the Trustee. As a consequence, the payment of such liquidated damages to the Trustee by PCL is subject to the credit worthiness of PCL, and no prediction can be made as to such creditworthiness. Notwithstanding the foregoing, PCL does not have an obligation to pay to the City or the Trustee, and the City and the Trustee shall have no right to, any amounts in respect of days of delay that occur after the first anniversary of the Substantial Completion Date. With respect to such insurance, the Trustee must be a named additional insured or loss payee, and all proceeds from such insurance shall be paid to the Trustee. The Trustee will use any such proceeds to make debt service payments on the 2002 Bonds. Amounts paid by such insurance obtained by PCL will offset PCL's obligation to pay Liquidated Damages. To the extent insurance is available under both policies, payment under the business income insurance of a "delay in startup" nature will occur first.

See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Ballpark Design/Build Procurement Consultant Agreement** for additional information regarding the insurance requirements under the Ballpark Design/Build Procurement Consultant Agreement.

Insurance on Ballpark Infrastructure

In addition to the insurance requirements imposed on PCL under the Ballpark Design/Build Procurement Consultant Agreement, the City and the DCM are required to provide insurance under the Ballpark Infrastructure Design/Build Agreement.

Pursuant to the terms of the Ballpark Infrastructure Design/Build Agreement, the City will provide the DCM, its contractors and design subcontractors (the "OCIP Participants") with insurance policies, including the following:

(i) Professional liability insurance, including pollution liability insurance, with an aggregate limit of $5.0 million.

(ii) Commercial general liability insurance in an amount of not less than $2.0 million per occurrence, up to $4.0 million annual aggregate.

(iii) Workers' compensation and employers' liability insurance in an amount meeting any applicable statutory requirements.

(iv) Excess liability insurance to cover up to $98.0 million in excess of the commercial general liability insurance and the workers' compensation and employers' liability insurance.

(v) "All risk" builders' risk insurance for any physical loss to property, but excluding coverage for any equipment, machinery, tools, or property of similar nature owned, rented, or used by the OCIP Participants which are not destined to become a permanent part of the infrastructure project covered by the Ballpark Infrastructure Design/Build Agreement.

OCIP Participants are required to provide insurance policies, including the following:

(i) Commercial general liability insurance for off-site activities in an amount of $5.0 million per occurrence, up to $10.0 million annual aggregate for the DCM, and $1.0 million per occurrence up to $2.0 million annual aggregate for contractors and design subcontractors.

(ii) Automobile liability insurance in an amount not less than $1.0 million covering bodily injury and property damage for owned, non-owned, and hired automobiles and naming the City, its respective elected officials, officers, employees, agents and representatives as additional named insureds.

(iii) Workers' compensation and employers' liability insurance for off-site employees in an amount meeting any applicable statutory requirements.

(iv) Hazardous transporters pollution liability insurance if the DCM's work includes the transportation of hazardous or toxic chemicals, materials, substances, or any other pollutants in an amount not less than $5.0 million combined single limit per occurrence/aggregate for bodily injury, property damage and remediation, with a deductible not greater than $25,000 per claim unless approved by the City.

All insurance policies required under the Ballpark Infrastructure Design/Build Agreement must be obtained from an insurance provider that has at least an "A&V" rating from A.M. Best, is licensed to do business in the State of California, and has been approved by the City.

See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Ballpark Infrastructure Design/Build Agreement** for additional information regarding the insurance requirements under the Ballpark Infrastructure Design/Build Agreement.

Performance and Completion Guarantees

Pursuant to the Guaranty Agreement from the Padres to and for the benefit of the City, the Redevelopment Agency, the CCDC, the Authority and the Trustee (collectively, the "Beneficiaries"), the Padres have guaranteed the complete and timely payment and performance by PCL of all of PCL's obligations and responsibilities under the Ballpark Design/Build Procurement Consultant Agreement.

The Guaranty Agreement provides that the Padres absolutely, irrevocably and unconditionally guarantee to the Beneficiaries, jointly and severally: (i) the full and prompt payment when due of each and all of the payments required to be credited or made by PCL under the Ballpark Design/Build Procurement Consultant Agreement (including all modifications, amendments, restatements, supplements, extensions and renewals thereof) to, or for the account of, the Beneficiaries, when the same shall become due and payable in accordance with their terms; and (ii) the full and timely performance and observance of all of the obligations under the Ballpark Design/Build Procurement Consultant Agreement.

Based on financial and certain other information provided by the Padres, without the infusion of capital or borrowing proceeds, the Padres will not be able to fund their obligations under the Guaranty Agreement; there are no current commitments by partners of the Padres to fund capital contributions necessary to fulfill the Padres' obligations; and the Padres have not obtained commitments for their contemplated borrowings. Neither the City nor the Authority can make any prediction as to the ability of the Padres to obtain such borrowings. The MLB Commitment would be available to fund up to $45.8 million of the Padres funding commitment for the Ballpark Facility but would not be sufficient to cover cost overruns payable by the Padres over the current budgeted amount of $294.1 million,* nor would it cover any amounts due from the Padres for land acquisition or infrastructure cost overruns.

Under the Ballpark Design/Build Procurement Consultant Agreement, PCL shall, at all times, ensure that the performance of the contractor under the Ballpark Facility Design/Build Contract and any other

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* See "**THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

contractors and subcontractors engaged by PCL for the construction of the Ballpark Facility is assured by payment and performance bonds, or equivalent insurance coverage reasonably acceptable to the City (i) from providers who are listed on U.S. Treasury Circular 570 as approved sureties; and (ii) in an amount equal to at least 100% of the contract price to be paid to such contractor under the applicable construction services or other services agreement. Such bonds must name the City, the Redevelopment Agency, the CCDC, PCL, the Padres, and the Trustee as co-obligees.

See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Ballpark Design/Build Procurement Consultant Agreement** and **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Guaranty Agreement** for additional information regarding the Guaranty Agreement.

Under the Ballpark Infrastructure Design/Build Agreement, the DCM is obligated to provide performance and payment bonds in favor of the City, each in an amount equal to 80% of the guaranteed maximum price for each funding phase. These bonds cover the performance by the DCM of the work contracted for under the Ballpark Infrastructure Design/Build Agreement and payments owing by the DCM to its contractors and subcontractors. However, to avoid duplication of bonding costs, the DCM, acting as the City's agent, is requiring subcontractors to provide performance and payment bonds for all demolition and construction work.

See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Ballpark Infrastructure Design/Build Agreement** for additional information regarding the completion and performance bonds to be provided by the DCM in connection with the Infrastructure Work.

Ballpark Project Insurance After Construction

The Ballpark Facility Lease requires the City to procure and maintain, or cause to be procured and maintained, throughout the term thereof for the Leased Property, insurance against the following risks in the following respective amounts (under the Joint Use and Management Agreement, the Padres have agreed to obtain sufficient insurance to satisfy the requirements of the Ballpark Facility Lease):

(i) Property insurance on an "all risk" form, insuring against loss or damage to the Leased Property caused by fire or lightning, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss. No earthquake coverage is required or will be obtained. The insurance described in this paragraph (i) shall be in an amount equal to the lesser of (a) the replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property; or (b) the remaining unpaid principal amount of the 2002 Bonds (and any Additional Bonds) Outstanding plus the amount of use and occupancy insurance coverage described in paragraph (ii) below, except that such insurance may be subject to deductible clauses not to exceed the first one hundred thousand dollars ($100,000) of the amount of any one loss. Insurance described in this paragraph (i) and in paragraph (ii) below may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property insured by the City. Provided, however, that the amount of coverage available thereunder shall be at least equal to the cumulative replacement values of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("Financed Property") for which bonds, certificates of participation or other obligations shall have been issued ("Obligations"), plus the amount of use and occupancy coverage required by paragraph (ii) below; provided, however, that such amount of insurance allocated to the Ballpark Facility shall not be subject to reduction on account of claims made with respect to other properties. In the event the City elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds shall be used first to rebuild or repair the Leased Property and the Financed Property or to repay all Obligations, the 2002 Bonds, and any Additional Bonds.

(ii) Use and occupancy insurance against loss, total or partial, of the use and occupancy of the Leased Property as a result of any of the hazards covered by the insurance described in paragraph (i) immediately above, in an amount sufficient to pay the Base Rental Payments attributable to the Leased Property for a twenty-four month period; provided, however, that the amount of such insurance need not exceed the total remaining Base Rental Payments attributable to the Leased Property; and provided further, that such insurance may be part of a policy described in paragraph (i) above, which policy may provide that insurance proceeds paid for coverage described in paragraph (i) above may reduce amounts payable under coverage described in this paragraph

(ii) and vice-versa. The City may obtain use and occupancy insurance covering the Leased Property as well as other parcels of property owned by the City, provided that the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by the Ballpark Facility Lease and any similar agreements relating to the Financed Property in respect of which Obligations are outstanding. There can be no assurance that the coverage afforded by such insurance will be adequate to prevent a reduction in Base Rental Payments. For additional information, see **"RISK FACTORS—Abatement."**

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

The City further covenants and agrees in the Ballpark Facility Lease to deliver or cause to be delivered to the Trustee on the Closing Date of the 2002 Bonds a California Land Title Association leasehold policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal amount represented by the 2002 Bonds. Such policy or policies, when issued, will name the Trustee as the insured and will insure the leasehold estate of the Authority under the Site Lease and the City under the Ballpark Facility Lease in the Leased Property subject only to such exceptions as do not materially affect the City's right to the use and occupancy of the Leased Property.

See **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Ballpark Facility Lease—Maintenance; Taxes; Insurance and Other Charges; Enforcement of Agreements with Padres—Insurance** for additional information regarding the insurance requirements under the Ballpark Facility Lease.

THE BALLPARK FACILITY

Ownership

The Padres will own improvements in and to the Ballpark Facility amounting up to, but not exceeding, 30% of the original Ballpark Facility estimate of $267.5 million for the term of the Joint Use and Management Agreement, after which all portions of the Ballpark Facility owned by the Padres will automatically be transferred to the City. The term of the Joint Use and Management Agreement is the later of 22 years or the expiration of the 2002 Bonds, but in no event greater than 30 years unless the Padres exercise their option to extend such term for up to two additional 5-year periods. Upon the termination of the Joint Use and Management Agreement for any reason other than a material default by the City, all portions of the Ballpark Facility property owned by the Padres (the "Padres' Ballpark Property") will be immediately and automatically deemed transferred to the City, free and clear of all liens or other obligations to any other party. In addition, the Padres have granted to the City a first priority lien on all Padres' Ballpark Property to secure the Padres' obligations under the Joint Use and Management Agreement, including the obligations to surrender the Padres' Ballpark Property upon termination of the Joint Use and Management Agreement. The City has agreed to subordinate its first priority lien to lender and vendor contracts granted by the Padres to secure obligations owed in connection with the procurement of the Padres' Ballpark Property, or to substitute liens granted to refinance or replace any such liens, provided such agreements contain appropriate recognition and attornment covenants, approved by the City. Such recognition and attornment covenants must provide that the City may assume all rights and obligations of the Padres under the lender or vendor agreements if either the Padres' rights to use the Ballpark Facility are terminated because of the Padres' default under the Joint Use and Management Agreement or the Padres' rights under a lender or vendor agreement are terminated because of the Padres' default thereunder. In addition, all liens against the Padres' Ballpark Property must provide that they are subject and subordinate to the reversion of the Padres' Ballpark Property to the City upon termination of the Joint Use and Management Agreement.

It is contemplated that the Padres, in connection with their financing for the Ballpark Facility, will assign their rights under the Joint Use and Management Agreement, to a wholly-owned subsidiary. Any such assignment would be accompanied by a guaranty in favor of the City by the Padres of the performance by their subsidiary of the Padres' obligations under the Joint Use and Management Agreement. The terms of such financing will not include the right of the Padres' lender to terminate the rights of either the Padres or their subsidiary to use and occupy the Ballpark Facility under the Joint Use and Management Agreement, as a remedy in the event the Padres default in their repayment of their financing obligation.

Management and Operation

Under the terms of the Joint Use and Management Agreement, the Padres will be responsible for all Ballpark Facility management. The Padres' management duties include maintaining the playing field and arranging for availability of utilities, cleaning and trash removal, 24-hour security and emergency maintenance, and repairs. With respect to maintenance and repairs of the playing field and other portions of the Leased Property, the Padres will be responsible for all work, including labor, supplies, materials, and equipment reasonably necessary for the cleaning and routine upkeep of the Ballpark Facility in order to preserve its condition. In particular, the Padres will be responsible for, among other things, day-to-day landscaping, all necessary preparation and conditioning of the playing field before and during all events, and periodic testing of building systems and emergency systems. The City will be responsible for paying certain expenses associated with the operation and maintenance of the Ballpark Facility, up to a maximum of $3.5 million per year (subject to offsets and certain inflationary adjustments). See **APPENDIX D—SUMMARY OF PRINCIPAL BALLPARK PROJECT DOCUMENTS—Joint Use and Management Agreement** for a description of the specific adjustments and credits.

The Padres will also be responsible for providing certain services on days where the playing field or seating areas of the Ballpark Facility will be used for events which are open to the public. Such services include the provision and supervision of all personnel; the provision of management and crowd control within the Leased Property; the provision and supervision of first-aid personnel to operate the first-aid facilities of the Leased Property; and the provision of emergency medical assistance. In accordance with their management duties, the Padres may subcontract with third parties for the performance of any of their management obligations.

The Padres must deliver to the City, no later than three months prior to the opening date for the Ballpark Facility, a Ballpark Operations Guidelines and Policy Manual and a Maintenance and Procedures Manual detailing the Padres' proposed operating and maintenance procedures for the Ballpark Facility. The Padres must solicit the City's comments on each manual and must complete and deliver final versions of each manual to the City no later than the last day of the first Major League Baseball season in the Ballpark.

As part of their management responsibilities, the Padres will also be required to maintain insurance coverage, including commercial general liability insurance, comprehensive business automobile insurance, property insurance, excess liability insurance, use and occupancy and workers' compensation insurance, to cover the repair, restoration or replacement of the property owned by them and the Leased Property. In addition, the Padres must cause all contractors and subcontractors to maintain "all risk" builder's insurance, workers' compensation insurance and general commercial liability insurance.

Despite their broad management responsibilities, generally the Padres may not make capital improvements to the Ballpark Facility without the City's prior consent. If the Padres make such capital improvements without the City's prior approval, the City has the right to cause the Padres to remove them at the Padres' sole cost. In addition, the City retains the right, under the Joint Use and Management Agreement, to inspect the Ballpark Facility and all improvements thereon at least quarterly.

In the event that the City determines that the Padres have not fulfilled their management obligations, the City must give written notice to the Padres describing such failure to perform. In response to such notice, the Padres must either cure the default, or, if they disagree with the City's allegations, they may submit the dispute to arbitration. If the result of the arbitration favors the Padres, they may continue performing their management obligations undisturbed. If, on the other hand, the arbitrators find in favor of the City and the Padres have defaulted in their obligations twice in a single year and the Padres fail to cure such defaults within an allotted time, the City will have the right to terminate the Padres' management obligations. The Padres will, however, continue to be bound by all of the provisions of the Joint Use and Management Agreement, which do not relate to the management of the Ballpark Facility.

Revenues and Expenses

The Joint Use and Management Agreement provides that the Padres will pay the City rent for the Leased Property during the term of the Joint Use and Management Agreement at the rate of $500,000 per year, subject to an upward adjustment every five years in accordance with the San Diego Consumer Price Index for all urban consumers (the "CPI") and subject to set-offs for delays. In addition, the Padres will pay to the City ground lease rent of $300,000 per year, subject to a 5% increase every five years, for their use of the City-owned property on which the Padres will build the P1 Parking Garage. From this amount, the City will deposit $250,000 annually, adjusted every 5 years for increases in CPI to a capital expenditure reserve fund established and controlled by the City and the Padres. If the City Council approves an amendment to the Implementation Agreement in conjunction with the purchase of the P1 Parking Garage site by the Padres for $6.0 million, the Padres will assume the City's obligation to deposit $250,000 annually to a capital expenditure reserve fund (without regard to adjustments for increases in CPI which will be eliminated), and the City will not be entitled to receive ground lease rent. In addition to the annual rental payments, the City will derive certain revenues from events in which it participates, excluding any major league baseball games. The annual rental payments and the revenues from events are not expected to fully offset such operation and maintenance expenses, as described below, committed by the City.

Under the terms of the Joint Use and Management Agreement, the City is also responsible for paying 70% of specified expenses associated with the operation and maintenance of the Ballpark Facility, up to a maximum of $3.5 million per year (subject to annual upward adjustments in accordance with the CPI and set-offs for delays in the completion of the Ancillary Development Hotels as described more fully in "**THE REDEVELOPMENT PROJECT**"). In addition, the City will be responsible for certain incremental expenses incurred from events in which the City participates, including wages, benefits, and incidentals paid to event-day staff, event security, on-site first aid, and ambulance service, event publicity and marketing, concession services, event liability insurance, and custodial and maintenance personnel, among other expenses.

THE REDEVELOPMENT PROJECT

Located in the East Village neighborhood of downtown San Diego, the Ballpark Project is part of the largest redevelopment project in the City's history. While the Ballpark Facility is the cornerstone of the Redevelopment Project, pursuant to the MOU, the Redevelopment Project will also include the construction of hotels, office buildings, retail spaces, as well as residential development and associated parking (the "Ancillary Development"). The City could benefit financially from the Ancillary Development to the extent that any additional TOT is generated from the new hotels and sales tax revenues generated as a result of the new retail development. See "**Hotels**" below for information regarding possible delays in the construction of the Ancillary Development hotels. It is anticipated that property tax and possessory interest tax revenues will increase as a result of the Ancillary Development; however, such increases will benefit the Redevelopment Agency. See "**Revenues Generated from Ancillary Development**" for additional information regarding revenues related to the Ancillary Development and the unpredictability of such revenues. The components of the Redevelopment Project are outside of the scope of the Ballpark Project, and will not impact the City's obligation to make Base Rental Payments.

Under the MOU, the Padres are responsible for the design and development of the Phase 1 Ancillary Development ("Phase 1"), and may select a master developer to carry out such activities. The Padres have retained, as the master developer, JMI Realty, Inc. ("JMIR") to be responsible for the design and development of all aspects of the Phase 1.

Pursuant to the MOU, Phase 1 is to include at least: (i) 850 new hotel rooms; (ii) office complexes containing at least 600,000 square feet with associated parking; and (iii) retail development containing at least 150,000 square feet, although the Padres have the right to fine tune the type of development, provided that the Ancillary Development generates the previously agreed upon amount of TOT and tax increment revenues. The Padres have advised the City that the Padres may fine-tune Phase 1 to reduce by 400,000 square feet the office complexes and by 50,000 square feet the retail development and, instead, construct 900 apartments, lofts and townhouses. For additional discussion of these proposed changes, see "**LITIGATION—Litigation Involving the Ballpark Project—*Simmons v. City of San Diego, et al.* —MOU and CCDC Director Matter Challenges.**"

Hotels

It is currently anticipated that three hotels will be developed as part of Phase 1, containing an estimated combined total of approximately 850 rooms and 37 luxury condominiums. The information regarding the hotels has been provided by JMIR and has not been independently verified by the City.

The primary hotel is planned to be a high-end, high-rise hotel (the "Four Star Hotel") that, pursuant to a disposition and development agreement between the Redevelopment Agency and JMIR, will include approximately 512 rentable guest rooms, 120,500 gross square feet of residential condominium space, and approximately 150 on-site parking spaces (with use of up to 230 off-site parking spaces). The Four Star Hotel is also anticipated to contain 20,000 square feet of meeting space, and at least one full service three-meal restaurant. The Four Star Hotel will be located next to the Ballpark and directly across the street from the Convention Center, and is intended to cater to the convention, tourist, and group-business markets. It is anticipated that the Four Star Hotel will be connected to the Ballpark by a pedestrian bridge and its patrons will be able to make use of the Ballpark's meeting rooms and other facilities. The Redevelopment Agency has acquired full interest in the Four Star Hotel site and has settled all valuation claims with respect to the previous owner. It is anticipated that the site will be conveyed to the developer shortly after the issuance of the 2002 Bonds. Construction of the Four Star Hotel commenced in September 2000 and was suspended in April 2001. JMIR obtained a debt financing commitment for the hotel, which expired on November 30, 2001. JMIR has advised the City that JMIR expects a new financing commitment to be received shortly, which will be available through April 30, 2002. JMIR also has advised the City that unless they can obtain a substantial equity commitment from a third party investor, they will not proceed presently and any new debt financing commitment for the Four Star Hotel could lapse. JMIR has advised the City that JMIR has entered into a letter of intent and is currently in negotiations with a prospective operator for the Four Star Hotel which, it is contemplated, would also provide a sufficient equity interest (in return for an equity percentage ownership) so as to induce JMIR to proceed with the development of the Four Star Hotel. While there is no assurance that such negotiations will be successfully consummated, JMIR has advised the City that such negotiations would be completed, if at all, by not later than April 2002. If that were to occur, then construction would commence in May 2002 and substantial completion should occur by May 2004.

The second hotel will be a themed "boutique" hotel (the "Boutique Hotel"), and will be designed and managed by an operator, specializing in this type of hotel. Pursuant to a separate disposition and development agreement between the Redevelopment Agency and JMIR, the Boutique Hotel will contain approximately 203 all suite rooms, 6,000 square feet of retail/entertainment space, and 180 parking spaces. It is also anticipated that the Boutique Hotel will include a 10,000 square foot terrace with a pool, and 4,500 square feet of meeting space. The Redevelopment Agency acquired the hotel site through condemnation and all valuation and remediation issues with the previous owner have been resolved. CCDC is currently performing site remediation activities, and it is expected that the Redevelopment Agency will convey the site to the developer by June 2002. Construction of the Boutique Hotel is anticipated to be completed by April 2004. JMIR has not obtained financing commitments for this hotel.

The third hotel will be a smaller "boutique" hotel or a value-oriented hotel (the "Boutique/Value-Oriented Hotel"). The site for this hotel has been acquired, but will not be developed until the completion of Park Boulevard and other new roads located on the east side of the Ballpark. The Boutique/Value-Oriented Hotel will have approximately 135 rooms, 105 space public parking garage, and 6,000 square feet of retail facilities. The hotel site has been acquired by JMIR. Construction of the Boutique/Value-Oriented Hotel is anticipated to be completed sometime in 2005-2006. JMIR has not obtained financing commitments for this hotel.

Subsequent to the execution of the MOU, and pursuant to the Joint Use and Management Agreement, the Padres agreed that if any of the Phase 1 hotels are not completed by the date which is six months after the date upon which the Padres have a right to occupy certain portions of the Ballpark Facility, as more fully described in the Joint Use and Management Agreement, then the City shall be entitled to a set-off (the "Set-Off") against the City's annual obligation to pay up to $3.5 million of specified expenses associated with the operation and maintenance of the Ballpark Facility (subject to certain offsets and inflationary adjustments) ("O&M Expenses") in specific amounts which are intended to offset TOT expected from the uncompleted Phase 1 hotels. See "**THE BALLPARK FACILITY—Revenues and Expenses**" for a more complete description of such expenses. The Joint Use and Management Agreement provides that the Set-Off will be calculated on a hotel by hotel basis, and the amount of the Set-Off for each respective hotel for a given fiscal year will be the highest amount of TOT projected for such hotel for such fiscal year as set forth in the Joint Use and Management Agreement. The City's entitlement to the Set-Off is subject to certain provisions, including a reduction in its amount in order to preserve the tax-exempt

status of the City's financing. The Second Implementation Agreement provided for, among other things, an amendment to the Set-Off that will aggregate the projected TOT for the Set-Off, rather than calculate it on a hotel-by-hotel basis.

Based on current levels of operations of the Padres in their existing facility (Qualcomm Stadium) as reflected in financial information provided by the Padres to the City, the financial results of the Padres would be adversely affected if the Set-Off were implemented in full. While the Padres have informed the City that the Padres believe that revenues from operations will increase in the new Ballpark Facility, nonetheless there can be no assurance that the full implementation of the Set-Off would not prospectively adversely affect the operating results of the Padres in the new Ballpark Facility.

As indicated above, neither the Padres nor JMIR have a financing commitment for the Boutique Hotel or the Boutique/Value-Oriented Hotel. In addition, they are negotiating a new financing commitment for the Four Star Hotel, which they will not use unless they obtain a substantial equity commitment from a third-party investor (they hope to obtain this commitment from the prospective operator). This could adversely affect the generation of TOT from these hotels, which amounts could be used to partially pay Base Rental Payments under the Ballpark Facility Lease (which would be used to partially pay debt service on the Ballpark Bonds).

As indicated above, the City is entitled to a Set-Off against its annual O&M Expenses in the event any of the Phase 1 hotels is not built. However, the parties have agreed that the total annual TOT projected to be produced by all the Phase 1 hotels, is expected to exceed the available annual Set-Off amount of O&M Expenses within three years of the opening of the Ballpark, if the hotels had been opened for operations in a timely fashion. Accordingly, the City has obtained an agreement (the "TOT Guaranty") with John Moores (the principal owner of the Padres) and the Padres, as co-obligors (the "Obligors"), whereby, if the Four Star Hotel is not open and operating by April 1, 2004 (regardless of whether the Ballpark is completed) then in August of 2004, and in August of each subsequent year, to and including August 2008, each of the Obligors would be obligated to pay to the City the amount, if any, by which an agreed-upon schedule of TOT for the prior fiscal year ending June 30, less TOT actually produced by the Phase 1 hotels in the same fiscal year, exceeds the City's annual O&M Expense for the same fiscal year. The TOT Guaranty will not become effective unless and until the Disposition and Development Agreement between the Redevelopment Agency and JMIR for the development of the Four Star Hotel has been extended to and including December 31, 2003, the date by which the Padres must present evidence of financing for the Four Star Hotel. The City believes that such extension will occur before the end of March 2002.

If the TOT Guaranty becomes effective, it will terminate upon the earlier of (a) the opening and commencement of operations of the Four Star Hotel; or (b) June 30, 2008. If the Disposition and Development Agreement between the Redevelopment Agency and JMIR for the development of the Four Star Hotel is extended beyond December 31, 2003, the TOT Guaranty will terminate upon the earlier of (a) the opening and commencement of operations for the Four Star Hotel; or (b) 54 months after the expiration of the Four Star Hotel Disposition and Development Agreement. Even if the TOT Guaranty is terminated, or does not become effective, the Set-Off will remain effective. The TOT Guaranty will be an unsecured obligation, and there is no limit on any additional obligations or indebtedness which either of the Obligors can incur while this commitment is outstanding. Based upon their current level of operations as reflected in financial information provided by the Padres, the Padres would be unable to perform under the TOT Guaranty if they were called upon to do so. While the Padres have informed the City that the Padres believe that revenues from operations will increase in the new Ballpark Facility, there can nonetheless be no assurance that the Padres would be able to perform the TOT Guaranty should they be called upon to do so. The City believes that John Moores currently would be able to perform the TOT Guaranty if it were currently in place. The amount of payments to the City under the TOT Guaranty (over and above the Set-Off) would range from a low of no payment for the years of 2004 and 2005 to a high of approximately $900,000 for the year of 2008, when it expires.

For discussion regarding the revenues generated from the Ancillary Development, see **"Revenues Generated from Ancillary Development."**

Mixed-Use Development

In addition to the hotels and the office complexes, the Ancillary Development provides for the development of the East Village Square. The East Village Square will surround the Park and will provide panoramic views of the Ballpark Facility. The design of the East Village Square includes two levels of

retail/restaurant space of approximately 100,000 square feet, office or residential space totaling approximately 200,000 square feet, and 336 subterranean parking spaces. Land acquisition costs relating to the East Village Square are included in the currently estimated amount for the land acquisition for the Ballpark Project. The Redevelopment Agency has acquired or has orders of immediate possession on all parcels comprising the East Village Square site, and is currently performing remediation activities with respect to some of the parcels. It is anticipated that the Redevelopment Agency will convey the parcels to the developer in December 2002. The East Village Square is anticipated to be completed by April 2004. The Padres have not yet secured any financing for the development of East Village Square.

P1 Parking Garage

The P1 Parking Garage is planned to be an approximately 1,109-space garage located on approximately 50,000 square feet of the block bounded by 10th Avenue, 11th Avenue, Island Avenue and J Street. One hundred-nine of the parking spaces are reserved for residential development on the remaining portion of the block. One thousand of the parking spaces will be dedicated to use for events at the Ballpark. The City will purchase or cause to be purchased the land for the P1 Parking Garage. Pursuant to the Implementation Agreement, the Padres will lease such land from the City and develop and construct the P1 Parking Garage. It is anticipated that construction will begin in April 2003 and be completed by March 2004. The City Council will consider an amendment to the Implementation Agreement which would require the Padres (rather than the City) to acquire the land for the P1 Parking Garage.

Other Parking

Additional parking will be available on the block bounded by 6th Avenue, 7th Avenue, K Street and L Street, which will provide some parking for the Four Star Hotel, either as surface parking or a subterranean structure. Parking on the surface of a subterranean structure will be available for use by the general public. The Redevelopment Agency owns the parking site.

Revenues Generated from Ancillary Development

When Phase 1 is completed, the City anticipates that certain revenues will be generated as a result of such new hotels from the TOT which is levied by the City on the hotel/motel rent of visitors staying in the City for less than one month. Although the City expects to receive such revenues, neither the timing nor the amount of these revenues can be predicted. In addition, while TOT revenues comprise a portion of the general funds from which Base Rental Payments will be made, neither TOT revenues (whether generated from the Phase 1 hotels or elsewhere) nor any other revenues of the City are pledged to pay Base Rental Payments or to the payment of the 2002 Bonds. See **APPENDIX A—THE CITY OF SAN DIEGO—Economic and Demographic Information—Tourism** for certain information about TOT. Due to the historical nature of this information, it does not reflect potential negative consequences of the recent downturn of the economies in the State of California and United States, or the potential negative impact on tourism and convention activity due to the Attacks. See **"PRINCIPAL PARTICIPANTS IN THE DEVELOPMENT OF THE BALLPARK PROJECT—The City"** for information regarding significant declines in TOT revenues for the first quarter of the current fiscal year as compared to the same period in the prior fiscal year. Further, if there are significant delays in construction of the Phase 1 hotels by the Padres or JMIR due to inability to obtain financing, the City will be entitled to the Set-Off, and the only direct payment the City will receive will be the amounts contemplated under the TOT Guaranty (if it becomes effective), both of which are based on an agreed-upon schedule of projected TOT for each of the Phase 1 hotels. See **"Hotels"** for a more complete description of the Set-Off and TOT Guaranty.

In addition to TOT, the City anticipates that Phase 1 will generate other tax revenues, such as sales tax and property tax revenues, the latter of which would financially benefit the Redevelopment Agency exclusively. While the City expects such revenues to be generated, neither the timing nor the amount can be predicted. Furthermore, while sales tax revenues comprise a portion of the general funds from which Base Rental Payments will be made, neither sales tax revenues nor any other revenues are pledged to the registered owners of the 2002 Bonds. See **APPENDIX A – THE CITY OF SAN DIEGO** for certain information about tax revenues.

THE 2002 BONDS

Description of the 2002 Bonds

The 2002 Bonds will be (i) executed and delivered in the aggregate principal amount of $169,685,000; (ii) dated the date of delivery; (iii) payable as to interest from the date of delivery at the rates set forth on the inside cover page hereof, semi-annually on each February 15 and August 15 (each an "Interest Payment Date"), commencing August 15, 2002; and (iv) will mature on February 15 in each of the designated years and in the principal amounts shown on the inside cover page hereof. Initially, the 2002 Bonds will be delivered in certificated form in minimum denominations of $1 million and integral multiples of $5,000 in excess thereof. Under certain circumstances, certificates for the 2002 Bonds will be called in and thereafter transfers will occur through book-entry, as more fully described in **APPENDIX E – BOOK-ENTRY SYSTEM**, and sold in minimum denominations of $5,000 and integral multiples of $5,000 in excess thereof. For additional information regarding the circumstances under which certificates for the 2002 Bonds will be called in, see **"PLAN OF DISTRIBUTION"** and **APPENDIX J – FORM OF INVESTOR REPRESENTATION LETTER.**

Redemption Provisions

Extraordinary Redemption

The 2002 Bonds are subject to redemption, in whole or in part, on any date, from prepaid Base Rental Payments made by the City from Net Proceeds received by the City pursuant to the title insurance policies required to be maintained under the Ballpark Facility Lease or due to a casualty loss or award in eminent domain for any portion of the Leased Property, at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium. The Ballpark Facility Lease requires the City to apply casualty insurance proceeds to repair, reconstruct or replace the Leased Property if to do so would fully restore the Leased Property. In the event that the casualty insurance proceeds are not sufficient to fully restore the Leased Property, the City may elect to budget and appropriate additional funds and fully restore the Leased Property. If the City does not make such an election and the available casualty proceeds are at least sufficient to redeem all of the Outstanding 2002 Bonds, at par plus accrued interest, then the proceeds shall be used for that purpose. In the event the proceeds are not so sufficient, the City may elect to budget and appropriate additional funds so that the available casualty proceeds and the additional funds are sufficient to redeem all of the Outstanding 2002 Bonds at par plus accrued interest. Further, the Ballpark Facility Lease provides that if there are not sufficient Net Proceeds received from casualty insurance so as to redeem all of the Outstanding 2002 Bonds and the City elects not to budget and appropriate additional funds necessary to redeem all of the Outstanding 2002 Bonds, then such proceeds will be used to repair, reconstruct, or replace the Leased Property. Its decision with respect to an award in condemnation or payment under a title insurance policy will depend upon the extent of the condemnation of, or title defects relating to, the Leased Property. If any portion of the Leased Property has been affected by condemnation or a title defect which will result in an abatement of Base Rental Payments payable by the City under the Ballpark Facility Lease, then the Trustee shall use Net Proceeds available from condemnation or any policy of title insurance to redeem Outstanding 2002 Bonds. For a discussion of the insurance required to be maintained by the City, see **"BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES"** and **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Ballpark Facility Lease.**

Optional Redemption

All of the 2002 Bonds shall be subject to optional redemption prior to their respective stated maturities, at par plus accrued interest but with no premium, on any date on or after February 15, 2005 at the option of the Authority, in whole, or in part (in such maturities as are designated to the Trustee by the Authority no later than 45 days prior to the redemption date or, if the Authority fails to designate such maturities, on a proportional basis among maturities) on any date, from funds derived by the Authority from any source.

Mandatory Redemption

The 2002 Bonds maturing on February 15, 2012 are also subject to redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Sinking Account, on each February 15 on or after February 15, 2006 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Redemption Date (February 15)	Principal Amount Redeemed
2006	$ 2,125,000
2007	2,275,000
2008	2,435,000
2009	2,610,000
2010	2,800,000
2011	3,000,000
*2012	3,215,000

*Maturity

The 2002 Bonds maturing on February 15, 2022 are also subject to redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Sinking Account, on each February 15 on or after February 15, 2013 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Redemption Date (February 15)	Principal Amount Redeemed
2013	$ 3,445,000
2014	3,705,000
2015	3,985,000
2016	4,290,000
2017	4,615,000
2018	4,965,000
2019	5,345,000
2020	5,750,000
2021	6,185,000
*2022	6,655,000

*Maturity

The 2002 Bonds maturing on February 15, 2032 are also subject to redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Sinking Account, on each February 15 on or after February 15, 2023 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Redemption Date (February 15)	Principal Amount Redeemed
2023	$ 7,160,000
2024	7,715,000
2025	8,305,000
2026	8,945,000
2027	9,635,000
2028	10,380,000
2029	11,175,000
2030	12,040,000
2031	12,965,000
*2032	13,965,000

*Maturity

Method of Selection for Redemption

If less than all Outstanding 2002 Bonds are to be redeemed at any time from Net Proceeds, the Trustee shall use the net insurance proceeds or condemnation awards attributable to the portion of the Leased Property destroyed, damaged, stolen or taken, to redeem, on a pro rata basis among all maturities of 2002 Bonds, as directed in writing by the City, pursuant to the Ballpark Facility Lease. Subject to the foregoing, if less than all Outstanding 2002 Bonds maturing by their terms on any one date are to be so redeemed at any one time, the Trustee shall select the 2002 Bonds of such maturity date to be redeemed in any manner that it deems appropriate; provided, however, that if the remaining Base Rental Payments will not be reasonably level after such prepayment of Outstanding 2002 Bonds, the City shall deliver to the Trustee an Opinion of Counsel that the Ballpark Facility Lease will continue to be a valid and binding obligation of the City after such redemption.

Notice of Redemption

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

The Indenture provides that if notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the 2002 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice the 2002 Bonds shall become due and payable, and

from and after the date so designated, interest on the 2002 Bonds so called for redemption shall cease to accrue, and the registered owners of such 2002 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof. .

Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notices, shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail or otherwise provide notice of redemption to any one or more of the respective registered owners of any 2002 Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the registered owners to whom such notice was mailed.

The terms of the notice for exercise of the Underwriter's independent call right will be governed by the Investor Representation Letter, in the form of **APPENDIX J**, to be signed by each investor. See **"Independent Call Right of Merrill Lynch, Pierce, Fenner & Smith Incorporated"** for additional information regarding the Underwriter's independent call right.

Independent Call Right of Merrill Lynch, Pierce, Fenner & Smith Incorporated

The 2002 Bonds are being offered to a limited group of sophisticated institutional investors, as described in **"PLAN OF DISTRIBUTION."** Apart from the call and redemption provisions of the Indenture, for a period up to 270 days from the time that any of the 2002 Bonds, the Indenture or the Ballpark Facility Lease is held to be invalid by the final decision of a court of last resort in any of the Ballpark Litigation (as defined and described in **"LITIGATION—Litigation Involving the Ballpark Project"**), Merrill Lynch, Pierce, Fenner & Smith Incorporated, the Underwriter, will have an independent right to call the 2002 Bonds from investors, provided that, among other things, such call right will be exercised on not less than 30 days nor more than 60 days notice to record holders and must be effective as of a date which is not more than 270 days following the date of entry of such final decision. The Underwriter will exercise its optional call right only at the direction of the City, with funds provided by the City. The City must give notice to the Underwriter of its intention to so fund the Underwriter within 180 days after the entry of any such final decision. Such call right by the Underwriter will be at a price of par plus accrued interest (but no premium). See **"PLAN OF DISTRIBUTION"** for additional information regarding the Underwriter's call right.

Debt Service Requirements

Base Rental Payments are required to be made by the City to the Trustee under the Ballpark Facility Lease and the Assignment Agreement, for the use and possession of the Leased Property during each annual period. The Trustee shall deposit such Base Rental Payments in the Bond Fund established under the Indenture. Such Base Rental Payments, if paid in full, will be sufficient, in both time and amount, to pay when due the principal of and interest on the 2002 Bonds. Pursuant to the Indenture, the Trustee will, on each Interest Payment Date, apply funds available in the Bond Fund in the amounts required to make principal and interest payments due on the 2002 Bonds.

The following table presents the debt service requirements with respect to the 2002 Bonds. For additional information, see **"SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Base Rental Payments Payable by the City."**

Public Facilities Financing Authority
of the City of San Diego
Lease Revenue Bonds, Series 2002
(Ballpark Project)

Debt Service Payment Schedule[1]

Bond Payment Dates	Principal	Interest[2]	Total Debt Service	Fiscal Year Total Debt Service
08/15/02		6,457,637.50	6,457,637.50	
02/15/03		6,457,637.50	6,457,637.50	12,915,275.00
08/15/03		6,457,637.50	6,457,637.50	
02/15/04		6,457,637.50	6,457,637.50	12,915,275.00
08/15/04		6,457,637.50	6,457,637.50	
02/15/05		6,457,637.50	6,457,637.50	12,915,275.00
08/15/05		6,457,637.50	6,457,637.50	
02/15/06	2,125,000.00	6,457,637.50	8,582,637.50	15,040,275.00
08/15/06		6,381,668.75	6,381,668.75	
02/15/07	2,275,000.00	6,381,668.75	8,656,668.75	15,038,337.50
08/15/07		6,300,337.50	6,300,337.50	
02/15/08	2,435,000.00	6,300,337.50	8,735,337.50	15,035,675.00
08/15/08		6,213,286.25	6,213,286.25	
02/15/09	2,610,000 00	6,213,286.25	8,823,286.25	15,036,572.50
08/15/09		6,119,978 75	6,119,978.75	
02/15/10	2,800,000.00	6,119,978.75	8,919,978.75	15,039,957.50
08/15/10		6,019,878.75	6,019,878 75	
02/15/11	3,000,000.00	6,019,878.75	9,019,878.75	15,039,757 50
08/15/11		5,912,628.75	5,912,628.75	
02/15/12	3,215,000.00	5,912,628 75	9,127,628.75	15,040,257.50
08/15/12		5,797,692.50	5,797,692.50	
02/15/13	3,445,000.00	5,797,692.50	9,242,692.50	15,040,385.00
08/15/13		5,666,782.50	5,666,782.50	
02/15/14	3,705,000.00	5,666,782.50	9,371,782.50	15,038,565.00
08/15/14		5,525,992.50	5,525,992.50	
02/15/15	3,985,000.00	5,525,992.50	9,510,992.50	15,036,985.00
08/15/15		5,374,562.50	5,374,562.50	
02/15/16	4,290,000.00	5,374,562.50	9,664,562.50	15,039,125.00
08/15/16		5,211,542.50	5,211,542 50	
02/15/17	4,615,000.00	5,211,542.50	9,826,542.50	15,038,085.00
08/15/17		5,036,172.50	5,036,172 50	
02/15/18	4,965,000.00	5,036,172.50	10,001,172.50	15,037,345.00
08/15/18		4,847,502.50	4,847,502.50	
02/15/19	5,345,000.00	4,847,502.50	10,192,502.50	15,040,005.00
08/15/19		4,644,392.50	4,644,392.50	
02/15/20	5,750,000.00	4,644,392.50	10,394,392.50	15,038,785.00
08/15/20		4,425,892.50	4,425,892.50	
02/15/21	6,185,000.00	4,425,892.50	10,610,892.50	15,036,785.00
08/15/21		4,190,862.50	4,190,862.50	
02/15/22	6,655,000.00	4,190,862.50	10,845,862.50	15,036,725.00
08/15/22		3,937,972.50	3,937,972.50	
02/15/23	7,160,000.00	3,937,972.50	11,097,972.50	15,035,945.00
08/15/23		3,662,312.50	3,662,312.50	
02/15/24	7,715,000.00	3,662,312.50	11,377,312.50	15,039,625.00
08/15/24		3,365,285.00	3,365,285.00	
02/15/25	8,305,000.00	3,365,285.00	11,670,285.00	15,035,570.00
08/15/25		3,045,542.50	3,045,542.50	
02/15/26	8,945,000.00	3,045,542.50	11,990,542.50	15,036,085.00
08/15/26		2,701,160 00	2,701,160.00	
02/15/27	9,635,000.00	2,701,160.00	12,336,160.00	15,037,320 00
08/15/27		2,330,212.50	2,330,212.50	
02/15/28	10,380,000.00	2,330,212.50	12,710,212.50	15,040,425 00
08/15/28		1,930,582.50	1,930,582 50	
02/15/29	11,175,000.00	1,930,582 50	13,105,582.50	15,036,165.00
08/15/29		1,500,345.00	1,500,345.00	
02/15/30	12,040,000.00	1,500,345.00	13,540,345.00	15,040,690.00
08/15/30		1,036,805.00	1,036,805.00	
02/15/31	12,965,000.00	1,036,805.00	14,001,805.00	15,038,610.00
08/15/31		537,652.50	537,652.50	
02/15/32	13,965,000.00	537,652.50	14,502,652.50	15,040,305.00
TOTALS	$169,685,000.00	$275,095,187.50	$444,780,187.50	$444,780,187 50

(1) The Base Rental Payments under the Ballpark Facility Lease will be paid not later than three Business Days before each February 15 and August 15 of a fiscal year in amounts sufficient to pay when due the principal and interest on the 2002 Bonds Principal and interest payments will be made in accordance with this Debt Service Payment Schedule.

(2) A portion of interest payable on the 2002 Bonds for approximately 30 months from the date of issuance of the 2002 Bonds will be paid from the proceeds of the issuance of the 2002 Bonds (with the balance being paid from Base Rental Payments payable under the Ballpark Facility Lease).

Additional Bonds

The Authority may at any time issue Additional Bonds payable from Revenues as provided in the Indenture and secured by a pledge of Revenues on a parity with the pledge securing the Outstanding 2002 Bonds, subject to approval of the Bond Insurer and to the satisfaction of certain conditions set forth in the Indenture, including the following:

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

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

(a) The purpose for which such Additional Bonds are to be issued; provided, however, that proceeds of such Additional Bonds shall be applied solely for the purpose of (i) financing, acquiring, constructing, maintaining, operating, improving and leasing the Ballpark Project, including payment of all costs incidental to or connected with such financing (including interest during construction); (ii) increasing the Reserve Requirement; and/or (iii) refunding any Bonds or Additional Bonds, then Outstanding, including payment of all costs incidental to or connected with such refunding;

(b) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Account, which amount shall be sufficient to cause the amount on deposit in the Reserve Account including any amount evidenced by a surety or other authorized credit instrument.

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

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

Pursuant to the MOU, the City is to provide an investment of not more than $225.0 million toward the construction of the Ballpark Project. Any increase in the City's financial commitments to the construction of the Ballpark Project above the $225.0 million amount, including, if applicable, the issuance of Additional Bonds, would require the affirmative vote of a majority of the electorate of the City voting at an election held for that purpose. For additional information with respect to the issuance of Additional Bonds under the Indenture, see **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Indenture.**

LEASED PROPERTY

Pursuant to the Ballpark Facility Lease, the City will be obligated to make Base Rental Payments for the use and occupancy of the Leased Property. The Leased Property consists of the Ballpark Facility, and the land on which it is located (the "Site"), excluding certain components of the Ballpark Facility that are to be owned by the Padres.

The Redevelopment Agency acquired all of the property that comprises the Site, and conveyed such property to the City on January 25, 2002. The property comprising the Site has recently been appraised at $60.0 million. See "**THE BALLPARK PROJECT—Land Acquisition Program**" for additional information regarding the land acquisition process and cost estimates.

Pursuant to the MOU, the City will severally own at least 70% of the Ballpark Facility, for which the current Ballpark Facility estimate totals $294.1 million*. The Padres will own the balance of the improvement in and to the Ballpark Facility for the term of the Joint Use and Management Agreement, after which all portions of the Ballpark Facility owned by the Padres will automatically be transferred to the City. See "**The BALLPARK FACILITY—Ownership**" for additional information regarding the ownership of the Ballpark Facility.

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

SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS

Limited Obligations

See "**BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES—Insurance Available for Completion of the Ballpark Project—*Insurance on Design, Construction and Timely Completion of the Ballpark Facility***" for information regarding the potential availability of insurance payments to pay current accrued interest on the 2002 Bonds. Once substantial completion has been achieved, debt service payments will be fully funded by Base Rental Payments payable under the Ballpark Facility Lease by the City from its general funds after using remaining capitalized interest. Neither the 2002 Bonds nor the obligation of the City to make Base Rental Payments under the Ballpark Facility Lease constitutes an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the 2002 Bonds nor the obligation of the City to make such Base Rental Payments constitutes an indebtedness of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. For additional information, see "**BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES—Ballpark Project Insurance After Construction.**"

Pledged Revenues

The 2002 Bonds are payable from and secured by Revenues and certain amounts on deposit in the funds and accounts established under the Indenture. Revenues consist primarily of all Base Rental Payments made by the City pursuant to the Ballpark Facility Lease. Base Rental Payments shall be paid by the City from any and all legally available funds. The City has covenanted under the Ballpark Facility Lease to take such action as may be necessary to include all Base Rental Payments and certain additional rental payments ("Additional Rental Payments") due under the Ballpark Facility Lease in its operating budget for each fiscal year and to make all necessary appropriations for such Base Rental Payments and Additional Rental Payments and, to the extent permitted by law, the City covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Ballpark Facility Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental Payments paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the City's budget. As set forth in the Indenture, all Revenues and amounts on deposit in the funds, accounts and subaccounts established under the Indenture (other than the Rebate Fund) are irrevocably pledged to payment of the principal of, premium, if any, and interest on the 2002 Bonds and any Additional Bonds Outstanding; provided, however, that out of Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture.

The City's obligation to make Base Rental Payments is subject to substantial completion of the Ballpark Facility, the possible invalidity of the Ballpark Facility Lease, and to abatement if, by reason of material damage to, destruction or condemnation of, or title defect with respect to, the Leased Property, there is substantial interference with the City's right to use and possess the Leased Property. For additional information, see "**RISK FACTORS—Abatement**" and "**LITIGATION—Litigation Involving the Ballpark Project.**" Further, any

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* See "**THE BALLPARK PROJECT—Ballpark Facility—*Ballpark Facility Design/Build Contract***" for information regarding potential increases in the cost of construction of the Ballpark Facility due to delays in the recommencement of construction.

damage occasioned by earthquakes during the term of Ballpark Facility Lease, would not be insured and therefore no rental interruption insurance would be available should an earthquake occur, since the City will not maintain earthquake insurance. For additional information, see **"RISK FACTORS—Seismic Risks and Other Events of Force Majeure."**

Base Rental Payments Payable by the City

The 2002 Bonds are payable from Base Rental Payments made by the City under the Ballpark Facility Lease for the use and possession of the Leased Property during each annual period. For additional information, see **"LEASED PROPERTY."** The Indenture requires that Base Rental Payments be deposited in the Bond Fund maintained by the Trustee. Pursuant to the Indenture, on February 15 and August 15 of each year, commencing August 15, 2002, the Trustee will apply amounts in the Bond Fund to make principal and interest payments with respect to the 2002 Bonds as the same shall become due and payable and in amounts sufficient to meet the payment schedule shown under **"THE 2002 BONDS—Debt Service Requirements."**

Pursuant to the Ballpark Facility Lease and the Assignment Agreement, the City is required to make Base Rental Payments to the Trustee three Business Days preceding each February 15 and each August 15 in each fiscal year during the term of the Ballpark Facility Lease, commencing August 15, 2002, in amounts sufficient to pay when due the principal and interest payments on the 2002 Bonds. Amounts received by the Trustee will be held as security for the payments due on the 2002 Bonds. The amount of Base Rental Payments is designed to be sufficient to pay principal of and interest and redemption premiums, if any, on the 2002 Bonds when due. The Ballpark Facility Lease also provides that Base Rental Payments shall be abated in whole or in part if there is substantial interference with the City's use and possession of any portion of the Leased Property due to damage, destruction, title defect or condemnation. The amount of abatement shall be such that the resulting Base Rental Payments represent fair consideration for the use and possession of the remaining portions of the Leased Property as to which such damage, destruction, title defect or condemnation does not substantially interfere with the use and right of possession by the City. Such abatement shall continue for the period commencing with the date of the substantial interference due to damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned. For additional information, see **"RISK FACTORS—Abatement."**

Subject to the limitations noted herein, the City is obligated to make Base Rental Payments from any and all general funds legally available to the City, although the City's general funds are not pledged to secure the payment of Base Rental Payments. For certain economic, demographic and financial information relating to the City, see **APPENDIX A—THE CITY OF SAN DIEGO.** For certain audited financial statement information relating to the City's general funds, see **APPENDIX B—EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2001.**

Debt Service Reserve Account

The Reserve Account is established within the Bond Fund under the Indenture. The Reserve Account for the 2002 Bonds and any Additional Bonds shall each be funded in an amount as of any date of calculation equal to the least of: (i) 10% of the stated principal amount of the 2002 Bonds; (ii) Maximum Annual Debt Service for the current or any future Bond Year; or (iii) 125% of average Annual Debt Service (the "Reserve Requirement").

The City may satisfy all or part of the Reserve Requirement with a line of credit, letter of credit, insurance policy, surety, or other credit source deposited with the Trustee and rated not lower than Aa/AA by the Rating Agencies, subject to the further requirements of the Indenture. For additional information, see **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Indenture.**

All amounts in the Reserve Account shall be used and withdrawn by the Trustee for the purpose of replenishing the Interest Account or the Principal Account in such order, in the event of any deficiency at any time in either of such accounts, or for the purposes of paying the principal of and interest and redemption premiums, if any, on the 2002 Bonds and any Additional Bonds in the event that no other money of the Authority is lawfully available therefore, or for the retirement of all the 2002 Bonds and any Additional Bonds then Outstanding. All interest income received by the Trustee from the investment of moneys in the Reserve Account shall be transferred to the Interest Account of the Bond Fund; provided, however, that such interest income shall be transferred to the

Rebate Fund as and when required by the Indenture and retained in the Reserve Account to the extent that amounts therein have been transferred to make up a deficiency in the Interest Account or the Principal Account. For additional information, see **APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.**

The Reserve Account for the 2002 Bonds will be funded initially from the proceeds of the 2002 Bonds in an amount of $15,040,690. Fifty percent of the amount deposited in the Reserve Account may fund the last draw of the City funds in the Design and Construction Fund, subject to timely completion, whereupon the Bond Insurer will issue a municipal bond debt service reserve fund surety (the "Surety") for an equal amount for the Reserve Account.

The Surety provides that upon the later of (i) one (1) day after receipt by the Bond Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the 2002 Bonds when due has not been made or (ii) the interest payment date specified in the demand for payment submitted to the Bond Insurer, the Bond Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the 2002 Bonds, but in no event exceeding the surety coverage, as defined in the Surety. Funds in the Reserve Account will be used before the Surety is drawn upon.

Pursuant to the terms of the Surety, the Surety coverage is automatically reduced to the extent of each payment made by the Bond Insurer under the terms of the Surety and subject to appropriation by the City Council after the Surety has been drawn upon, the City is required to reimburse the Bond Insurer for any draws under the Surety with interest at a market rate. Upon such reimbursement, the Surety are reinstated to the extent of each principal reimbursement up to but not exceeding the Surety coverage. The reimbursement obligation of the City is subordinate to the Authority's obligations with respect to the 2002 Bonds.

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

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

For information regarding the Bond Insurer, see **"Financial Guaranty Insurance Policy."**

Financial Guaranty Insurance Policy

The Bond Insurer has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the 2002 Bonds effective as of the date of issuance of the 2002 Bonds. Under the terms of the Financial Guaranty Insurance Policy, the Bond Insurer will pay to The Bank of New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2002 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Financial Guaranty Insurance Policy). The Bond Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2002 Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates in the case of principal, and on stated dates for payment, in the case of interest. If the 2002 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2002 Bonds, the Bond Insurer will remain obligated to pay principal of and interest on outstanding 2002 Bonds on the originally scheduled interest and principal payment dates including mandatory

sinking fund redemption dates. In the event of any acceleration of the principal of the 2002 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration. The Financial Guaranty Insurance Policy includes an endorsement that states that, as a clarification and not as a limitation of its obligations under the Financial Guaranty Insurance Policy, the Bond Insurer irrevocably waives and agrees not to assert any rights or defenses, to the extent such rights or defenses may be or become available to the Bond Insurer, to avoid payment of its obligations under the Financial Guaranty Insurance Policy due to the illegality, unenforceability or invalidity of the 2002 Bonds, and that all principal and interest on the 2002 Bonds that would have been payable by the Bond Insurer but for the illegality, unenforceability or invalidity of the 2002 Bonds will be deemed payable by the Bond Insurer for purposes of the Financial Guaranty Insurance Policy.

In the event the Trustee has notice that any payment of principal of or interest on the 2002 Bonds which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

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

(i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

(ii) payment of any redemption, prepayment or acceleration premium; or

(iii) nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2002 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2002 Bonds to be registered in the name of the Bond Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to the Bond Insurer.

Upon payment of the insurance benefits, the Bond Insurer will become the owner of the 2002 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2002 Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

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

Ambac Assurance Corporation

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $4,988,000,000 (unaudited) and statutory capital of approximately $2,963,000,000 (unaudited) as of September 30, 2001. Statutory capital consists of the Bond Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to the Bond Insurer.

The Bond Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Bond Insurer will not affect the treatment for federal income tax purposes of interest

on such obligation and that insurance proceeds representing maturing interest paid by the Bond Insurer under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the 2002 Bonds.

The Bond Insurer makes no representation regarding the 2002 Bonds or the advisability of investing in the 2002 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Offering Document other than the information supplied by the Bond Insurer and presented under the heading **"SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Financial Guaranty Insurance Policy"** and under **APPENDIX H—FORM OF FINANCIAL GUARANTY INSURANCE POLICY.**

Available Information

The parent company of the Bond Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of the Bond Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Bond Insurer. The address of the Bond Insurer's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Offering Document:

1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;

2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;

3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;

4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;

5) The Company's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001;

6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001;

7) The Company's Current Report on Form 8-K dated and filed on September 17, 2001;

8) The Company's Current Report on Form 8-K dated and filed on September 19, 2001;

9) The Company's Current Report on Form 8-K dated and filed on October 22, 2001; and

10) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2001 and filed on November 14, 2001.

All documents subsequently filed by the Company pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, after the date of this Offering Document will be available for inspection in the same manner as described above in "**Available Information**".

Ballpark Project Insurance

Proceeds from certain insurance policies obtained during and after the construction of the Ballpark Project as well as certain completion guarantees could provide additional sources of payment for the 2002 Bonds. See "**BALLPARK PROJECT INSURANCE AND COMPLETION GUARANTEES**" for additional information regarding such insurance and guarantees.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the 2002 Bonds or to any decision to purchase, hold or sell the 2002 Bonds and the Authority will not provide any such information. The City has undertaken all responsibilities for any continuing disclosure to registered owners of the 2002 Bonds as described below, and the Authority shall have no liability to the registered owners of the 2002 Bonds or any other person with respect to Rule 15c2-12(b)(5) of the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule").

The City has covenanted for the benefit of registered owners and Beneficial Owners of the 2002 Bonds to provide certain financial information and operating data relating to the City by not later than 285 days following the end of the City's Fiscal Year (which Fiscal Year currently ends on June 30) (the "Annual Report"), commencing with the City's Annual Report for the fiscal year ended June 30, 2001, and to provide notices of the occurrence of certain enumerated events, if material. For the fiscal year ended June 30, 2001 Annual Report, the City will submit a copy of this Offering Document and the audited financial statements of the City for the same period to meet this obligation. Each Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository. Currently, there is no State Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board, each Nationally Recognized Municipal Securities Information Repository and the State Repository. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in **APPENDIX G—FORM OF CONTINUING DISCLOSURE AGREEMENT**. The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

TAX MATTERS

Due to the pendency of the Ballpark Litigation (as defined and described in "**LITIGATION—Litigation Involving the Ballpark Project**"), Orrick, Herrington & Sutcliffe LLP ("Orrick"), Los Angeles, California and Webster & Anderson, Oakland, California (collectively, "Co-Bond Counsel"), are providing a qualified opinion as to whether the interest on the 2002 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and from State of California personal income taxes.

Subject to the outcome of the Ballpark Litigation in favor of the City, in the opinion of Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2002 Bonds, including original issue discount properly allocable to each owner thereof, if any, is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. With the same qualification, Co-Bond Counsel are of the further opinion that interest on the 2002 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest would be included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in **APPENDIX I** hereto.

To the extent the issue price of any maturity of the 2002 Bonds is less than the amount to be paid at maturity of such 2002 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2002 Bonds) the difference constitutes "original issue discount," the accrual of which, to the extent properly

allocable to each owner thereof, is treated as interest on the 2002 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2002 Bonds is the first price at which a substantial amount of such maturity of the 2002 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2002 Bonds accrues daily over the term to maturity of such 2002 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2002 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2002 Bonds. Owners of the 2002 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2002 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2002 Bonds in the original offering to the public at the first price at which a substantial amount of such 2002 Bonds is sold to the public.

The 2002 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, if the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various requirements that must be met in order for interest on the 2002 Bonds to be excluded from gross income for federal income tax purposes. The City made representations related to certain of these requirements and has covenanted to comply with certain of these requirements, subject to the outcome of the Ballpark Litigation. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2002 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2002 Bonds. The opinion of Co-Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2002 Bonds may adversely affect the value of, or the tax status of interest on, the 2002 Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2002 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Bond Counsel express no opinion as to any 2002 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Co-Bond Counsel.

Although Co-Bond Counsel are of the qualified opinion that interest on the 2002 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2002 Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the 2002 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the 2002 Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the 2002 Bonds should consult their own tax advisors regarding any pending or proposed tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the 2002 Bonds for audit examination, or the course or result of any IRS examination of the 2002 Bonds, or obligations which present similar tax issues, will not affect the market price for the 2002 Bonds.

LEGAL OPINIONS

Co-Bond Counsel will render a qualified opinion with respect to the validity of the 2002 Bonds and as to whether the interest on the 2002 Bonds is excluded from gross income for federal and California personal income taxes as being subject to the outcome of the Ballpark Litigation (as defined and described in **"LITIGATION—Litigation Involving the Ballpark Project"**). A complete copy of the proposed opinion of Co-Bond Counsel is set forth in **APPENDIX I** hereto. Orrick has provided separate legal analyses and opinions relating to several of the issues raised in the Ballpark Litigation, as set forth in **APPENDIX F** hereto. Certain legal matters also will be passed upon for the Authority and the City by the City Attorney, for the Underwriter by its internal counsel and by O'Melveny & Myers LLP and for the Bond Insurer by its internal counsel.

LITIGATION

General

Other than as disclosed below, there is no litigation against the Authority or the City pending or, to the knowledge of the officers of the Authority and the City, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the 2002 Bonds; (ii) questioning or affecting the validity of the 2002 Bonds; (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2002 Bonds; or (iv) questioning or affecting the validity or enforceability of the Ballpark Facility Lease or the Indenture. To the knowledge of the Authority, the City and the City Attorney, there are pending against the City lawsuits and claims arising in the ordinary course of the City's activities which, taken individually or in the aggregate, could materially affect the City's finances. However, other than as disclosed below, taking into account insurance and self-insurance reserves expected to be available to pay liabilities arising from such actions, the City does not expect any or all of such claims to have a material adverse effect on its ability to make Base Rental Payments when due.

Litigation Involving the Ballpark Project

There are two actions pending in which alleged conflicts of interest of a former City Council member (the "Member") are addressed. The first of these actions is Skane v. City of San Diego (San Diego County Superior Court, Case No. GIC 752505), a taxpayers lawsuit ("Skane"), and the second is City of San Diego, et al. v. All Persons Interested (San Diego County Superior Court, Case No. GIC 763487) ("All Persons"), a validation action brought by the City. A third pending action, Simmons v. City of San Diego, et al. (San Diego County Superior Court, Case No. GIC 779299), ("Simmons"), is a purported "reverse" validation action ("Validation Action") and a "citizen resident action" brought against the City, the Authority and others. The plaintiff in Simmons alleges that (i) the MOU has been changed in ways requiring voter approval and no such voter approval was obtained and (ii) a prohibited personal financial interest existed between a member of the Board of Directors of CCDC (the "Director") and the Padres. Skane, All Persons and Simmons (collectively, the "Ballpark Litigation") are discussed in more detail below.

In addition, there is pending litigation that could affect the City's ability to sell the Surface Parking Lots. See **"RISK FACTORS—Ballpark Project Funding and Completion Risks—*Litigation Affecting the Ballpark Project Could Cause Further Delays in Completion.*"**

Skane v. City of San Diego

In the spring of 2000, prompted in part by newspaper articles, a taxpayer action was brought against the City and others alleging among other things that the Member had received financial remuneration from the Padres or controlling persons of the Padres in return for (a) divulging to the Padres the confidential deliberations by the City regarding its negotiations with the Padres, and (b) voting in favor of a variety of resolutions and an ordinance (both as a City Council member and as a member of the Board of the Redevelopment Agency) which approved a series of documents relating to the Ballpark Project, including the Ballpark Facility Lease, the Site Lease, the Assignment Agreement and the Indenture under which the 2002 Bonds are to be issued (collectively, the "Financing Documents").

The plaintiff, among other things, alleged violations of California state law (the "Conflicts Law") which prohibits, among others, members of a city council having a prohibited financial interest in contracts made by them in their official capacity or by any body of which they are members. The Conflicts Law also provides that any contract made in violation of the prohibition section may be voided at the instance of any party except the "officer having an interest in the contract." Plaintiff sought to have the actions taken by the City Council and the Redevelopment Agency which, among other things, approved the Financing Documents and the 2002 Bonds, declared invalid and void under the Conflicts Law. The trial court, in response to motions by the City, concluded that merely receiving gifts and expectation of future gifts in exchange for voting in favor of the contracts which may benefit the Padres were not the type of indirect contractual interests that the Conflicts Law was intended to prohibit. Accordingly, the trial court summarily dismissed the action. The plaintiff in Skane has appealed from this dismissal to the Court of Appeal.

City of San Diego, et al. v. All Persons Interested

On January 29, 2001, the Member pled guilty to two misdemeanor violations of the California Political Reform Act (which is different from the Conflicts Law) and resigned from the City Council. In addition, in December 2000, four newly elected Council members and a newly elected mayor replaced four sitting Council members and the mayor, all of whose term limits had been reached. In February 2001, one additional new Council member was elected to fill the balance of the term of another Council member who was elected to the State Legislature. On March 6, 2001, the newly constituted City Council (with two incumbents from the prior Council) adopted an ordinance and a resolution, and the Redevelopment Agency adopted a resolution (collectively, the "Ratifying Acts"). The ordinance ratified the earlier ordinance which had approved the Financing Documents, the 2002 Bonds and the overall structure of the financing. The resolutions ratified a variety of other actions which the Council or the Redevelopment Agency had taken regarding the Ballpark Project or the Padres while the Member was sitting as a member of the City Council and as a member of the governing body of the Redevelopment Agency. Shortly after the adoption of the Ratifying Acts, the City and the Redevelopment Agency filed the All Persons action seeking to validate the Ratification Acts and all prior City and Redevelopment Agency actions ratified and approved by the Ratification Acts, including prior approvals of Financing Documents.

Subsequently, a citizen filed a motion to quash service of summons challenging sufficiency of the summons published by the City upon the commencement of All Persons, for uncertainty. Another citizen filed a demurrer which, among other things, alleged that the action of the City Council occurred more than sixty days prior to the validation complaint's filing and thus could not be validated under the relevant state law. That same citizen later filed a Cross-Complaint alleging (i) that the Member's conduct as to gifts and favors from the Padres or their owners violated the City's Charter (Section 94); and (ii) that the Council action and the contracts regarding the Padres or the Ballpark Project, authorized during the period the Member was a Council member, were void. A third citizen also answered the validation complaint. Through a series of summary actions by the trial court, it found that the summons was sufficiently specific and the City Council and the Board of the Redevelopment Agency, through the Ratification Acts, properly and legally ratified the acts of the prior City Council and Redevelopment Agency Board and effectively eliminated any taint specifically related to the Member arising under the Conflicts Law or the City's Charter. Appeals with the Court of Appeal have been filed by two of the citizens in All Persons.

The Court of Appeal review of Skane and All Persons has been consolidated and will be heard as a single appeal. The Court of Appeal will likely decide this appeal during 2002, and any decision could become final by the end of 2002 if the California State Supreme Court denies discretionary review. However, should the California State Supreme Court grant discretionary review of any Court of Appeal decision, a final resolution by that Court could take upwards of two more years after a final decision by a Court of Appeal. The time to final disposition could be even longer if the matters were sent back to a trial court for further proceedings and thereafter appealed again.

Simmons v. City of San Diego, et al.

MOU and CCDC Director Matter Challenges. On December 6, 2001, following a number of actions taken by the City Council on November 20, 2001 (collectively, the "November Resolutions"), the Complaint in Simmons was filed. On December 24, 2001, the complaint was amended by the First Amended Complaint which added causes of action relating to the matter described below under "CCDC Director Matter." The First Amended Complaint is hereinafter referred to as the "Complaint." The Complaint alleges that a variety of actions taken by the City Council involving changes to the rights and duties of the parties to the MOU relating to the Ballpark Project

were required by the MOU to have been submitted to the voters of the City for consideration, and the relationship between a Director ("Director") of CCDC and the Padres created a conflict of interest. The Complaint requested that the court (1) declare the November Resolutions, all contract and agreements referred to therein and all proceedings incident thereto taken or made for or in any way connected with the November Resolutions, invalid, null and void; (2) declare that any expenditures of any funds, as authorized by the November Resolutions, is illegal and to the extent made, should be repaid; (3) issue a temporary restraining order, preliminary and permanent injunction enjoining the City, the City Manager, the Authority and others from any and all acts in furtherance of the November Resolutions including, without limitation, the sale of the 2002 Bonds and the disbursement of proceeds of such sale; and (4) declare that the November Resolutions are, due to their illegality, invalid, null and void.

The November Resolutions which the City Council adopted provided for a number of things including the following: (1) accepted a revised plan of finance for the Ballpark Project containing a variety of changes that had occurred since approval of the MOU, and approved this Offering Document; (2) approved a continuing disclosure agreement, in which the City agreed to file certain information regarding the City and the 2002 Bonds with nationally recognized municipal securities information repositories; (3) authorized the City Manager to enter into a contract of purchase with the Underwriter under which the Underwriter is purchasing the 2002 Bonds from the Authority and to take all action necessary to consummate the lawful issuance of the 2002 Bonds and disbursement of proceeds; (4) approved an agreement which among other things, authorized the release by the City of its lien on the Padres Major League Baseball franchise, so that MLB could be provided with such a lien to secure any advances by it under a guaranty by MLB of the deposit by the Padres by April 1, 2002, of not less than $47.6 million into the Design and Construction Fund, authorized the acceptance of a guaranty from the parent company of the Padres in return for the Padres being able to assign certain of its rights under the Joint Use and Management Agreement so as to accommodate financing by the Padres of its share of the Ballpark and part of the ancillary development, and authorized acceptance of the TOT Guaranty; (5) authorized an expenditure on the Ballpark Project of proceeds from the repayment of a loan by the City to the Redevelopment Agency, which loan was initially made by the City from a variety of sources including gasoline tax revenues; (6) authorized the City Manager and City Auditor/Comptroller to appropriate and expend funds from sources identified at their discretion (subject, in the case of the City, to not exceeding the $225 million limit on Ballpark Project expenditures) to acquire land and construct the Surface Parking Lots if the District were unable to do so and to modify the scope of the program for such improvements if the total available funds are less than $21.0 million (the current expected cost of such program.) Finally, the Authority's November Resolution approved this Offering Document, the contract of purchase with the Underwriter referenced above and the continuing disclosure agreement referenced above.

The specific nature of the material alleged claims stated in the Complaint are, in summary, as follows:

(1) That the City materially modified the MOU in a manner requiring voter approval by relieving the Padres from the ancillary development obligation of building 400,000 gross square feet of office complex and 50,000 square feet of retail space and all as described in a Manager's Report to the City Council regarding the November Resolutions replacing that with the obligation to build substantially fewer square feet of office space, a modest amount of increase of retail square footage and a number of residential units, not contemplated in the MOU;

(2) That the initial plan of finance of the City, prepared at the time the MOU was approved, relied upon the construction of a 1,000 room hotel on property of the District (the "Campbell Shipyard Hotel"), that the City received previous assurances that the same would proceed, but on November 20, 2001, the date of adoption by the City Council of its November Resolutions, the City had no sufficient assurances in that the revised plan of finance gave no effect to receipt of TOT from the Campbell Shipyard Hotel;

(3) That the City waived the obligation of the Padres to provide sufficient assurances to build 850 additional hotel rooms, as a consequence of which the City reduced the likelihood that the hotels will ever be built and that the City will ever realize TOT therefrom;

(4) That the City "abandoned" a commitment obtained under the MOU from the Padres to make payments to the City of up to $2 million a year for up to ten years (with an overall cap of $8 million) if certain levels of TOT were not achieved, and replaced that commitment with a guaranty "whose protections are substantially inferior";

(5) That the lien which the City obtained on the Padres Major League Baseball franchise was being released in violation of the MOU which does not permit its release until $50 million of the Padres' funds have been deposited in the Design and Construction Fund for the Ballpark;

(6) That the contingent commitment of the City to expend up to $21 million toward the Surface Parking Lots violated the MOU, even though the City expressly limited its obligation to staying within the "Ballpark Cap" of $225 million;

(7) That other amendments to the MOU of which the Plaintiff was not aware also required voter approval and after discovery by the Plaintiff, the Plaintiff would amend the Complaint to so state; various alleged modifications to the MOU were not manifested in an appropriate writing; the various alleged modifications to the MOU in the aggregate required voter approval, if not individually; and the ballot question for Proposition C limited the City's source of funds for its contribution to the Ballpark Project; and

(8) That by virtue of the facts described below under "CCDC Director Matter" there was created a prohibited personal financial interest in Ballpark Project-related agreements on which he voted, and other Ballpark Project-related agreements, in violation of the Conflicts Law and section 94 and therefore voided such agreements and other Ballpark Project-related agreements; that by virtue of the Member's conflict of interest, all of the November Resolutions and all contracts and agreements referred to therein and all proceedings incident thereto taken for or in connection with the November Resolutions were without legislative authority, illegal and improper, and, that any expenditure of funds authorized by the November Resolutions was illegal.

CCDC Director Matter. In December, 2001, the Complaint in Simmons was amended to add an additional matter involving the Director. According to a Report of the City Manager of the City, dated December 13, 2001, facts had come to light suggesting that the Director had a business relationship with the Padres pursuant to which the Director purchased at wholesale various items of Padres' merchandise for resale in the Director's retail business. The business relationship apparently existed during the period of time in which CCDC was involved in planning and development of the Project, approved execution of the MOU and approved extensions of the MOU. According to the Report, the Director was a CCDC director from May 1993 to 1999 and again from December 2000 to present, and his current term expires in May 2003. Based on these facts, the issue arose as to whether the Director possessed a disabling conflict of interest with regard to actions taken in furtherance of the MOU and that as a result the MOU and the Ballpark Project-related agreements were potentially void or voidable.

In December 2001, the Director and the Padres exchanged letters (the "Letter Exchange") pursuant to which the Director terminated the business relationship with the Padres and the Padres agreed not to enter into any further business relationship with the Director. Also in December, 2001, each of the governing bodies of the City, the Redevelopment Agency, the Authority and CCDC adopted resolutions reaffirming their commitment to the implementation of the MOU and reaffirmed so as to ratify their efficacy as of the date of their original making, and continuing through the present and thereafter, all prior City, Redevelopment Agency, CCDC, Authority and Padres' actions taken under, in furtherance or effectuation of, and reliance on the MOU pursuant to any agreement, or amendment to any agreement, between two or more Parties to the MOU. In addition, each of the City, the Redevelopment Agency, CCDC and the Padres entered into a Reaffirmation Agreement dated as of December 1, 2001 pursuant to which each entity reaffirmed its continuing intent to be bound by the MOU and agreements executed and delivered in furtherance or effectuation thereof or in reliance thereon and declared its intent that all rights and duties thereunder should extend from the respective effective times of the MOU and each such agreement, and run thereafter since that time until the present, and hereafter. (Collectively, the adoption of the foregoing resolutions and execution and delivery of the Reaffirmation Agreement, are herein called the "Restoration and Ratification Events.")

In December 2001, after publication of the City Report, the plaintiff in Simmons amended his Complaint to allege that the activities of the Director vis-à-vis the Padres constitute a conflict of interest and therefore voided all of the agreements which CCDC had approved and executed, and even some that they did not such as the Indenture, the Facility Lease, and the Site Lease, and as a consequence sought the same relief with respect to the Director matter as was sought in the Complaint for Simmons, described in the last sentence of the first paragraph under the caption "MOU and CCDC Director Matter Challenges" above. Specifically, the plaintiff alleged that the Director's votes on the Ballpark Project delivered benefits to the Padres so as to keep the Padres in San Diego, thereby ensuring that the Director would be able to continue selling Padres merchandise for profit.

Other Allegations. Finally in January 25, 2002, another person appeared and alleged (the "Other Allegations") that due to the changes in the Ancillary Development obligations of the Padres described above, additional compliance by the City was needed with respect to the California Environmental Quality Act ("CEQA") before the adoption of the November Resolutions, the actions authorized under the November Resolutions required voter approval under the MOU, and that by virtue of the insurance policy of the Bond Insurer the City is somehow obligated to independently repay the Bond Insurer should the 2002 Bonds be declared invalid, in violation of the MOU.

Actions Taken by Trial Court. The Plaintiff brought the Simmons action as a "taxpayer's action" and as a "validation action." In a taxpayer's action, the basis of a court's jurisdiction is the appearance of the parties (i.e. personal jurisdiction). In a validation action, the basis of a court's jurisdiction is in rem, that is having jurisdiction over the subject matter, and that in part is established by the newspaper publication of a summons in which there must be stated a specified date on or before which interested persons who wish to be heard must appear (a "return date"). The Trial Court's order directing the publication of the summons to perfect jurisdiction as a validation action provided that there be published a summons in which the return date was specified as February 15, 2002. The summons which was in fact published stated that the return date was February 8, 2002.

The City sought a trial date in the action, as a taxpayer's action, of January 28, 2002, to which the Plaintiff objected. The Plaintiff sought a trial by jury and sought more time to prepare. The Trial Court rejected both of these requests. On January 28, 2002, a trial was held on the merits. The Trial Court again denied the Plaintiff's motion for a continuance, the Plaintiff and his counsel left the courtroom and the City elected to proceed with the case to a judgment on the merits subject to "proving up" its position. After a trial, the Trial Court concluded, and entered a Judgment to the same effect on January 30, 2002 (the "Judgment"), that there was substantial evidence to support findings by the City Council that none of the actions complained of which are described in clauses (1) through (7) above constituted changes to the MOU which required voter approval, there was no evidence presented as to alleged previously unknown modifications to the MOU, and the ballot question for Proposition C did not limit the City's source of funds for its contribution to the Ballpark Project.

With respect to the CCDC Director Matter, the Trial Court found and so stated in the Judgment that the complaint failed to state violations of the Conflicts Law and Section 94 in that either the alleged conflicts were too remote to be such a conflict or the Restoration and Ratification Events cured any possible violations.

With regard to the Other Allegations, the Trial Court found and so stated in the Judgment that the alleged requirement to comply with CEQA was incorrect in that the November Resolutions and the documents approved therein involved financial transactions that had no direct or indirect environmental impact and that nothing contained in the November Resolutions or the agreements approved by the November Resolutions made a commitment to a specific project within the Ancillary Development that would currently require environmental review. Finally, the Trial Court found and so stated in the Judgment that there was no evidence in the record that the City Council had entered into or intends to enter into any agreement with the Bond Insurer imposing any independent obligation on the part of the City to make payments if the 2002 Bonds are declared invalid.

On February 8, 2002, the City obtained a Validation Action judgment from the Trial Court (the "Second Judgment"), in which the Trial Court concluded that the published summons with a February 8, 2002 return date complied with applicable law, provided due notice to all persons interested and validly established February 8, 2002 as the controlling return date; the Trial Court also incorporated by reference the Judgment entered on January 30, 2002, including its findings and conclusions in the Judgment.

On February 8, 2002, apparently before the City obtained the Second Judgment, another person (the "Simmons Supporter") sought to file with the Trial Court a pleading which contained allegations which were the same as those contained in the Complaint and the Other Allegations, but the Office of the Clerk of the Court rejected the filing based upon the existence of the Judgment (the "Rejected Pleading"). The City is not aware of any attempt made by the Simmons Supporter to obtain leave from the Trial Court to file the Rejected Pleading or other comparable relief.

The Judgment and the Second Judgment could be appealed to the Court of Appeals and if such an appeal were taken, the Court of Appeals may not decide the case until sometime in 2003, and any decisions could become final during 2003 if the California Supreme Court denies discretionary review. However, should the California Supreme Court grant discretionary review of any Court of Appeals decision, the final resolution by that

Court could take upwards of two more years after a final decision by a Court of Appeals. The final disposition could be even longer if the matter were sent back to a trial court for further proceedings and thereafter appealed again.

Qualified Co-Bond Counsel Opinion

Co-Bond Counsel have qualified their opinion as to the validity of the Ballpark Facility Lease and the 2002 Bonds, as well as to interest on the 2002 Bonds being exempt from federal and California personal income taxes, as being subject to the outcome of Skane, All Persons and Simmons including the facts and the consequences described in "CCDC Director Matter" above. Should a court conclude that the Ratifying Acts were not effective to ratify acts which themselves may have been tainted by the Member's presence, and conclude that the nature of the interests of the Member alleged by the plaintiffs in Skane were sufficient interests in prohibited contracts to render them void, then such decisions could adversely affect the validity of the Financing Documents and the 2002 Bonds. Should a court ultimately find for the plaintiffs in Skane, All Persons or Simmons, then such decision could adversely affect the validity of the Financing Documents and the 2002 Bonds and the completion of the Ballpark Project. If the 2002 Bonds were held to be invalid, then there would not be a municipal obligation upon which interest could be paid, as a consequence of which interest on the 2002 Bonds, theretofore or thereafter received, would not be exempt from federal and California personal income taxes. In such circumstances, investors who do not report the interest on the 2002 Bonds as taxable income could be responsible for the payment of federal and California personal income taxes as well as interest and penalties thereon.

Legal Analyses and Opinions of Orrick, Herrington & Sutcliffe LLP

Alleged Conflict of Interest of Member. Orrick has provided to the City a legal analysis and opinion to the effect that although there is no case directly on point and the matter is not entirely free from doubt, and accordingly there can be no assurance that a particular court would not hold otherwise, based on and subject to all the analyses, assumptions, limitations and qualifications referred to therein, as of the date thereof, it is of the opinion that, if the matter were properly raised, briefed and presented to a court of last resort of competent jurisdiction, the court would hold that the Ratifying Acts were sufficient to avoid a successful challenge asserting that the Financing Documents were void or voidable under the Conflicts Law, and San Diego City Charter section 94 by virtue of any action taken by the Member. In this regard, Orrick states that it is aware of no conduct, prior events or any other circumstances (other than those specifically discussed therein) that potentially could constitute a conflict of interest, or the appearance of a conflict of interest, with respect to the City officials involved in the approval or authorization of the Project, the 2002 Bonds, the Financing Documents or the Ratifying Acts, and in this regard, it has relied upon the representation of the City, and therefore assumed, without investigation, that no such conflict of interest existed during any of the periods of time relevant therein with respect to any such City officials. The opinion addresses the validity of the Financing Documents under the Conflicts Law, and San Diego City Charter section 94. It does not address the outcome of the pending litigation or predict the context in which the opinions addressed therein may be presented to a court. Since the opinion only addresses the consequences of the actions taken by the City Council and the Redevelopment Agency in adopting the Ratification Acts as a means of preserving the validity of the Financing Documents in the face of the alleged conduct by the Member, Orrick does not address therein how a particular court would dispose of the litigation.

Orrick noted that a court's decisions regarding matters discussed in the legal analysis and opinion would be based on the court's own analysis and interpretation of the factual evidence before the court and of applicable legal principles. Furthermore, it is the understanding of the City and Orrick that the legal analysis and opinion provided is not intended to be a guaranty as to what the court would actually hold, but analysis and opinion as to the decision the court should reach if the issues as to the Conflicts Law and Section 94 were properly raised, presented and argued to it and the court followed what Orrick believes to be the applicable legal principles. A copy of the Orrick legal analyses and opinions relating to the issues raised in the Ballpark Litigation is attached as **APPENDIX F-1—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSIS AND OPINION RELATING TO LITIGATION INVOLVING A FORMER MEMBER OF THE SAN DIEGO CITY COUNCIL** to this Offering Document.

Simmons. Orrick has provided to the Authority and the City a legal analysis and opinion to the effect that although there is no reported appellate decision directly on point and the matter is not entirely free from doubt, and accordingly there can be no assurance that a particular court would not hold otherwise based on and subject to all of the analysis in the opinion and the assumptions, limitations and qualifications referred to in the

opinion, including assumptions regarding factual matters, and the limitation of the opinion to substantive consideration of the effectiveness of the November Resolutions, and the Restoration and Ratification Events, and the consequences of the Other Allegations, and noting it is not considering or analyzing any procedural issues or certain jurisdictional issues, or issued related to the Rejected Pleading or the consequences of its possible subsequent filing with the Trial Court as of the date of the legal analysis, and opinion, it is of the opinion that, if the matter were properly raised, briefed and presented to a court of last resort of competent jurisdiction, the court would hold that the November Resolutions and the Restoration and Ratification Events are effective, and therefore the plaintiff does not prevail on any of the causes of action stated in the Complaint, and that the person asserting the allegations under "Other Allegations" above does not prevail on those allegations. Orrick stated in the opinion that it was not considering or analyzing any procedural issues raised in Simmons such as a right to jury trial, the request by Plaintiff for which was denied, the request by the Plaintiff for a continuance, which request was denied, or the request by the Plaintiff to engage in discovery, which request was denied, or issues related to the perfection of jurisdiction as a validation action, including a discrepancy in the return date ordered by the Trial Court and the return date actually appearing in the published summons. Orrick also noted that it had not undertaken to verify independently, and had assumed, the accuracy of all factual matters with respect to Simmons including factual matters contained in the administrative record submitted by the City and accepted into evidence by the Trial Court and had relied exclusively on the Judgment as to factual findings. Further, Orrick has assumed that in the event the Simmons Supporter is able to have the Rejected Pleading reinstated in Simmons, in any trial or other disposition of the issues raised in the Rejected Pleading, the Trial Court will make the same findings as it did in the Judgment and Second Judgment or such findings are otherwise determined to be lawfully binding on the Simmons Supporter. Orrick expressed no opinion as to the outcome of the case if the facts and statements contained in the pleadings were amended or modified in the Trial Court or on or after appeal.

Orrick noted that a court's decision regarding matters discussed in the legal analysis and opinion would be based on the court's own analysis and interpretation of the factual evidence before the court and of applicable legal principles. Furthermore, it is the understanding of the City and Orrick that the legal analysis and opinion provided is not intended to be a guaranty as to what a court would actually hold, but an opinion as to the decision the court should reach if the issues discussed in the opinion were properly raised, presented and argued to it and the court followed what Orrick believed to be applicable legal principles. A copy of the Orrick legal analysis and opinions relating to the issues raised in Simmons is attached as **APPENDIX F-2—ORRICK, HERRINGTON & SUTCLIFFE LLP LEGAL ANALYSIS AND OPINION RELATING TO THE ISSUES RAISED IN SIMMONS V. CITY OF SAN DIEGO, ET AL.**

Litigation Potentially Adversely Affecting the General Funds of the City

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

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

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

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

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

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

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

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

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

The City believes that its defense costs— both retroactive to the exhaustion of the self-insured retention of $1.0 million and prospectively through appeal— will be paid in large part by one of the City's insurers. The City may have some coverage for damages under its policies of insurance but the amount and scope of the coverage is not presently known.

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

Because there is no final judgment at this time, given the court's partial grant of the City's new trial motion, the City has not included in its budget for the 2001-2002 fiscal year any moneys for the payment of any judgment in this case.

On November 7, 2001, the plaintiff filed a motion with the trial court asking that the City deposit in trust into the court, the full judgment amount of $92.4 million which includes some post-judgment interest, pending the City's appeal.

At the hearing on the motion for deposit, the court denied the plaintiff's motion. Litigation counsel has advised the City that if the plaintiff is to seek discretionary review of the denial of the motion for deposit, the plaintiff must do so within approximately 60 days after entry of the order which was entered on November 19, 2001. As of the date hereof, no such discretionary review has been sought.

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

Other Litigation

The plaintiffs in C.L. Trustees v. Lockheed Martin, et al., filed a class action lawsuit against Lockheed Martin, IMS ("Lockheed"), the City (which was named but not served as a defendant in the original complaint), and others regarding its traffic light enforcement program. The first amended complaint failed to name the City as a defendant. There can be no assurance that the complaint will not be further amended or that any other action will not be taken to include the City as a defendant in the future.

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

RATINGS

Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services have assigned their municipal bond ratings of "AAA," "Aaa," and "AAA," respectively, to the 2002 Bonds with the understanding that, upon delivery of the 2002 Bonds, the Financial Guaranty Insurance Policy will be delivered by the Bond Insurer. These ratings reflect these rating agencies' views of the creditworthiness of the Bond Insurer. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such respective rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Under its Continuing Disclosure Agreement (see **APPENDIX G—FORM OF CONTINUING DISCLOSURE AGREEMENT**), the City has agreed to give notice of rating changes as an enumerated event, if material, in the manner described in **"CONTINUING DISCLOSURE."** Any downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the 2002 Bonds.

PLAN OF DISTRIBUTION

The 2002 Bonds offered hereby are to be purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"). The Underwriter has agreed, subject to certain terms and conditions set forth in the Contract of Purchase, dated February 14, 2002, by and between the Underwriter, the Authority and the City, to purchase the 2002 Bonds for a purchase price of $167,614,843 (being the principal amount of the 2002 Bonds less an underwriter's discount of $2,070,157). In connection with certain agreements entered into prior to the City's selection of Merrill Lynch, Pierce, Fenner & Smith Incorporated as underwriter for the 2002 Bonds, it is anticipated that the Underwriter will make certain payments to Morgan Stanley & Co. Incorporated, Redwood Securities Group, Inc., and I.C. Rideau, Lyons & Co., Inc. in connection with the issuance of the 2002 Bonds. Such payments, if made, will be contingent upon the issuance of the 2002 Bonds.

In addition, the Underwriter has agreed that any sale or transfer of the 2002 Bonds will satisfy the following conditions (see **APPENDIX J – FORM OF INVESTOR REPRESENTATION LETTER** for additional description of such conditions):

(a) Each buyer or transferee (including each beneficial owner under a trust or custodial arrangement) will be a "qualified institutional buyer" within the meaning of Rule 144A of the Securities Act of 1933, as amended (the "Securities Act") (provided, however, that notwithstanding the definition of "qualified institutional buyer" provided in the Securities Act, each qualified institutional buyer of the 2002 Bonds must have an audited net worth of at least $25 million).

(b) The 2002 Bonds will be delivered to each buyer or transferee in certificated form and in minimum denominations of $1 million and integral multiples of $5,000 in excess thereof.

(c) The resale or transfer will not cause the number of registered owners of the 2002 Bonds to exceed 32, as evidenced by the certificate register for the 2002 Bonds maintained by the Trustee and each

sale or transfer, in and of itself, will not cause the number of beneficial owners of the 2002 Bonds to exceed 32, assuming that such number was 32 or less before giving effect to such resale or transfer.

(d) The seller or transferee will cause each buyer or transferee to execute and deliver an Investor Representation Letter, in substantially the same form as **APPENDIX J—FORM OF INVESTOR REPRESENTATION LETTER.**

(e) The right of the Underwriter to call away such 2002 Bonds (as described in (g) below) will apply to each buyer or transferee.

(f) Each seller or transferor will deliver to the Trustee a Notice of Sale or Transfer, substantially in the form attached as Exhibit 1 to **APPENDIX J**, and, if the buyer or transferee is other than the Underwriter, will also deliver to the Trustee a Notice Regarding Right of First Refusal of Merrill Lynch and an Investor Representation Letter for such buyer or transferee, and the seller or transferor will receive confirmation from the Trustee that the Trustee is prepared to effect the sale or transfer contemplated by such Notice of Sale or Transfer, in accordance with the Indenture.

(g) In the event of an opinion, order, judgment or decree of a court of last resort to the effect that the 2002 Bonds, the Indenture or the Ballpark Facility Lease is void or invalid (the "Final Order"), entered in any of the Ballpark Litigation (as defined and described in "**LITIGATION – Litigation Involving the Ballpark Project**"), the Underwriter will have the right and option (at the direction of the City, with funds provided by the City) to call away all of the outstanding 2002 Bonds from all then-current registered owners, on a date (the "Call Date") that is not more than 270 days after the date of entry of the Final Order, on not less than 30 days nor more than 60 days notice by the Underwriter, and at a price equal to the principal amount of the 2002 Bonds to be called away, together with accrued interest thereon to the Call Date (but no premium). See **APPENDIX J – FORM OF INVESTOR REPRESENTATION LETTER** for additional information regarding the Underwriters optional call right.

If (i) within 240 days after the date of any Final Order, the Underwriter does not mail notice of its intention to call away the 2002 Bonds (as described in (g) above) or (ii) an unqualified Opinion of Counsel (as defined in the Indenture) dated the Closing Date (as defined in the Indenture) of the 2002 Bonds, addressed to the Authority and the City (with a reliance letter to the Underwriter), in substantially the form attached to the Indenture as Exhibit D, is delivered to the Authority, the City, the Underwriter and the Trustee, then, the Trustee will be requested by the Underwriter (with respect to (i) above) or by the Authority (with respect to (ii) above) to recover from registered owners all certificates evidencing the 2002 Bonds and, when so recovered, the Underwriter or the Authority, as appropriate, shall cause the Trustee to deliver a new certificate or certificates evidencing the 2002 Bonds, bearing new CUSIP numbers, to the Depository Trust Company, and thereafter transfers of the 2002 Bonds will be made by book-entry, as described more fully in **APPENDIX E – BOOK ENTRY**, and sold in minimum denominations of $5,000 and integral multiples of $5,000 in excess thereof to any number of investors of any type. The sale or transfer conditions set forth in (a) through (g) above shall lapse and shall be of no further force and effect upon such a conversion of the 2002 Bonds to book-entry. See **APPENDIX J – FORM OF INVESTOR REPRESENTATION LETTER.**

Right of First Refusal In Favor of the Underwriter

The Underwriter also has the right of first refusal to purchase the 2002 Bonds from any investor, on the same terms and conditions as any bona fide offer made to such investor, and such right will continue for a period of ten business days after the Underwriter receives written notice from such investor of the proposed terms of sale or transfer. If not exercised by the Underwriter within such ten business day period, by notice thereof to the investor, the right lapses as to that transaction, but would be applicable to any subsequent transaction by that investor (if not sold in accordance with the terms and conditions of the bona fide offer of which the Underwriter was notified) and any transferee. If the Underwriter does not accept the offer, the investor will cause the Underwriter to issue a Notice Regarding Right of First Refusal of Merrill Lynch, substantially in the form attached as Exhibit 2 to **APPENDIX J**, informing the Trustee that the Underwriter has declined such offer. See **APPENDIX J – FORM OF INVESTOR REPRESENTATION LETTER.**

FINANCIAL STATEMENTS

The financial statements as of June 30, 2001, excerpts of which are included in this Offering Document as **APPENDIX B**, have been audited by Calderon, Jaham & Osborn, an accountancy corporation and independent accountants, as stated in their report appearing herein.

MISCELLANEOUS

Co-Financial Advisors

Kitahata & Company, San Francisco, California, A.G. Edwards & Sons, Inc., Cleveland, Ohio, and Municipal Capital Management, Inc., Los Angeles, California (the "Co-Financial Advisors"), have entered into a contract to serve as Co-Financial Advisors to the City with respect to the sale of the 2002 Bonds. The Co-Financial Advisors have assisted the Authority and the City in various matters relating to the planning, structuring and issuance of the 2002 Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or assumption of responsibility for the accuracy, completeness or fairness of the information contained in this Offering Document. Municipal Capital Management, Inc. and Kitahata & Company are independent financial advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Co-Financial Advisors will receive a fee for the above services payable from proceeds of the 2002 Bonds.

Additional Information

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

The City of San Diego
City Clerk
202 "C" Street, MS 2A
San Diego, California 92101
Attention: City Clerk

Execution and Delivery

The execution and delivery of this Offering Document has been duly authorized by the Authority.

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

By: /s/ JOSEPH W. CRAVER
Joseph W. Craver, *Chairman*

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APPENDIX A

THE CITY OF SAN DIEGO

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

INTRODUCTION

With a total population of approximately 1.3 million in 2001, and a land area of 330 square miles, the City of San Diego (the "City") is the seventh largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

Based on estimates published by the California Department of Finance, (the "Department"), the City's population grew by 7.5% between 1992 and 2001, for an average increase of approximately 8,700 annually. This rate of growth is less than previously published growth rates for the City, and the source of both is the Department. In September 2001, the Department published revised population estimates for the years 1991 through 1999, the effects of which were to increase the population estimate for the City in the year 1991 and to reduce the annual rates of growth in subsequent years.

A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

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

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

The economies of the State of California and the United States recently have been experiencing substantial declines in the rates of growth, and growing unemployment. In anticipation of a slowing local economy, the City has reduced the rates of growth for its General Fund revenues in the Fiscal Year 2002 budget as compared to the Fiscal Year 2001 budget. Due to the slowing economic conditions in the state and the nation, and the negative economic impacts associated with the attacks on New York, NY and Washington, D.C./Arlington, VA (the "Attacks"), as well as any related military response, no assurance can be given that the City will not experience declining economic conditions in the future.

Population

As set forth in Table 1 below, between January 1, 1992, and January 1, 2001, the City's population has increased by 87,100 (or by approximately 8,700 new residents annually in the ten year period).

Table 1
POPULATION GROWTH[1]
Calendar Years 1992 through 2001

Calendar Year[2]	City of San Diego	Annual Growth Rate	County of San Diego	Annual Growth Rate	State of California	Annual Growth Rate
1992	1,163,600	1.0%	2,628,600	1.5%	31,478,000	1.7%
1993	1,171,400	0.7	2,646,600	0.7	31,858,000	1.2
1994	1,168,800	-0.2	2,653,100	0.2	32,075,000	0.7
1995	1,167,700	-0.1	2,657,800	0.2	32,223,000	0.5
1996	1,167,100	-0.1	2,662,200	0.2	32,396,000	0.5
1997	1,178,000	0.9	2,692,800	1.1	32,743,000	1.1
1998	1,195,100	1.5	2,741,900	1.8	33,186,000	1.4
1999	1,218,300	1.9	2,789,600	1.7	33,660,000	1.4
2000	1,234,300	1.3	2,835,400	1.6	34,207,000	1.6
2001	1,250,700	1.3	2,883,600	1.7	34,818,000	1.8

(1) In September 2001, the Department published revised population estimates for the years 1991 through 1999, the effects of which were to increase population estimates for the City, the County, and the State of California in the year 1991 and to reduce the annual rates of growth in subsequent years.
(2) As of January 1 of the calendar year.

Source: State of California, Department of Finance

As indicated in the following table, attendance in kindergarten through grade 12 in the San Diego Unified School District grew moderately during the 1990's. The San Diego Unified School District's boundaries include 85% of the City of San Diego's land area.

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT[1]
School Year 1996-1997 through 2000-2001

School Year	Enrollment
1996-1997	134,740
1997-1998	137,235
1998-1999	138,974
1999-2000	142,021
2000-2001	143,244

(1) Enrollment is defined as the number of K-12 students enrolled on a survey date in early October of the school year.

Source: San Diego Unified School District, Pupil Accounting

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 2001 averaged 3.2%, up from a rate of 3.0% during calendar year 2000. The City's 2001 unemployment rate was below both the national rate of 4.8% and the State's rate of 5.2%. During 2001, average employment was up by approximately 11,200 from 2000 levels. These data reflect preliminary estimates, which will be revised at a future date.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF CITY OF SAN DIEGO RESIDENT LABOR FORCE
Calendar Years 1997 through 2001

	1997	1998	1999	2000[1]	2001[1]
Civilian Labor Force					
City of San Diego					
Employed	562,400	583,610	603,210	624,560	635,800
Unemployed	25,400	21,670	19,580	19,630	20,900
Unemployment Rates					
City	4.3%	3.6%	3.1%	3.0%	3.2%
County	4.2	3.5	3.1	3.0	3.1
California	6.3	5.9	5.2	4.9	5.2
United States	5.0	4.5	4.2	4.0	4.8

(1) Preliminary, subject to future revision.

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

Table 4 provides the California Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County during the period 1997 to 2001. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 175,700 new jobs during this period. During calendar year 2001 alone, San Diego County added 33,400 new jobs.

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

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

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

(1) Includes trucking and transit services, telephone and broadcast/cables services, and gas and electric services.
(2) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department

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

Several key industry categories exhibited strong employment growth in 2001. The Services sector (+16,200) alone represented approximately half of total employment growth for the County. Within the Services sector, Business Services and Engineering & Management continued to lead other components, with increases of 3,500 and 4,000 respectively. It should be noted that the Business Services and Engineering & Management components include many of the City's high tech employers. Other key employment growth sectors during 2001 included Construction (+2,900), Wholesale and Retail Trade (+5,000), and Government (+7,700).

The increase in the Government sector, which accounted for 17% of the total nonagricultural wage and salary employment in the County, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments.

Taxable Sales

Taxable transactions at retail and other outlets in the City during calendar year 2000, the most recent year for which data are available from the California State Board of Equalization, totaled approximately $16.1 billion, up 11.1% from 1999, and up 42.6% from 1996. Table 5 provides annual sales information by type of outlet for the period 1996 through 2000.

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

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

Source: California State Board of Equalization

Tourism

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military. As shown in Table 6, visitor spending in the County totaled $5.23 billion in 2000, up 29.1% from 1996 and up 7.1% from 1999. According to the San Diego Convention and Visitors Bureau, through the eleven months ended November 30, 2001, visitor spending was down 1.3% from the same period in 2000. This decline reflects the impact of the Attacks; according to the San Diego Convention and Visitors Bureau, through the eight months ended August 31, 2001, visitor spending was up 4.1% over the same period in 2000.

Table 6
SAN DIEGO COUNTY
TOTAL VISITOR SPENDING[1]
Calendar Years 1996 through 2000
(in billions)

Calendar Year	Amount
1996	$4.05
1997	4.37
1998	4.70
1999	4.88
2000	5.23

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

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the City's transient occupancy tax ("TOT") revenues have grown approximately 46% between Fiscal Year 1997 and Fiscal Year 2001. Due to the slowing economy, prior to the Attacks, for the first two months of the current fiscal year ended August 31, 2001, TOT revenues were down by approximately 6% from the same period in the prior fiscal year. Due to the Attacks and the continuing downturn in

the economy, through November 30, 2001, TOT revenues were down by approximately 13.5% from the same five months in the prior fiscal year. It is anticipated that the City's Fiscal Year 2002 budget projection for TOT revenues will be revised in February 2002 to reflect the current downturn in the local economy. However, at present, the magnitude of the TOT revision is unknown.

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

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

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

Source: City Auditor & Comptroller

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

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

The City also hosted the America's Cup in 1992 and 1995, and the Super Bowl and World Series in 1998. In addition, the City was the site for the Republican National Convention held in August 1996. The Super Bowl is scheduled to return to San Diego in 2003.

Associated with the growth in tourism has been an increase in traffic through San Diego's Lindbergh Field International Airport. According to the San Diego Unified Port District, in 2000 there were 7.9 million arrivals, up by approximately 3.4% from 1999. In 1998, the San Diego Unified Port District completed a $238 million expansion to the airport. Features of this expansion include an expanded terminal, a new pedestrian bridge, and improved roadways and parking lots.

In September 2001, the San Diego Convention Center expansion was completed, doubling the size of the existing facility to 2.6 million total gross square feet. The Convention Center has had a significant economic impact on the region since it opened in 1989.

Military

The military and related defense spending is the second most important component of the San Diego economy, with only manufacturing making a larger contribution to San Diego County's Gross Regional

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

According to the San Diego Chamber of Commerce, defense related expenditures (active duty payroll, retirement benefits and civilian contract awards) in the County during 2000 totaled $9.8 billion, up from $9.5 billion in 1999. With a total military and civilian payroll of $3.72 billion in the federal fiscal year 2000, San Diego continued to lead all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled $2.9 billion during the federal fiscal year 2000, up 17.4% from the previous year. The Department of Defense also spent $1.3 billion on base operation expenses, $1.04 billion on retirement benefits, and another $0.85 billion on various classified contracts, subcontracts, and other contracts of less than $1,000 each. The San Diego Chamber of Commerce estimates that as of June 1, 2000, total active duty military personnel in the County totaled 103,127 and the total civilian employment was 21,200.

International Trade

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

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

Calendar Year	Total Exports
1995	$5.9
1996	6.7
1997	7.8
1998	8.6
1999	9.0

Source: International Trade Administration

Major Employers

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

Table 9
CITY OF SAN DIEGO
MAJOR EMPLOYERS[1]
As of January 1, 2001

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

(1) Does not include various major public employers, including the City, the County, and the federal government with a combined total county employment of 110,000 as of January 1, 2001.

Source: Greater San Diego Chamber of Commerce and City of San Diego

Effective Buying Income

Table 10 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1996 through 2000.

Table 10
PER CAPITA EFFECTIVE BUYING INCOME[1]
Calendar Years 1996 through 2000

Calendar Year	City of San Diego	County of San Diego	State of California	United States
1996	15,139	14,975	15,068	15,555
1997	15,804	15,618	15,797	16,281
1998	16,291	16,101	16,299	16,895
1999	17,443	17,270	17,245	17,691
2000	19,238	19,498	19,081	18,426

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

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

Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1997 through 2001. The valuation of non-residential permits includes both private, commercial construction and publicly funded, non-tax generating projects.

Table 11
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1997 through 2001

	1997	1998	1999	2000	2001
Valuation (in thousands)					
Residential	$541,443	$890,476	$857,747	$1,185,999	$1,181,385
Nonresidential	478,887	576,170	783,106	960,479	693,687
Total	$1,020,330	$1,466,646	$1,640,853	$2,146,478	$1,875,072
Number of New Dwelling Units:					
Single Family	2,197	3,032	2,612	2,084	2,075
Multiple Family	1,014	3,018	2,856	5,662	3,829
Total	3,211	6,050	5,468	7,746	5,904

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

Business Development Program

The City actively supports economic development and job creation activities. A key element of these activities is the Business Expansion and Retention Program (BEAR Program), a proactive effort on the part of

the City to work directly with businesses to retain local firms and help them expand their investment and job growth. This program was created in 1995 by integrating the City's existing business development activities to provide centralized coordination and data management, and to expand operational relationships with partnership agencies such as the Economic Development Corporation and Sempra Energy. BEAR Program components include Business Incentives, Targeted Assistance, sales and use tax rebates through the Business Cooperation Program, Business Outreach, and Business Finance.

A further element of the City's overall business development effort has focused on streamlining the permitting process and, when feasible, eliminating or reducing fees and permits. A major component of this streamlining effort has been the creation of a "one-stop" permitting center which has in most cases reduced development permit processing time by one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process.

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

Transportation

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

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

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

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

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. Through Fiscal Year 2001, the City has been allocated approximately $245 million in Proposition A funds and expects to receive an additional $26.8 million for Fiscal Year 2002.

State Propositions 108/111/116, voter approved in June 1990, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program. Through Fiscal Year 2001, the City has received approximately $92.8 million in Proposition 111 funds and expects to receive an additional $7.6 million for Fiscal Year 2002. Revenues from this source supplement the City's street maintenance and resurfacing program and other street related services, including traffic light and signal maintenance, median maintenance and traffic engineering to ensure efficient traffic flow.

MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION

Governmental Organization

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

Accounting Practices

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

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities which are audited by an independent certified public accountant. The annual audit report is generally available about 180 days after the June 30 close of each fiscal year. The City's most recent general purpose financial statements for the Fiscal Year ended June 30, 2000, were audited by Calderon, Jaham & Osborn, CPAs.

Budgetary Process

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

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

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

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

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

In addition, a new budget review function has been created within the office of the City Auditor and Comptroller to provide independent budget analysis to the Mayor and members of the City Council. The

purpose of this new function, created at the request of the Rules, Finance and Intergovernmental Relations Committee of the City Council, is to help the Mayor and City Council gain an in-depth understanding of City departments, programs, and activities in order to set effective policies and priorities for the City. It is anticipated that the Rules, Finance and Intergovernmental Relations Committee of the City Council will select specific City departments and programs to be reviewed on an ongoing basis. Ultimately, when completed, departmental reviews will be used to guide the City's future priorities.

Restructuring

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

Five Year Summary of Financial Results

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

Table 12
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years 1997 through 2001
(in thousands)

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

Source: City of San Diego Comprehensive Annual Financial Report

Table 13
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years 1997 through 2001 (in thousands)

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

(1) In connection with restructuring in Fiscal Year 1998, expenditures for engineering permit functions of the General Fund were shifted to the Enterprise Fund component of Development Services.

Source: City of San Diego Comprehensive Annual Financial Report

The following table presents the operating budget summary for Fiscal Years 2000 through 2002.

Table 14
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY
Fiscal Years 2000 - 2002[1]

	Actual Results in A Budget Format Fiscal Year 2000	Adopted Budget Fiscal Year 2001	Adopted Budget Fiscal Year 2002
REVENUE SOURCES:			
Property Tax	$144,072,407	$159,873,991	$169,443,711
Sales Tax [2]	130,239,960	139,488,202	141,571,382
Transient Occupancy Tax	50,922,148	55,307,161	61,920,984
Property Transfer Tax	5,289,675	5,188,876	5,613,652
Licenses and Permits	20,650,202	19,268,771	21,207,271
Fines, Forfeitures and Penalties	28,281,481	26,269,059	29,728,069
Interest Earnings	11,120,141	4,900,000	5,900,000
Franchises	36,597,204	37,212,875	45,518,854
Other Rents and Concessions	24,837,390	23,791,594	26,592,805
State Motor Vehicle License Fees	61,256,139	64,759,082	70,310,886
Other Revenue from Agencies [3]	25,866,530	13,038,054	9,063,054
Charges for Current Services	75,311,770	63,806,153	67,291,812
Transfers from Other Funds	37,381,766	47,041,725	40,624,985
Other Revenue	707,863	957,968	872,968
Prior Year Fund Balance	15,000,000	15,750,000	31,700,000
Total General Fund Revenues	$667,534,676	$676,653,511	$727,360,433
EXPENDITURES:			
Public Safety	$341,877,010	$358,025,368	$379,210,941
Parks and Recreation	53,525493	59,495,101	63,667,045
Sanitation and Health	37,391,808	38,704,285	41,929,081
Transportation	27,432,590	30,090,228	28,301,397
Library	24,211,364	27,675,365	32,758,024
Neighborhood Services	24,316,980	27,672,563	30,877,221
Operations Support	95,523,665	97,960,062	107,582,988
Internal Support/Management	35,677,809	36,733,138	43,033,736
Total General Fund Expenditures	$639,956,719	$676,356,110	$727,360,433

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

(2) Includes Proposition 172 Safety Sales Tax.

(3) Includes approximately $12.93 million in Tobacco Settlement Revenues (TSRs) received by the City during Fiscal Year 2000, of which $2.25 million was budgeted for General Fund purposes during Fiscal Year 2000 and approximately $1.6 million was allocated to unappropriated reserves for Fiscal Year 2000. Of the approximately $9.1 million remaining TSRs received during Fiscal Year 2000, approximately $5.75 million is included in the Prior Year Fund Balance amount for Fiscal Year 2001, with the remaining $3.35 million to be allocated to unappropriated reserves for Fiscal Year 2001. TSRs received by the City during Fiscal Year 2001 are budgeted in Fiscal Year 2002.

Source: City of San Diego, Financial Management Department

Fiscal Year 2000

The actual Total General Fund Revenues, presented in a budget format equivalent to Table 14, for Fiscal Year 2000 equaled $667.5 million, $65.8 million or 10.9% above the actual results for Fiscal Year 1999. The following table shows the change in actual major revenue sources for Fiscal Year 2000 over Fiscal Year 1999.

Change in Major Revenue Sources
Actual Results Fiscal Year 2000 over Fiscal Year 1999[1]

• Property Tax	+	10.4%
• Sales Tax	+	7.3%
• Transient Occupancy Tax	+	5.1%
• Motor Vehicle License Fees	+	12.0%

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

Source: City of San Diego, Financial Management Department

Fiscal Year 2001

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

Change in Major Revenue Sources
Actual Results Fiscal Year 2001 over Fiscal Year 2000[1]

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

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

Source: City of San Diego, Financial Management Department

Actual Total General Fund Expenditures, presented in a budget format equivalent to Table 14, for Fiscal Year 2001 equaled $686,234,635, an increase of $46.3 million or 7.2% more than the actual results for Fiscal Year 2000, and $9.9 million or 1.5% more than the adopted budget for Fiscal Year 2001.

Fiscal Year 2002 (Adopted Budget)

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

Projected Change in Major Revenue Sources
Fiscal Year 2002 Budget Growth Rates[1]

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

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

Source: City of San Diego, Financial Management Department

Although the Fiscal Year 2002 adopted budget anticipated slower economic growth than in prior years, aggregate revenue collections to date have come in below budgeted levels due to the Attacks and the recent economic downturn. Due to the slowing economy, prior to the Attacks, for the first two months of the current fiscal year ended August 31, 2001, TOT revenues were down by approximately 6% from the same period in the prior fiscal year. Due to the Attacks and the continuing downturn in the economy, through November 30, 2001, TOT revenues were down by approximately 13.5% from the same five months in the prior fiscal year. Sales Tax revenues to the City for the first six months (ended December 31, 2001) of the current fiscal year were approximately 1% above the Sales Tax revenues received for the same period in the prior fiscal year. Through the first six apportionments (ended January 16, 2002) of Fiscal Year 2002, Property Tax revenues received by the City were up approximately 7% from the same period in the prior fiscal year. Motor Vehicle License Fee revenues to the City for the first six months (ended December 31, 2001) of the current fiscal year were approximately 5% above the Motor Vehicle License Fee revenues received for the same period of the prior fiscal year. It is anticipated that the City Manager will present a report on the City's Fiscal Year 2002 financial status to the City Council during February 2002. This report will include an update on revenues and the impact of current economic conditions.

The Fiscal Year 2002 adopted budget includes $727.4 million in Total General Fund Expenditures. This represents an increase of $51.0 million or 7.5% from the prior year's adopted budget. Under the adopted budget, Public Safety spending would increase to $379.2 million, an increase of $21.2 million or 5.9% from the previous budget. This increased public safety spending would provide for 20 more police officers, 3.5 new lifeguards, and an additional fire recruit academy. The budget would also include funding for 27.5 new positions in the Library Department to extend hours at several branch libraries throughout the City.

Vehicle License Fee Reduction

The State's vehicle license fee ("VLF") is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars, and taxicabs are all subject to the VLF. VLF revenues are distributed by the State to cities and counties. Approximately three-fourths of VLF revenues (one-half to cities and one-half to counties) can be used for any lawful purpose, with the remaining funds allocated to counties to pay for "realignment" health and social services programs. Under the State of California's Vehicle License Fee Law, beginning January 1, 1999, the vehicle license fee was permanently reduced from 2.0% to 1.5%. The law also provided for a one-year reduction to 1.3% for vehicles with a payment due date during calendar year 2000. Subsequently, the law was amended to continue the rate at 1.3% through calendar year 2002 and provide for an additional reduction to 0.65% (also through calendar year 2002), which will be returned to taxpayers in the form of a rebate. Beginning in 2003, the vehicle license fee will be reduced on a permanent basis to 0.65%.

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

The City received approximately $67.2 million in VLF revenues for the Fiscal Year ending June 30, 2001, a 9.7% increase over the prior year's actual receipts. For the Fiscal Year 2002 budget, VLF revenues are projected at approximately $70.3 million. VLF fees represent approximately 9.7% of the Fiscal Year 2002 Total General Fund Revenues and are the third largest revenue source (after property taxes and sales taxes).

Energy Conservation and Management

California is currently in the midst of an unprecedented energy crisis that is causing significant economic impacts for the City of San Diego, its residents and businesses. The nature of the crisis is highly volatile and changes every day. This section discusses the impact of the current energy situation on the City of San Diego's revenues and expenditures as well as the potential effects to the economy.

The current energy problem was initiated by a 1996 state deregulation plan developed by the California State Legislature. The plan deregulated the wholesale price of electricity but not the retail price based on the assumption that wholesale prices would remain low. Additionally, the California Public Utilities Commission adopted rules preventing investor-owned utilities such as San Diego Gas and Electric (SDG&E) from entering into long-term agreements to purchase electricity at fixed rates, forcing them to purchase electricity on what is now a highly volatile spot market. As a result, in calendar years 2000 and 2001, Californians paid significantly more for electricity than the year before and the State's major utility companies were brought to the verge of, and/or filed for bankruptcy protection.

The dramatic increase in energy costs has had an impact on the City's expenditures for energy. In Fiscal Year 2000, the City's General Fund paid approximately $5.1 million for energy (electricity and natural gas). In Fiscal Year 2001, the General Fund budget for energy totaled of $6.4 million. Due to the significant increase in energy costs since June 2000, actual energy expenditures for Fiscal Year 2001 were $9.3 million, or $2.9 million more than the budgeted amount.

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

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

The California Department of Water Resources (the "DWR") has been purchasing power on behalf of a number of utilities, including SDG&E, and under recently enacted legislation is deemed to be selling the same to the customers of the utilities. The City believes that SDG&E will continue to pay franchise fees based upon the revenue from the sale of DWR power to SDG&E customers and expects some clarification on this issue from the California Public Utilities Commission.

In February 2001, the City Manager established a centralized Energy Conservation and Management Program. The goal of the program is to achieve energy independence for the City. The Energy Conservation and Management Program will develop and oversee an energy conservation plan for City facilities, identify incentives to encourage conservation in new private development, develop a public education program, study the feasibility of forming a municipal utility district in cooperation with the County of San Diego, analyze the City's ability to employ renewable energy sources, and review and advocate energy legislation that benefits the City of San Diego and the community.

In the short term, State expenditures for purchases of energy and or energy production and transmission facilities will reduce State funds available for other programs, including transfers to local governments. In Fiscal Year 2001, the City received $4.3 million in transfers from the State for local fiscal relief. The City's share of this funding was originally estimated at $5.0 million for Fiscal Year 2002. However, due to the State's increased

energy expenditures, the City did not include any such transfers from the State in its budget for Fiscal Year 2002. Ultimately, the State eliminated transfers to local governments for fiscal relief from its 2002 budget.

Higher energy costs for businesses and households could also reduce income and therefore tax payments to the State and the City. Over the longer term, increased energy costs on individuals and businesses statewide, and the effect of such increased costs on the prices of other goods, services, transportation and housing, may reduce the attractiveness of the State for future investment and even induce business and individuals to relocate elsewhere.

Property Taxes

The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, generally within a couple of weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County and/or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City. In the event of such an occurrence, General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits as discussed under the section **"LIMITATIONS ON TAXES AND APPROPRIATIONS."**

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

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

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

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

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

Table 15 presents assessed valuation within the City for each of the last ten fiscal years ending June 30, 2002.

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

Fiscal Year Ending June 30	Secured Property	Unsecured Property	Gross Total	Less Exemptions [2]	Net Assessed Valuations [3]	Annual Assessed Valuation % Change
1993	$59,787,900	$4,059,854	$63,847,754	$2,099,768	$61,747,986	3.40
1994	60,586,129	4,218,892	64,805,021	2,360,741	62,444,280	1.13
1995	60,939,995	4,371,923	65,311,918	2,420,027	62,891,891	0.72
1996	61,793,760	4,303,198	66,096,958	2,489,507	63,607,451	1.14
1997	61,893,902	4,353,543	66,247,445	2,355,174	63,892,271	0.45
1998	63,562,588	4,988,950	68,551,538	2,910,753	65,640,785	2.74
1999	68,648,609	5,337,916	73,986,525	2,994,814	70,991,711	8.15
2000	75,788,751	5,852,822	81,641,573	2,987,620	78,653,953	10.79
2001	82,195,239	6,347,101	88,542,340	3,249,480	85,292,860	8.44
2002	89,259,317	6,838,926	96,098,243	3,572,188	92,526,055	8.48

(1) Includes both locally assessed and State assessed utility property.
(2) Excludes homeowners' and business inventory exemptions.
(3) Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.

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

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

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

Fiscal Year Ending June 30	Tax Levy [1]	Current Year Collections	Current Year Collections as Percentage of Current Tax Levy	Total Tax Collections	Total Collections as Percentage of Current Tax Levy [2]
1992	$127,143	$121,308	95.41%	$125,153	98.43%
1993	120,574	114,821	95.23	119,867	99.41
1994	109,881	105,911	96.39	110,738	100.78
1995	109,754	104,295	95.03	108,192	98.58
1996	111,281	108,137	97.18	110,513	99.31
1997	111,719	108,676	97.28	110,563	98.96
1998	116,912	114,311	97.78	117,429	100.44
1999	127,846	124,267	97.20	126,923	99.28
2000	141,963	137,859	97.11	140,225	98.78
2001	155,060	150,900	97.32	153,406	98.93

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

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

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

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

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

(1) This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell, and American Telephone and Telegraph, because valuations within the City cannot be readily determined.
(2) Total assessed valuation includes both secured and unsecured property.
(3) Using total Net Assessed Valuation of $91,142,819,000, which excludes homeowners' exemptions.
(4) The City receives approximately 17.2% of total taxes paid.

Source: County of San Diego Assessor's Office

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

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

In addition, legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Offering Document (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.

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

Article XIII B of the California Constitution

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

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

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

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

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. In June 1990, San Diego voters approved a four-year increase in the City's Article XIII B limit (for Fiscal Years 1992 through 1995). In the November 1994 election, San Diego voters approved another four-year increase in the City's Article XIII B limit (for Fiscal Years 1996 through 1999). The Gann limit waiver does not provide any additional revenues to the City or allow the City to finance additional services. The City's appropriations limit for Fiscal Year 2002 was established at $603,258,862. It is estimated that the City will be under the Gann Limit by approximately $43.8 million. The impact of the appropriations limit on the City's financial needs in the future is unknown.

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

Articles XIII C and XIII D of the California Constitution

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

Proposition 218 (Article XIII C) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996. The City has not so imposed, extended or increased any such taxes which are currently in effect.

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

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

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

The City currently has 18 Business Improvement Districts ("BIDs") located throughout the City for the purpose of providing improvements intended to encourage business growth within the boundaries of the BID. The BIDs are financed by assessments paid by businesses operating within the BID. Of the 18 BIDs, 17 currently levy assessments. In addition, the City has a Property based Business Improvement District to supplement

maintenance within the Downtown area. The Howard Jarvis Taxpayers Association ("HJTA") challenged the City's policy for BID formation, contending that the fees collected should be considered a "special tax" under Proposition 218 and that as such, should only be established after a two-thirds vote.

The City's position was that the fees collected are neither "special taxes" nor "property related assessments" since the BIDs were formed under the Parking and Business Improvement Act of 1989, and the assessments are collected from the businesses based on the fact that the businesses are located within and benefiting from the BID, and the ownership in the property on which the businesses are located is not a consideration. On March 27, 1998, the City's position was affirmed by a San Diego Superior Court. HJTA appealed the Superior Court's ruling to the 4th District Court of Appeal. On May 19, 1999, the 4th District Court of Appeal affirmed the Superior Court ruling in favor of the City's position. Although HJTA appealed the appellate court ruling to the California Supreme Court, the Court unanimously rejected the petition for review and the case is now final.

In addition, Proposition 218 (Article XIII D) added several provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Depending on the interpretation of what constitutes a "property related fee" under Article XIII D, there could be future restrictions on the ability of the City's General Fund to charge its enterprise funds for various services provided. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City has a number of enterprise funds which are self supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIII D, e.g. the Sewer Enterprise Fund and the Water Enterprise Fund. The fees and charges of all City enterprise funds may be determined to be fees and charges subject to the initiative power referred to in Article XIII C, as described below. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to support any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

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

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

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986, General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after March 1, 1985, be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the California Supreme Court in Santa Clara County Local Transportation Authority v. Guardino, 11 Cal.4th 220; 45 Cal.Rptr.2d 207 (1995).

The City believes that, notwithstanding the *Guardino* decision, the provisions of Proposition 62 do not apply to charter cities. The extent of the application of the decision to taxes authorized prior to the date of the decision is also undecided.

The City has effected certain tax increases after the enactment of Proposition 62 in 1986 and pursuant to such increases has collected approximately $274.7 million through June 30, 2001. The City did not increase existing taxes or impose new taxes during Fiscal Year 2001.

While in the opinion of the City Attorney the provisions of Proposition 62 do not apply to charter cities, this position is being challenged by various groups in other jurisdictions and may be the subject of future litigation. If ultimately found valid and applicable to charter cities, Proposition 62 could affect the ability of the City to continue the imposition of certain taxes, such as sales and transient occupancy taxes, and may further restrict the City's ability to raise revenue.

Proposed City Voter Initiative

An initiative proposing an amendment to the San Diego City Charter has qualified to be submitted to the City voters for the March 5, 2002, election. Specifically, this initiative asks the voters whether the charter should be amended to require that any increase in an existing general tax or imposition of any new general tax be levied by the City Council only if the proposed levy has been approved by a two-thirds vote of the qualified electors voting on the proposed tax measure. If approved, the ability of the City to increase general taxes and raise revenues could be restricted since current state law (Proposition 218) only imposes a majority vote for increases in general taxes.

LABOR RELATIONS

Most City employees are represented by one of four labor organizations. Currently, the American Federation of State and County Municipal Employees (Local 127) represents approximately 2,120 employees; The Municipal Employees Association (the "MEA") and unrepresented employees (who are a part of the MEA bargaining unit for contract purposes) represents approximately 4,475 employees; The Police Officers Association (the "POA") represents approximately 2,050 employees; and the International Association of Firefighters (Local 145) represents approximately 1,000 employees.

Labor agreements are in place with all employee unions through June 30, 2002. The POA received a 2% increase effective July 1, 2000, and a 5% increase effective July 1, 2001. Local 145 received a 4% increase effective July 1, 2000, and a 5% increase effective July 1, 2001. MEA and Local 127 received a 2% increase effective July 1, 2000, and a 2% increase effective December 23, 2000; a 5% increase will become effective December 23, 2001.

PENSION PLAN

All full-time City employees participate with the full-time employees of the San Diego Unified Port District (the "District") in the City Employees' Retirement System ("CERS"). CERS is a public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general, safety (police and fire), and legislative members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service, and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

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

INSURANCE, CLAIMS, AND LITIGATION

Workers' Compensation And Long-Term Disability

The City is self-insured for Workers' Compensation and Long-term Disability. The City's self-insured liability for Workers' Compensation and Long-term Disability is accounted for in the Self Insurance Fund. The Self Insurance Fund for Workers' Compensation and Long-Term Disability is supported by contributions from each of the City's operating funds. These contributions are determined by multiplying an annually established rate by the gross salaries payable from each of the City's operating funds. As of June 30, 2001, there is a fund equity deficit in the Self Insurance Fund of approximately $29,281,000. It is anticipated that individual claim settlements will be funded through participating operating fund contributions subsequent to the filing of a claim and prior to its settlement.

Employee Group Health Insurance

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

Public Liability Insurance

The City carries public liability insurance in the amount of $54 million in excess of the City's $1 million self-insured retention. This means that the City may pay up to the first $1 million in any one insured public liability loss and that insured losses above $1 million and up to $54 million are paid by the City's public liability insurance. The City's public liability insurance is purchased in layers, jointly with a number of counties in the California State Association of Counties – Excess Insurance Authority ("CSAC-EIA"), however, there is no sharing of policy limits with other members of CSAC-EIA for public liability claims. The City budgets for public liability claims on an annual basis. The City has incurred total annual liability claims and liability insurance premium payments as shown below in Table 18.

Table 18
CITY OF SAN DIEGO
LIABILITY CLAIMS[1] AND PREMIUMS
Fiscal Years ended June 30, 1997 through 2001

Fiscal Year	Liability Claims Expenses and Settlement Costs	Liability Premium Payments
1997	$ 7,228,465	$1,575,162
1998	9,970,097	1,209,474
1999	7,202,644	1,103,009
2000	9,639,750	1,105,678
2001	13,394,697	1,071,330

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

Source: City of San Diego, Risk Management

Property Insurance

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

Earthquake Insurance

Earthquake coverage is provided for the City Hall building and certain City lease financed locations in the amount of $75 million, including coverage for rental interruption caused by Earthquake. Earthquake coverage is subject to the greater of a 5% or $50,000 per unit deductible, effective through March 31, 2002. The City's earthquake coverage is purchased jointly and shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

Employee Dishonesty and Faithful Performance Insurance

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

INVESTMENT OF FUNDS

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "Investment Pool" or the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Chief Investment Officer. The City is the only participant in the City Pool; there are no other City Pool participants either voluntary or involuntary. The investment objectives of the City Pool are preservation of capital, liquidity and return.

Oversight and Reporting Requirements

The City Treasurer provides an investment report on a monthly basis to the City Manager, the City Auditor and Comptroller and the City Council and annually presents a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council and the City Manager's Investment Advisory Committee. The Investment Advisory Committee was established in 1990 and is comprised of the City Auditor and Comptroller, a Deputy City Manager and three investment professionals from the private sector. The Committee is charged with oversight responsibility to review on an ongoing basis the Investment Guidelines and practices of the City Treasurer and recommend changes. Investments in the City Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section uses outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly portfolio valuation, investment performance statistics and other statistical security reports, which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasury accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, City Manager and other officials.

Authorized Investments

Investments in the City Pool are governed by State law and further restricted by the City's Investment Guidelines. The Guidelines have been written with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, corporate medium term notes, money market instruments and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. A reverse repo is a transaction in which the City Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the City Pool's use of the money. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 35% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Merrill Lynch 1 to 3 year U.S. Treasury Index. Safety of principal and liquidity are the paramount considerations in the management of both portfolios.

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

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of December 31, 2001, approximately 16% of the pool investments mature within 59 days, 17% within 90 days and 26% within 181 days (on a cumulative basis). As of December 31, 2001, the Pool had a weighted average maturity of 1.66 years (605 days) and its weighted yield was 4.17%. 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 0.42 years as of December 31, 2001, and the Core portfolio had a duration of 1.63 years as of December 31, 2001. 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 0.42% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.63% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City's Investment Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

Table 19
CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND [1]
at December 31, 2001
(Unaudited)

Investment Instrument	Book Value	Market Value	Percent of Total [1]
U.S. Treasury Bills and Notes	$ 416,720,426	$ 415,245,313	31.04%
Federal Agency Securities	666,076,574	679,450,017	49.60
Medium Term Notes (Corporate)[2]	116,735,099	120,237,879	8.69
Money Market Instruments[3]	130,345,262	130,412,331	9.71
Local Agency Investment Fund	12,892,036	12,892,036	0.96
NET ASSETS	$1,342,769,397	$1,358,237,576	100.00%

(1) Based on Book Value.
(2) These notes consist of both fixed & floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.
(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

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

Derivatives

As of December 31, 2001, and at least since October 14, 1997, the City's Investment Pool has had no assets invested in structured notes or derivatives prohibited in California Government Code 53601. As of December 31, 2001, the City has $7,122,811 invested in a simple step-up security purchased on November 9, 2001. The City Treasurer defines a derivative as a financial instrument whose value is derived from an underlying asset, price, index or rate, e.g., options, futures or interest rate swaps. A structured note is an investment instrument that can contain within its structure various combinations of derivatives such as imbedded calls and interest rate swaps that will offer returns to an investor within a defined set of parameters and interest rate scenarios, e.g., step-ups, multiple-indexed notes, inverse floaters or leveraged constant maturity notes. The City Treasurer does not define fixed rate notes, debentures with call features or single index non-leveraged floating rate notes, e.g. monthly LIBOR plus or minus a spread, as structured notes. The City Treasurer limits structured notes eligible for purchase to those investments which, at the time of purchase, have no risk of principal loss if held to maturity and offer an estimated return at purchase that exceeds the return on a comparable fixed term investment in the judgment of the City's Investment Officer. The City Treasurer does not allow the purchase of securities that have a negative amortization of principal. In addition, recently enacted California law prohibits the purchase by local governments of inverse floaters, range notes or interest only strips derived from pools of mortgages.

Reverse Repurchase Agreements

Although the City from time to time uses reverse repos, as of December 31, 2001, and since September 18, 1996, the City has had no reverse repos in the City Pool. The Investment Guidelines require that all proceeds of a reverse repo be reinvested in securities whose maturity date or coupon reset date match the maturity of the reverse repo. The Investment Guidelines limit the use of reverse repurchase agreements to 20% of the base value of the City Pool. The City's reverse repo program is monitored daily and reported monthly, as described above under "Oversight and Reporting Requirements".

BONDED AND OTHER INDEBTEDNESS

General

The City has never failed to pay principal of or interest on any of its debts or lease obligations when due. The City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing,

industrial development, and 501(c)(3) non-profit corporations. These bonds and certificates of participation are not secured by City general funds or revenues.

Long-Term Obligations

As of June 30, 2001, the City had $63,595,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and $388,475,000 aggregate principal amount of long-term general fund lease obligations outstanding. The following table is a schedule, by years, of principal and interest payments required to be made by the City or its oversight entities with respect to future obligations, as of June 30, 2001. The City has not incurred any long-term General Fund obligations since June 30, 2001.

Table 20
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS
As of June 30, 2001
(in thousands)

Fiscal Year Ending June 30	General Obligation Bonds	General Fund Lease Obligations	Total Principal and Interest Payable
2002	9,268	37,238	46,506
2003	9,395	35,244	44,639
2004	9,525	35,288	44,813
2005	9,645	35,359	45,004
2006	9,777	32,815	42,592
Thereafter	36,260	508,156	544,416
Subtotal	83,870	684,100	767,970
Less Interest Portion	(20,275)	(295,625)	(315,900)
Total Principal Portion	$63,595	$388,475	$452,070

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

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

Source: City of San Diego, Auditor and Comptroller

Prior Years' Defeasance of Debt

In prior years, the City, the San Diego Stadium Authority, the Redevelopment Agency, and the Facilities and Equipment Leasing Corporation defeased certain General Fund obligations by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, through certain applicable redemption dates or maturity. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2001, $68,090,000 of defeased bonds are still held by investors.

Proposed Additional General Fund Lease Commitments

From time to time the City issues debt to fund various capital improvements and projects. During the fiscal year ending June 30, 2002, the City contemplates the issuance of approximately $18 million in general fund obligations to fund the rehabilitation and construction of fire stations throughout the City. The total project cost is estimated at approximately $31.1 million with additional funding to come from a combination of cash, state funds, equipment leases, and bond proceeds in future fiscal years. On February 21, 2001, the San Diego City Council approved a conceptual financing plan for the improvements; however, an ordinance to issue bonds has not been authorized.

Short-Term Borrowings

The City has issued tax anticipation notes since the mid-1960's (except for Fiscal Year 1979) in anticipation of receipt of taxes and other General Fund revenues. The following table presents a 10-year history of the City's short-term borrowings:

Table 21
CITY OF SAN DIEGO
SHORT-TERM BORROWINGS
Fiscal Years Ended June 30, 1993 through 2002

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

Source: City of San Diego, Auditor and Comptroller

OPERATING LEASE COMMITMENTS

The City has entered into various General Fund lease arrangements under which the City must make annual payments to occupy buildings necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 2001.

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

Fiscal Year Ending June 30	Rent Payable
2002	$5,913,218
2003	4,924,290
2004	2,057,269
2005	1,858,148
2006	1,843,564
Thereafter	14,177,597
Total Minimum Payments	$30,774,086

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

Overlapping Debt and Debt Ratios

Table 23 presents a statement of direct and overlapping bonded debt of the City as of October 1, 2001. Revenue bonds, tax allocation bonds and special assessment bonds are not included in the tabulation; lease revenue obligations payable from the City's General Fund or equivalent sources are included.

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

The City periodically issues special assessment or Community Facilities District Mello-Roos bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined extraordinary benefit to the City. These bonds are secured by property owner assessments or special taxes. As of June 30, 2001, there were six 1915 Act District bond issues with aggregate outstanding principal of $47,167,000 and two Community Facilities District (Mello-Roos) bond issues with outstanding principal of $116,830,000. In order to take advantage of a favorable interest rate environment, in February 1999, seven 1915 Act assessment districts were consolidated into one reassessment district through the issuance of lien refunding revenue bonds under the Marks-Roos Bond Local Pooling Act of 1985. Before this refunding, all seven 1915 Act assessment districts had outstanding bonds issued between 1987 and 1992. As of June 30, 2001, there was $33,785,000 in outstanding Marks-Roos revenue bonds associated with this refunding.

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

Table 23
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
as of February 1, 2002

CITY OF SAN DIEGO

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

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/1/02
San Diego County Water Authority	49.320%	$ 1,588,104
Metropolitan Water District	8.751	46,159,775
Southwestern Community College District	17.425	6,970,000
San Diego Unified School District	99.910	489,548,890
San Diego Unified School District Lease Tax Obligations	99.910	129,008,788
Sweetwater Union High School District	21.122	8,026,360
San Ysidro School District	91.277	17,739,685
Other High School and School Districts	Various	8,422,043
City of San Diego	**100.**	**16,920,000**
City of San Diego 1915 Act Bonds	100.	44,647,389
San Diego Open Space Park Facilities District No. 1	**100.**	**41,175,000**
San Diego Community Facilities District No. 1	100.	54,640,000
City of San Diego Community Facilities District No. 2, Improvement Area Nos. 1 and 3	100.	60,370,000
North City West School District Community Facilities District	100.	72,460,000
Poway Unified School District Community Facilities District No. 1 and 10	100.	87,195,000
San Dieguito Union High School District Community Facilities District No. 95-1	81.063	15,288,415
Sweetwater Union High School District Community Facilities Districts	5.014-100.	2,887,275
Other Special District 1915 Act Bonds	Various	1,151,734
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,104,198,458
Less: San Diego Open Space Park Facilities District No. 1 (100% self-supporting)		41,175,000
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,063,023,458

DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
San Diego County General Fund Obligations	47.542%	$241,326,074
San Diego County Pension Obligations	47.542	134,496,318
San Diego Superintendent of Schools Certificates of Participation	47.542	1,009,079
San Diego Community College District General Fund Obligations	99.906	43,998,602
San Diego Unified School District Certificates of Participation	99.910	46,028,537
Sweetwater Union High School District Certificates of Participation	21.122	5,520,235
Del Mar Union School District Certificates of Participation	78.727	9,966,838
San Ysidro School District Certificates of Participation	91.277	9,033,826
South Bay Union School District Certificates of Participation	61.003	3,086,752
Other School, High School and Community College District Certificates of Participation	Various	8,613,394
City of San Diego General Fund Obligations and MTDB Authority	**100.**	**378,095,000**
Otay Municipal Water District Certificates of Participation	7.410	1,975,877
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		$883,150,532
Less: Otay Municipal Water District Certificates of Participation		1,975,877
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		67,757
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		$881,106,898
GROSS COMBINED TOTAL DEBT		$1,987,348,990 (1)
NET COMBINED TOTAL DEBT		$1,944,130,356

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

(Continued)

Ratios to 2001-02 Assessed Valuation:

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

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt ($436,190,000) (1)	0.47%
Net Combined Direct Debt ($395,015,000)	0.43%
Gross Combined Total Debt	2.15%
Net Combined Total Debt	2.10%

(1) City	$ 16,920,000
City Authorities and Certificates of Participation	378,095,000
San Diego Open Space Park Facilities District No. 1	41,175,000
	$436,190,000

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

Source: California Municipal Statistics, Inc.

NEW ISSUE — BOOK-ENTRY-ONLY

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

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under statutes and court decisions and assuming continuing compliance by the City with certain conditions imposed by applicable federal tax law as described herein, interest on the Notes is not included in gross income for federal income tax purposes and is not treated as a specific item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations. Such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Interest on the Notes is exempt from present State of California personal income. See "Tax Matters" herein.

$93,200,000
CITY OF SAN DIEGO, CALIFORNIA
2002-03 Tax Anticipation Notes
Series A
3.00% Interest Rate @ 101.82% Price to Yield 1.70%

Dated: July 1, 2002 **Due:** August 1, 2003

The City of San Diego, California 2002-03 Tax Anticipation Notes, Series A (the "Notes") are being issued to finance working capital needs of the City of San Diego (the "City") during the Fiscal Year beginning July 1, 2002 and ending June 30, 2003 ("Fiscal Year 2002-03"). 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 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 D—BOOK-ENTRY ONLY SYSTEM" hereto.

The Notes, in accordance with California law, are general obligations of the City, but are payable from property tax moneys received by the City and if such property tax moneys are insufficient to enable the City to make such payments, then from such other legally available taxes, income, revenue, cash receipts and other moneys attributable to the City's Fiscal Year 2002-03 that are lawfully available for payment of the Notes and the interest thereon. The City pledges as security for the payment of the principal of and interest on the Notes (1) from the first property tax moneys received by the City on or after November 30, 2002, an amount equal to one-half of the total principal and interest due with respect to the Notes on or before the maturity thereof; and (2) from the remaining property tax moneys received by the City on or after April 10, 2003, an amount equal to the difference between (a) the total principal and interest due with respect to the Notes on or before the maturity thereof and (b) the amount previously deposited in the Repayment Fund. In the event that by April 30, 2003 such property tax moneys are insufficient to enable the City to make such transfers, the City is obligated to thereafter transfer other legally available taxes, income, revenue, cash receipts and other moneys attributable to the Fiscal Year 2002-03 to the Repayment Fund so that the amounts in such fund are at least equal to the amounts required to pay the principal of and interest on the Notes as they become due. The Repayment Fund and all amounts held therein are pledged and irrevocably set aside to the payment of the Notes. See "The Notes" herein.

Principal of the Notes is payable in lawful money of the United States of America at maturity. Interest on the Notes will be payable in like lawful money on July 1, 2003 and at maturity. 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.

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 and received by the original purchasers, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain matters will be passed upon for the City by the City Attorney. Public Resources Advisory Group, Los Angeles, California, is serving as Financial Advisor to the City in connection with the issuance of the Notes. It is anticipated that the Notes, in book-entry form, will be available for delivery through the facilities of DTC on or about July 1, 2002.

Zions First National Bank **First Albany Corp.**

Dated: June 4, 2002

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter 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 or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 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 construed as 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.

The information set forth herein has been provided by the City and other sources that are believed by the City to be reliable. This Official Statement is submitted in connection with the execution and delivery of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. 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 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.

The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the City, with respect to the accuracy and completeness of disclosure of such information, and no guaranty, warranty or other representation is made by the Financial Advisor respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement.

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE UNDERWRITER 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 UNDERWRITER 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 UNDERWRITER.

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

CITY OF SAN DIEGO, CALIFORNIA

DICK MURPHY, MAYOR

CITY COUNCIL

SCOTT PETERS
District 1

BYRON WEAR
District 2

TONI ATKINS
District 3

GEORGE STEVENS, Deputy Mayor
District 4

BRIAN MAIENSCHEIN
District 5

DONNA FRYE
District 6

JIM MADAFFER
District 7

RALPH INZUNZA
District 8

CITY OFFICIALS

MICHAEL T. UBERUAGA
City Manager

ED RYAN
City Auditor and Comptroller

CASEY GWINN
City Attorney

MARY E. VATTIMO
City Treasurer

CHARLES G. ABDELNOUR
City Clerk

BOND COUNSEL

STRADLING YOCCA CARLSON & RAUTH,
a Professional Corporation
Newport Beach, California

FINANCIAL ADVISOR

PUBLIC RESOURCES ADVISORY GROUP
Los Angeles, California

PAYING AGENT

JPMORGAN CHASE BANK
Los Angeles, California

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APPENDIX A	THE CITY OF SAN DIEGO FINANCIAL AND DEMOGRAPHIC INFORMATION
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OFFICIAL STATEMENT
$93,200,000
CITY OF SAN DIEGO, CALIFORNIA
2002-03 Tax Anticipation Notes
Series A

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. 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 $93,200,000 aggregate principal amount of City of San Diego, California 2002-03 Tax Anticipation Notes, Series A (the "Notes") issued by the City of San Diego (the "City"). The Notes, in accordance with California law, are general obligations of the City, and are secured by and payable from property tax moneys received by the City and if such property tax moneys are insufficient to enable the City to make such payments, then from such other legally available taxes, income, revenue, cash receipts and other moneys attributable to the City's fiscal year beginning on July 1, 2002 and ending on June 30, 2003 ("Fiscal Year 2002-03") and legally available for payment thereof, all as more particularly described under the caption "The Notes—Security for the Notes" below.

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 and a resolution adopted by the City Council of the City on May 14, 2002 (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 2002-03.

City of San Diego Short-Term Borrowing Program

The City has issued tax anticipation notes every year since the mid-1960's (except for Fiscal Year 1978-79) to meet its cash flow requirements. In Fiscal Year 2001-02, the City sold a single series of tax anticipation notes in the aggregate principal amount of $73,000,000, the repayment of which has been fully funded. The City has never defaulted on the payment of principal of and interest on any of its short-term or long-term debt obligations.

The City may issue in Fiscal Year 2002-03 an additional series of City of San Diego, California 2002-03 Tax Anticipation Notes (the "Additional Notes") in an aggregate principal amount such that the combined principal amount of the Notes and the Additional Notes does not exceed $150,000,000. See "THE NOTES—Additional Notes."

THE NOTES

General

The Notes will mature on August 1, 2003 and will be dated and will bear interest at the annual rate set forth on the cover of this Official Statement. Interest on the Notes will be computed on a 30-day month, 360-day year basis. Principal of the Notes will be payable on the maturity date of the Notes. Interest on the Notes will be payable on July 1, 2003 and on the maturity date of the Notes. So long as Cede & Co. is the registered owner of the Notes, the principal of and interest on the Notes are payable by wire transfer by JPMorgan Chase Bank, or its successor, as Paying Agent (the "Paying Agent"), to Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York which is expected, in turn, to remit such amounts to its participants for subsequent disbursement to beneficial owners of the Notes. See "APPENDIX C—BOOK-ENTRY ONLY SYSTEM."

The Notes are not subject to redemption prior to maturity.

Additional Notes

The Resolution authorizes the City to issue one series of Additional Notes during Fiscal Year 2002-03 in an aggregate principal amount such that the combined principal amount of the Notes and the Additional Notes does not exceed $150,000,000. All Additional Notes must mature within thirteen (13) months of their date of issuance. The Additional Notes, if any, will be equally and ratably secured with the Notes. See "—Security for the Notes" below.

Security for the Notes

The Notes, in accordance with California law, are general obligations of the City, but are payable from property tax moneys received by the City and if such property tax moneys are insufficient to enable the City to make such payments, then from such other legally available taxes, income, revenue, cash receipts and other moneys attributable to the City's Fiscal Year 2002-03 that are lawfully available for payment of the Notes and the interest thereon.

The Resolution provides that as security for the payment of the principal of and interest on the Notes, the City agrees and covenants to deposit in trust into a special fund to be held by the City, designated as the "2002-03 Tax Anticipation Notes Repayment Fund" (the "Repayment Fund"), sufficient moneys to enable the City to pay in full such principal and interest, as follows: (1) from the first property tax moneys received by the City on or after November 30, 2002, an amount equal to one-half of the total principal and interest due with respect to the Notes on or before the maturity thereof; and (2) from the remaining property tax moneys received by the City on or after April 10, 2003, an amount equal to the difference between (a) the total principal and interest due with respect to the Notes on or before the maturity thereof and (b) the amount previously deposited in the Repayment Fund. The City pledges all such property tax moneys for the payment of the principal of and interest on the Notes subject to the terms of and application in accordance with the Resolution. If by April 30, 2003 such property tax moneys are insufficient to enable the City to make such transfers, the City shall thereafter transfer other legally available taxes, income, revenue, cash receipts and other moneys attributable to the City's 2002-03 fiscal year to the Repayment Fund so that the amounts in the Repayment Fund are at least equal to the amounts required to pay the principal of and interest on the Notes as they become due. The Repayment Fund and all amounts

held therein are pledged and irrevocably set aside to the payment of the Notes. Amounts deposited in the Repayment Fund may not be used for any purpose other than payment of the Notes and may be invested in legal investments which are permitted by the California Government Code and which mature not later than the latest maturity date of the Notes; provided that the earnings on any such investment shall be transferred by the City to the City's General Fund.

The City may, under its City Charter and provisions of the California Government Code, issue the Notes or any series of Additional Notes only if the total amount of bonds, notes and warrants, including the Notes, issued in anticipation of the collection of taxes in any fiscal year does not in the aggregate exceed 25% of the City's total appropriations for such fiscal year and the principal of and interest on such bonds, notes and warrants does not exceed 85% of the estimated uncollected taxes and other moneys available for the payment of such bonds, notes and warrants. Property tax revenues for Fiscal Year 2002-03 are estimated to be $188.6 million and total General Fund revenues of the City for Fiscal Year 2002-03 are estimated to be approximately $732.8 million. The estimated amount needed to repay the Notes and the interest thereon is approximately $97.3 million.

The City's proposed general fund budget for Fiscal Year 2002-03 and adopted general fund budget for the Fiscal Year ending 2002 and actual results for Fiscal Years 1997 through 2001 are set forth in "APPENDIX A—THE CITY OF SAN DIEGO FINANCIAL AND DEMOGRAPHIC INFORMATION—Municipal Government and Financial Information" herein

Note Repayment Fund

The Repayment Fund and all amounts held therein are pledged and irrevocably set aside to the payment of the Notes. Amounts deposited in the Repayment Fund may not be used for any purpose other than payment of the Notes and may be invested in legal investments which are permitted by the Government Code of the State of California (the "State") and which mature not later than the maturity date of the Notes; provided that the earnings on any such investment will be transferred by the City to the General Fund.

Investment of Note Proceeds and Amounts in the Repayment Fund

The City intends to invest the Repayment Fund, as well as the proceeds of the Notes, in its pooled operating investment fund. For a description of the City's pooled operating investment fund, see "APPENDIX A—THE CITY OF SAN DIEGO FINANCIAL AND DEMOGRAPHIC INFORMATION—Investment of Funds" hereto.

Enforceability of 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 creditors' rights generally; equitable 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. 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.

Pursuant to Section 53856 of the California Government Code, the principal of and interest on the Notes are a lien and charge against the Repayment Fund and other moneys pledged therefor pursuant to the Resolution. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the owners of the Notes could be prohibited from taking certain steps to enforce their rights under the Resolution. In March 1995 a ruling of the United States Bankruptcy Court for the Central District of California, concerning Orange County notes issued in 1994 under the same statutory authority as the Notes, held that the pledge granted by Orange County pursuant to a resolution adopted by that County in connection with the issuance of tax and revenue anticipation notes ("TRANs") was not effective with respect to general revenues accruing to the County after the filing of a petition in bankruptcy. The resolution obligated Orange County to set aside a specified amount of revenues in certain months in order to secure the payment of its TRANs. On July 12, 1995, the United States District Court for the Central District of California reversed the order of the Bankruptcy Court and ordered that the obligation created under the resolution adopted by Orange County is a statutory lien which survived the filing of Orange County's bankruptcy petition.

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 invested in the name of the Repayment Fund for a period of time 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 Owners of the Notes do not have a valid and/or prior lien on the Pledged Amounts where such amounts are deposited in the City Pooled Operating Investment Fund and may not provide the Noteowners with a priority interest in such amounts. In that circumstance, unless the Owners could "trace" the funds from the Repayment Fund that have been deposited in the City Pooled Operating Investment Fund, the Owners would be unsecured (rather than secured) creditors of the City. There can be no assurance that the Owners could successfully so "trace" the pledged taxes and other amounts credited to the Repayment Fund.

Available Sources of Payment

Proposition 218, a statewide voter initiative passed on November 5, 1996, and pending litigation may make it more difficult for the City to generate additional sources of revenue for the General Fund and may reduce the City's financial flexibility. For further information, see "APPENDIX A—THE CITY OF SAN DIEGO FINANCIAL AND DEMOGRAPHIC INFORMATION—Limitations on Taxes and Appropriations."

Cash Flows

The City has prepared the following cash flow statements for the General Fund showing actual Fiscal Year 2001-02 amounts through April 30, 2002, and projected amounts for each month thereafter.

The projected Fiscal Year 2002-03 cash flow statement reflects that, without the issuance of the Notes or the Additional Notes, if any, the City will experience an estimated cash flow deficit of $93.2 million on or about December 15, 2002.

CASH FLOW SCHEDULE

NAME OF ISSUER: CITY OF SAN DIEGO
PERIOD COVERED: FISCAL YEAR 2001-02
CASH FLOW SUMMARY - ESTIMATED AFTER APRIL 30, 2002
(In Thousands)

Month	JULY	AUGUST	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MARCH	APRIL	MAY	JUNE	Totals
Beginning Balance	$ 58,718*	$71,398	$41,250	$21,571	$2,862	$9,784	$20,815	$19,827	$51,507	$36,873	$32,449	$49,333	XXXXXXXX
RECEIPTS:													
Property Tax	3,797	206	2,390	7,848	8,170	56,849	18,520	4,094	3,935	42,588	19,107	4,639	172,143
Franchise Fees	2,040	7,995		2,215	7,384	737	1,976	16,668	750	2,056	8,795	1,498	52,114
Sales Tax	12,591				11,304	12,828	11,923	16,904	18,259	11,129	14,405	18,002	127,345
Safety Sales Tax		1,029	475	477	452	549	443	422	626	422	388	733	6,016
Property Transfer Tax		1,202	553	431		916	435		423	1,041		1,213	6,214
Transient Occupancy Tax	1,155	8,091	4,487	4,916	4,053	4,056	2,526	3,426	3,980	4,289	4,839	5,021	50,839
Licenses and Permits	1,520	1,911	1,222	1,426	1,457	1,177	1,537	3,456	3,401	1,516	1,315	537	20,475
Fines, Forfeiture and Penalties	914	2,249	1,478	2,269	2,356	791	2,677	1,891	1,932	2,112	1,805	2,152	22,626
Revenue from Use of Money and Property	431	1,553	11	1,722	2,100	513	365	1,153	642	637	388	627	10,142
Rents and Concessions	2,026	2,727	3,274	2,233	1,909	1,696	1,042	1,629	1,442	1,852	3,933	1,213	24,976
Motor Vehicle License Fees	5,407	5,841	6,621	4,125	6,616	4,779	5,282	6,921	5,716	5,923	5,002	6,509	68,742
Revenue from Other Agencies	117	488	72	298	5,308	538	3,622	435	277	9,472	90	96	20,813
Charges for Current Services	2,243	7,740	9,339	3,714	6,526	5,702	5,490	21,449	9,682	7,583	7,053	11,235	97,756
Other Financing Sources	9,000		2,018	5,618	17	5,771	1,458	2,839	5,454	1,263	107	3,232	36,777
Other Revenue	116	117	87	358	210	151	181	159	195	231	288	272	2,365
Tax Anticipation Note	73,000												73,000
TOTAL RECEIPTS	114,357	41,149	32,027	37,650	57,862	97,053	57,477	81,446	56,714	92,114	67,515	56,979	792,343
DISBURSEMENTS:													
Salaries/Wages	34,320	46,526	31,630	31,018	30,970	31,731	31,406	32,031	47,815	32,337	31,048	33,228	414,060
Fringe Benefits	42,902	10,173	5,978	6,765	6,863	6,887	6,939	7,067	10,633	6,251	6,886	11,385	128,729
Services/Supplies	20,349	11,245	11,022	13,332	10,297	5,557	13,399	7,856	8,626	16,732	10,461	13,687	142,563
Data Processing	2,858	1,715	503	3,643	672	2,797	3,085	1,664	939	1,259	576	1,321	21,032
Energy	853	1,253	1,951	1,268	1,729	661	2,972	632	1,361	1,693	1,375	2,455	18,203
Capital Outlay	395	385	622	333	409	607	664	516	1,974	484	285	(941)	5,733
Note Principal						36,500				36,500			73,000
Note Interest						1,282				1,282			2,564
TOTAL DISBURSEMENTS	101,677	71,297	51,706	56,359	50,940	86,022	58,465	49,766	71,348	96,538	50,631	61,135	805,884
Ending Balance	$ 71,398	$41,250	$21,571	$2,862	$9,784	$20,815	$19,827	$51,507	$36,873	$32,449	$49,333	$45,177	
REPAYMENT FUND													
Beginning Balance	$ 78,061	$78,061	$78,061	$78,061			$37,782	$37,782	$37,782	$37,782	$75,564	$75,564	78,061
Receipts						37,782				37,782			75,564
Disbursements				78,061									78,061
Ending Balance	$ 78,061	$78,061	$78,061			$37,782	$37,782	$37,782	$37,782	$75,564	$75,564	$75,564	$75,564

* Includes additional funds which may be available to the General Fund.

NAME OF ISSUER: CITY OF SAN DIEGO
PERIOD COVERED: FISCAL YEAR 2002-03
CASH FLOW SUMMARY – PROJECTED
(In Thousands)

Month	JULY	AUGUST	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MARCH	APRIL	MAY	JUNE	Totals
Beginning Balance	$ 45,446	$75,355	$52,867	$34,545	$19,481	$12,963	$25,966	$18,938	$27,914	$27,774	$22,588	$44,314	XXXXXXX
RECEIPTS:													
Property Tax	2,812	1,578	2,621	8,607	8,960	62,345	20,310	4,490	4,316	46,705	20,954	5,090	188,788
Franchise Fees	2,123	11,318	3	2,305	10,685	767	2,057	11,101	26	2,139	10,153	1,558	54,235
Sales Tax	12,775	6,000			1,117	18,513	9,799	18,195	17,371	8,470	16,423	18,522	127,185
Safety Sales Tax	483	572	494	495	475	556	467	449	621	449			5,061
Property Transfer Tax	622	597	561	437	458	471	441		429	535	521	1,228	6,300
Transient Occupancy Tax	1,235	9,360	5,138	5,641	4,630	4,634	2,841	5,257	4,544	4,906	5,550	5,823	59,559
Licenses and Permits	1,497	1,882	1,203	1,404	1,435	1,159	1,514	3,403	3,349	1,493	1,295	529	20,163
Fines, Forfeiture and Penalties	1,119	2,751	2,384	2,200	2,882	1,996	2,246	2,313	2,364	2,584	2,208	2,630	27,677
Revenue from Use of Money and Property	589	727	1,391	654	879	671	524	1,308	1,311	794	546	705	10,099
Rents and Concessions	2,102	2,830	3,397	2,317	1,981	1,760	1,081	1,691	1,497	1,922	4,081	1,258	25,917
Motor Vehicle License Fees	5,679	6,135	6,954	5,533	5,749	5,019	5,548	7,269	6,004	6,221	5,253	6,838	72,202
Revenue from Other Agencies	33	138	20	84	24	130	3,637	123	78	8,620	14	266	13,167
Charges for Current Services	1,864	6,432	4,560	6,286	5,423	4,738	18,545	4,841	7,046	6,302	5,861	9,336	81,234
Other Financing Sources	53	53	5,425	53	553	5,425	1,813	53	5,426	53	54	9,876	28,837
Other Revenue	130	131	98	401	235	169	203	178	219	259	323	303	2,649
Tax Anticipation Note	93,200												93,200
TOTAL RECEIPTS	126,316	50,504	34,249	36,417	45,486	108,353	71,026	60,671	54,601	91,452	73,236	63,962	$816,273
DISBURSEMENTS:													
Salaries/Wages	32,211	46,960	31,929	31,313	31,261	32,029	48,064	32,877	32,992	32,664	32,429	33,124	417,853
Fringe Benefits	46,807	9,842	5,747	6,544	6,644	6,668	10,115	6,851	6,914	6,024	6,665	11,574	130,395
Services/Supplies	15,157	11,235	10,583	8,676	10,218	5,007	12,742	8,067	9,729	5,906	10,224	20,865	128,407
Data Processing	914	1,872	1,385	2,510	1,600	1,478	3,036	1,835	1,651	1,009	525	1,676	19,491
Energy	565	2,348	1,740	1,804	1,502	360	2,830	1,082	2,191	1,463	1,124	2,452	19,461
Capital Outlay	753	735	1,187	634	779	1,158	1,267	983	1,264	922	543	708	10,933
Note Principal						46,600				46,600			93,200
Note Interest						2,050				2,050			4,101
TOTAL DISBURSEMENTS	96,407	72,992	52,571	51,481	52,004	95,350	78,054	51,695	54,741	96,638	51,510	70,399	$823,841
Ending Balance	$ 75,355	$52,867	$34,545	$19,481	$12,963	$25,966	$18,938	$27,914	$27,774	$22,588	$44,314	$37,877	
REPAYMENT FUND													
Beginning Balance	$ 75,564	$73,191					$48,650	$48,650	$48,650	$48,650	$97,301	$97,301	$75,564
Receipts						48,650				48,650			97,301
Disbursements	2,373	73,191											75,564
Ending Balance	$ 73,191					$48,650	$48,650	$48,650	$48,650	$97,301	$97,301	$97,301	$97,301

Includes additional funds which may be available to the General Fund.

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 will not receive Notes representing their interests in the Notes purchased. The Underwriter will confirm original issuance purchases with statements containing certain terms of the Notes purchased.

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. See "APPENDIX C—BOOK ENTRY ONLY SYSTEM" hereto.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, Bond Counsel notes that, with respect to corporations, interest on the Notes may be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Notes is exempt from California personal income tax.

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

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

Additionally, Bond Counsel's opinions are based upon certain representations made by the City, and others, and are subject to the condition that the City comply with certain covenants and the requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Notes to assure that interest on the Notes will remain excludable from gross income for federal income tax purposes. Failure to comply with such requirements possible could cause interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The City has covenanted to comply with all such requirements.

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

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

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

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, sale, execution and delivery by the City of the Notes are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix D hereto.

LITIGATION

No litigation is pending or, to the knowledge of the City, threatened concerning the validity of the Notes, and an opinion of the City Attorney (based upon its best knowledge after reasonable investigation) to that effect will be furnished to the purchaser at the time of the original delivery of the Notes. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to levy and collect ad valorem taxes or contesting the City's ability to issue and pay 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. However, taking into account insurance and self-insurance reserves expected to be available to pay liabilities arising from such actions and the timing of any anticipated payment of final judgments which may result from such actions, the City does not expect 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—THE CITY OF SAN DIEGO FINANCIAL AND DEMOGRAPHIC INFORMATION—Insurance, Claims and Litigation."

RATINGS

Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings have rated the Notes "MIG-1", "SP-1+" and "F1+," respectively. Certain information was supplied by the City to such rating agencies to be considered in evaluating the Notes. The ratings reflect only the views of the rating agencies and any explanation of the significance of such ratings and any ratings on any of the City's outstanding obligations may be obtained only from such rating agencies as follows: Moody's Investors Service, 99 Church Street, New York, New York 10007; Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street

Plaza, New York, New York 10004. Further, there is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely if in the sole judgment of Moody's, S&P or Fitch circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the trading value and the market price of the Notes. The City undertakes no responsibility either to bring to the attention of the owners of the Notes any downward revision or withdrawal of any rating obtained or to oppose any such revision 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

After competitive bidding on June 4, 2002, the Notes were awarded by the City to (1) Zions First National Bank, as to $60,000,000 of the Notes, at an aggregate purchase price of $60,813,000 (representing the principal amount of such Notes, plus premium of $813,000), and (2) First Albany Corp., as to $33,200,000 of the Notes, at an aggregate purchase price of $33,640,897.42 (representing the principal amounts of such Notes, plus premium of $440,897.42). Zions First National Bank and First Albany Corp. each reports the Notes were initially offered to the public at a price resulting in a reoffering yield of 1.70%. These initial purchasers are herein referred to as the "Underwriter(s)". The public offering price may be changed from time to time by either of 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.

CONTINUING DISCLOSURE

The City has agreed in the Resolution, upon the occurrence of any of the following "Listed Events," to report the occurrence of such event to either the Municipal Securities Rulemaking Board or to each nationally recognized municipal securities information repository and to the State information depository, if any. Listed Events include any of the following events if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution or sale of property securing repayment of the securities; and (11) rating changes. There are currently no debt service reserves, credit enhancements or liquidity providers in place with respect to the payment of principal of and interest on the Notes, and the Notes are not subject to redemption prior to maturity in accordance with their terms.

The City's obligations under the Resolution with respect to continuing disclosure shall terminate upon 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. If any party initiates any legal or equitable action to enforce the City's obligations under the Resolution with respect to continuing disclosure, the proper venue for any such action is the Superior Court of the State of California, in and for the City of San Diego.

These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. 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 affairs in the City since the date hereof.

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

CITY OF SAN DIEGO

By: /s/ Mary E. Vattimo
City Treasurer

APPENDIX A

THE CITY OF SAN DIEGO

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

INTRODUCTION

With a total population of approximately 1.3 million in 2002, and a land area of 330 square miles, the City of San Diego (the "City") is the seventh largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

Based on estimates published by the California Department of Finance in May 2002, the City's population grew by 9.7% between 1993 and 2002, for an average increase of approximately 12,300 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

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

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

Population

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

Table 1
POPULATION GROWTH[1]
Calendar Years 1993 through 2002

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

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

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

Source: State of California, Department of Finance

As indicated in the following table, attendance in kindergarten through grade 12 in the San Diego Unified School District grew moderately over the last five academic years. The San Diego Unified School District's boundaries include 85% of the City of San Diego's land area.

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT[1]
School Year 1997-1998 through 2001-2002

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

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

Source: San Diego Unified School District, Pupil Accounting

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 2001 averaged 3.3%, up from a rate of 3.1% during calendar year 2000. The City's 2001 unemployment rate was below both the national rate of 4.8% and the State's rate of 5.3%. During 2001, average employment in the City was up by approximately 8,800 from 2000 levels. Through the first four months of 2002, the City's unemployment rate averaged approximately 4.0%, compared with 2.8% for the same period in 2001. Data for 2001 and 2002 reflect preliminary estimates, which will be revised at a future date.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF CITY OF SAN DIEGO RESIDENT LABOR FORCE
Calendar Years 1997 through 2001

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

(1) Preliminary, subject to future revision.

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

Table 4 provides the California Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County during the period

1997 to 2001. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 175,700 new jobs during this period. During calendar year 2001 alone, employment in San Diego County increased by 33,400 new jobs.

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

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

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

(1) Includes trucking and transit services, telephone and broadcast/cable services, and gas and electric services.
(2) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department

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

Several key industry categories exhibited strong employment growth in 2001. The Services sector (+16,200) alone represented approximately half of total employment growth for the County. Within the Services sector, Business Services and Engineering & Management continued to lead other components, with increases of 3,500 and 4,000 respectively. It should be noted that the Business Services and Engineering & Management components include many of the City's high tech employers. Other key employment growth sectors during 2001 included Construction (+2,900), Wholesale and Retail Trade (+5,000), and Government (+7,700).

The increase in the Government sector, which accounted for 17% of the total nonagricultural wage and salary employment in the County, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments.

Taxable Sales

Taxable transactions at retail and other outlets in the City during calendar year 2000, the most recent year for which data are available from the California State Board of Equalization, totaled approximately $16.1 billion, up 11.1% from 1999, and up 42.6% from 1996. Table 5 provides annual sales information by type of outlet for the period 1996 through 2000.

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

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

(1) Data for calendar year 2000 were calculated by adding quarterly reports published by the California State Board of Equalization, and may be subject to future revision.

Source: California State Board of Equalization

Tourism

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military. As shown in Table 6, visitor spending in the County totaled $5.12 billion in 2001, up 17.2% from 1997 and down 2.1% from 2000. This decline in 2001 reflects the impact of the events of September 11, 2001; according to the San Diego Convention and Visitors Bureau, through the eight months ended August 31, 2001, visitor spending was up 4.1% over the same period in 2000.

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

Calendar Year	Amount
1997	$4.37
1998	4.70
1999	4.88
2000	5.23
2001	5.12

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

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the City's transient occupancy tax ("TOT") revenues have grown approximately 46% between Fiscal Year 1997 and Fiscal Year 2001, an average annual increase of 9.1%. In the Fiscal Year 2002 Adopted Budget, TOT revenues were projected to increase by 6% over TOT receipts for Fiscal Year 2001. The City Manager currently estimates that actual TOT receipts for Fiscal Year 2002 will be 4.9% less than Fiscal Year 2001 receipts due in part to the lingering effects of a weak economy and the events of September 11, 2001.

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

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

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

Source: City Auditor & Comptroller

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

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

The City also hosted the America's Cup in 1992 and 1995, and the Super Bowl and World Series in 1998. In addition, the City was the site for the Republican National Convention held in August 1996. The Super Bowl is scheduled to return to San Diego in 2003. According to the San Diego Unified Port District, in 2001 there were 7.6 million passenger arrivals, down by approximately 4.2% from 2000.

In September 2001, the San Diego Convention Center expansion was completed, doubling the size of the existing facility to 2.6 million total gross square feet. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention Center has generated $4.5 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

Military

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

According to the San Diego Chamber of Commerce, defense related expenditures (active duty payroll, retirement benefits and civilian contract awards) in the County during the federal fiscal year ended September 30, 2000, totaled $9.8 billion, up from $9.5 billion in 1999. With a total military and civilian payroll of $3.72 billion in the federal fiscal year 2000, San Diego continued to lead all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled $2.9 billion during the federal fiscal year 2000, up 17.4% from the previous year. The Department of Defense also spent $1.3 billion on base operation expenses, $1.04 billion on retirement benefits, and another $0.85 billion on various classified contracts, subcontracts, and other contracts of less than $1,000 each. The San Diego Chamber of Commerce estimates that as of June 1, 2000, total active duty military personnel in the County totaled 103,127 and the total civilian employment was 21,200.

International Trade

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

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

Calendar Year	Total Exports
1995	$5.9
1996	6.7
1997	7.8
1998	8.6
1999	9.0

Source: International Trade Administration

Major Employers

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

Table 9
CITY OF SAN DIEGO
MAJOR EMPLOYERS[1]
As of January 1, 2002

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

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

Source: City of San Diego

Effective Buying Income

Table 10 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1996 through 2000.

Table 10
PER CAPITA EFFECTIVE BUYING INCOME[1]
Calendar Years 1996 through 2000

Calendar Year	City of San Diego	County of San Diego	State of California	United States
1996	$15,139	$14,975	$15,068	$15,555
1997	15,804	15,618	15,797	16,281
1998	16,291	16,101	16,299	16,895
1999	17,443	17,270	17,245	17,691
2000	19,238	19,498	19,081	18,426

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

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

Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1997 through 2001. The valuation of non-residential permits includes both private, commercial construction and publicly funded, non-tax generating projects.

Table 11
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1997 through 2001

	1997	1998	1999	2000	2001
Valuation (in thousands)					
Residential	$541,443	$890,476	$857,747	$1,185,999	$1,181,385
Nonresidential	478,887	576,170	783,106	960,479	693,687
Total	$1,020,330	$1,466,64	$1,640,85	$2,146,478	$1,875,072
Number of New Dwelling Units:					
Single Family	2,197	3,032	2,612	2,084	2,075
Multiple Family	1,014	3,018	2,856	5,662	3,829
Total	3,211	6,050	5,468	7,746	5,904

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

Business Development Program

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

A further element of the City's overall business development effort has focused on streamlining the permitting process and, when feasible, eliminating or reducing fees and permits. A major component of this streamlining effort has been the creation of a "one-stop" permitting center which has in most cases reduced development permit processing time by one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process.

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

Transportation

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

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

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

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

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

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City's proposed budget for Fiscal Year 2003 includes $28.1 million in Proposition A funds. The one-half cent increase to the local sales tax, authorized by Proposition A, is scheduled to expire in 2008.

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

MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION

Governmental Organization

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

Accounting Practices

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

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The annual audit report is generally available about 180 days after the June 30 close of each fiscal year. The City's most recent general purpose financial statements for the Fiscal Year ended June 30, 2001, were audited by Calderon, Jaham & Osborn, CPAs.

Budgetary Process

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

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

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

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

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

Restructuring

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

Five Year Summary of Financial Results

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

Table 12
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1997 through 2001
(in thousands)

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

Source: City of San Diego Comprehensive Annual Financial Report

Table 13
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1997 through 2001 (in thousands)

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

(1) Includes Proposition 172 Safety Sales Tax.

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

Source: City of San Diego Comprehensive Annual Financial Report

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

Table 14
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY
Fiscal Years 2001 - 2003[1]

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

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

(2) Includes Proposition 172 Safety Sales Tax.

(3) In Fiscal Year 2003, General Fund support for the Street Division Operating Fund will be funded directly through a sales tax allocation rather than through a General Fund transfer. As a result, sales taxes deposited in the General Fund are reduced by $15.4 million.

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

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

Source: City of San Diego, Financial Management Department

Fiscal Year 2001

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

Change in Major Revenue Sources
Actual Results Fiscal Year 2001 over Fiscal Year 2000 [1]

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

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

Source: City of San Diego, Financial Management Department

Actual Total General Fund Expenditures, presented in a budget format equivalent to Table 14, for Fiscal Year 2001 equaled $686,234,635, an increase of $46.3 million or 7.2% more than the actual results for Fiscal Year 2000, and $9.9 million or 1.5% more than the adopted budget for Fiscal Year 2001.

Fiscal Year 2002 (Adopted Budget)

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

Fiscal Year 2002 Budget Growth Rates [1]

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

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

Source: City of San Diego, Financial Management Department

The Fiscal Year 2002 adopted budget includes $727.4 million in Total General Fund Expenditures. This represents an increase of $51.0 million or 7.5% from the prior year's adopted budget. Under the adopted budget, spending on public safety totals $379.2 million, an increase of $21.2 million or 5.9% from the previous budget. This increased public safety spending provides for 20 more police officers, 3.5 new lifeguards, and an additional fire recruit academy.

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

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

Projected Change in Major Revenue Sources
***Fiscal Year 2002 Year-End Projections*[1]**

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

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

Source: City of San Diego, Financial Management Department

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

Fiscal Year 2003 (Proposed Budget)

Under the City's Fiscal Year 2003 proposed budget, General Fund revenues total $732.8 million, up $5.5 million or 0.8%, from the Fiscal Year 2002 adopted budget. The proposed budget assumes that San Diego will experience modest economic growth in Fiscal Year 2003. The Fiscal Year 2003 proposed budget also expects the City to realize additional revenues from hosting the Super Bowl in January 2003. In Fiscal Year 2002, the City did not receive any revenues from the State for local fiscal relief, and does not include any such revenues in its proposed budget for Fiscal Year 2003. Presented below are estimated growth rates for the major revenues.

Projected Change in Major Revenue Sources
Proposed Budget Fiscal Year 2003 over Projected Actuals Fiscal Year 2002[1]

• Property Tax	+	9.0%
• Sales Tax	+	4.0%
• Transient Occupancy Tax	+	6.0%
• Motor Vehicle License Fees	+	4.0%

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

Source: City of San Diego, Financial Management Department

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

State Budget Deficit

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

The City has not included any revenues from the State for local fiscal relief in its Fiscal Year 2003 proposed budget; however, the City assumes that the State General Fund will continue to offset a fee reduction on motor vehicle license registration originally enacted in 1999. (Please see "Vehicle License Fee Reduction" below.) In addition, the City's proposed budget includes the transfer of $5.2 million from the State to compensate for booking fees the City makes to the County of San Diego for incarcerating criminals. The Governor's May Budget Revision continues to fully offset the motor vehicle license fee reduction, but proposes to eliminate State transfers that compensate local governments for booking fees.

Vehicle License Fee Reduction

The State's vehicle license fee ("VLF") is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars, and taxicabs are all subject to the VLF. VLF revenues are distributed by the State to cities and counties. Approximately three-fourths of VLF revenues (one-half to cities and one-half to counties) can be used for any lawful purpose, with the remaining funds allocated to counties to pay for "realignment" health and social services programs. Under the State of California's Vehicle License Fee Law, beginning January 1, 1999, the vehicle license fee was permanently reduced from 2.0% to 1.5%. The law also provided for a one-year reduction to 1.3% for vehicles with a payment due date during calendar year 2000. Subsequently, the law was amended to reduce the rate to 0.65% through calendar year 2002. Beginning in 2003, the vehicle license fee was scheduled to be reduced permanently to 0.65%.

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

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

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

Energy Conservation and Management

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

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

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

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

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

The California Department of Water Resources (the "DWR") purchased power on behalf of a number of utilities, including SDG&E, and under recently enacted legislation is deemed to be selling the same to the customers of the utilities. The City believes that SDG&E will continue to pay franchise fees based upon the revenue from the sale of DWR power to SDG&E customers and expects some clarification on this issue from the California Public Utilities Commission.

Property Taxes

The County assesses property and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, generally within a couple of weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County and/or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City. In the event of such an occurrence, General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits as discussed under the section **"LIMITATIONS ON TAXES AND APPROPRIATIONS."**

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

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

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31 of the fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County

Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

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

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

Table 15 presents assessed valuation within the City for each of the last ten fiscal years ending June 30, 2002.

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

Fiscal Year Ending June 30	Secured Property	Unsecured Property	Gross Total	Less Exemptions[2]	Net Assessed Valuations[3]	Annual Assessed Valuation % Change
1993	$59,787,900	$4,059,854	$63,847,754	$2,099,768	$61,747,986	3.40
1994	60,586,129	4,218,892	64,805,021	2,360,741	62,444,280	1.13
1995	60,939,995	4,371,923	65,311,918	2,420,027	62,891,891	0.72
1996	61,793,760	4,303,198	66,096,958	2,489,507	63,607,451	1.14
1997	61,893,902	4,353,543	66,247,445	2,355,174	63,892,271	0.45
1998	63,562,588	4,988,950	68,551,538	2,910,753	65,640,785	2.74
1999	68,648,609	5,337,916	73,986,525	2,994,814	70,991,711	8.15
2000	75,788,751	5,852,822	81,641,573	2,987,620	78,653,953	10.79
2001	82,195,239	6,347,101	88,542,340	3,249,480	85,292,860	8.44
2002	89,259,317	6,838,926	96,098,243	3,572,188	92,526,055	8.48

(1) Includes both locally assessed and State assessed utility property.
(2) Excludes homeowners' and business inventory exemptions.
(3) Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.

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

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

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

Fiscal Year Ending June 30	Tax Levy [1]	Current Year Collections	Current Year Collections as Percentage of Current Tax Levy	Total Tax Collections	Total Collections as Percentage of Current Tax Levy [2]
1992	$127,143	$121,308	95.41%	$125,153	98.43%
1993	120,574	114,821	95.23	119,867	99.41
1994	109,881	105,911	96.39	110,738	100.78
1995	109,754	104,295	95.03	108,192	98.58
1996	111,281	108,137	97.18	110,513	99.31
1997	111,719	108,676	97.28	110,563	98.96
1998	116,912	114,311	97.78	117,429	100.44
1999	127,846	124,267	97.20	126,923	99.28
2000	141,963	137,859	97.11	140,225	98.78
2001	155,060	150,900	97.32	153,406	98.93

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

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

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

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

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

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

(1) This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell, and American Telephone and Telegraph, because valuations within the City cannot be readily determined.
(2) Total assessed valuation includes both secured and unsecured property.
(3) Using total Net Assessed Valuation of $91,142,819,000, which excludes homeowners' exemptions.
(4) The City receives approximately 17.2% of total taxes paid.

Source: County of San Diego Assessor's Office

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

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

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

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

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

Article XIII B of the California Constitution

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

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

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

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

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. In June 1990, San Diego voters approved a four-year increase in the City's Article XIII B limit (for Fiscal Years 1992 through 1995). In the November 1994 election, San Diego voters approved another four-year increase in the City's Article XIII B limit (for Fiscal Years 1996 through 1999). The Gann limit waiver does not provide any additional revenues to the City or allow the City to finance additional services. The City's appropriations limit for Fiscal Year 2002 was established at $603,258,862. It is estimated that the City will be under the Gann Limit by approximately $43.8 million. The impact of the appropriations limit on the City's financial needs in the future is unknown.

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

Articles XIII C and XIII D of the California Constitution

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

Proposition 218 (Article XIII C) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996. The City has not so imposed, extended or increased any such taxes which are currently in effect.

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

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

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

In addition, Proposition 218 (Article XIII D) added several provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Depending on the interpretation of what constitutes a "property related fee" under Article XIII D, there could be future restrictions on the ability of the City's General Fund to charge its

enterprise funds for various services provided. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The City has a number of enterprise funds which are self supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIII D, e.g. the Sewer Enterprise Fund and the Water Enterprise Fund. The fees and charges of all City enterprise funds may be determined to be fees and charges, subject to the initiative power referred to in Article XIII C, as described below. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to support any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

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

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

Article XIIIA Litigation

In June 1978, Article XIIIA of the California Constitution was amended by Proposition 13 to limit, among other things, a County assessor's ability to adjust for inflation to 2% per year. (See "Constitutional and Statutory Limitations on Taxes and Appropriations-Article XIIIA of the California Constitution" discussed previously.) On November 2, 2001, an Orange County Superior Court ruled in *County of Orange v. Orange County Assessment Appeals Board No. 3* (the "Orange County Litigation") that the Orange County Assessor raised a homeowner's assessment in violation of Article XIIIA by increasing the assessment on the homeowner's property by more than 2% per year, when the appreciation in prior years was less than 2% per year. Orange County raised assessments by more than

2% in a single year if the value of a property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. A comparable claim to the one involved in the Orange County Litigation by a landowner in the County of San Diego has been filed for the fiscal year 2000-2001 property tax levy, and the landowner has at least three more years in which to prosecute this claim further.

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

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986, General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after March 1, 1985, be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the California Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. #4 220; 45 Cal.Rptr.2d 207 (1995).

The City believes that, notwithstanding the *Guardino* decision, the provisions of Proposition 62 do not apply to charter cities. The extent of the application of the decision to taxes authorized prior to the date of the decision is also undecided.

Following the Santa Clara decision, several actions were filed challenging taxes imposed by public agencies after the adoption of Proposition 62. On June 4, 2001, the California Supreme Court rendered its opinion in Howard Jarvis Taxpayers Association v. City of La Habra, et al. (2001) 25 Cal. 4th 809 holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes, without voter approval, was not barred by a three (3) year statutory of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period begins anew with each collection. However, the court noted that the case did not concern bond issues or other governmental actions that, by state law, are made subject to the accelerated validation procedures of Code of Civil Procedure sections 860 through 870.5.

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

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

Since the enactment of Proposition 62 in 1986, the City has instituted certain tax increases, and pursuant to such increases has collected approximately $274.7 million through June 30, 2001. The City did not increase existing taxes or impose new taxes during Fiscal Year 2001, or year-to-date of Fiscal Year 2002.

While in the opinion of the City Attorney the provisions of Proposition 62 do not apply to charter cities, this position is being challenged by various groups in other jurisdictions and may be the subject of future litigation. If ultimately found valid and applicable to charter cities, Proposition 62 could affect the ability of the City to continue the imposition of certain taxes, such as sales and transient occupancy taxes, and may further restrict the City's ability to raise revenue.

LABOR RELATIONS

Most City employees are represented by one of four labor organizations. Currently, the American Federation of State and County Municipal Employees (Local 127) represents approximately 2,276 employees; The Municipal Employees Association (the "MEA") and unrepresented employees (who are a part of the MEA bargaining unit for contract purposes) represents approximately 4,935 employees; The Police Officers Association (the "POA") represents approximately 2,073 employees; and the International Association of Firefighters (Local 145) represents approximately 991 employees.

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

A labor agreement with POA is in place through June 30, 2003. POA will receive a 2% increase effective July 2002. The POA will also receive a 1.7% increase in retirement compensation effective July 2002.

PENSION PLAN

All benefited City employees participate with the full-time employees of the San Diego Unified Port District (the "District") in the City Employees' Retirement System ("CERS"). CERS is a public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general, safety (police and fire), and legislative members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service, and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

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

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

INSURANCE, CLAIMS, AND LITIGATION

Workers' Compensation And Long-Term Disability

The City is self-insured for Workers' Compensation and Long-term Disability. The City's self-insured liability for Workers' Compensation and Long-term Disability is accounted for in the Self Insurance Fund. The Self Insurance Fund for Workers' Compensation and Long-Term Disability is supported by contributions from each of the City's operating funds. These contributions are determined by multiplying an annually established rate by the gross salaries payable from each of the City's operating funds. As of June 30, 2001, there is a fund equity deficit in the Self Insurance Fund of approximately $29,281,000. It is anticipated that individual claim settlements will be funded through participating operating fund contributions subsequent to the filing of a claim and prior to its settlement.

Employee Group Health Insurance

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

Public Liability Insurance

The City carries public liability insurance in the amount of $54 million in excess of the City's $1 million self-insured retention. This means that the City may pay up to the first $1 million in any one insured public liability loss and that insured losses above $1 million and up to $54 million are paid by the City's public liability insurance. The City's public liability insurance is purchased in layers, jointly with a number of counties in the California State Association of Counties – Excess Insurance Authority ("CSAC-EIA"), however, there is no sharing of policy limits with other members of CSAC-EIA for public liability claims. The City budgets for public liability claims on an annual basis. The City has incurred total annual liability claims and liability insurance premium payments as shown below in Table 18.

Table 18
CITY OF SAN DIEGO
LIABILITY CLAIMS[1] AND PREMIUMS
Fiscal Years ended June 30, 1997 through 2001

Fiscal Year	Liability Claims Expenses and Settlement Costs	Liability Premium Payments
1997	$ 7,228,465	$1,575,162
1998	9,970,097	1,209,474
1999	7,202,644	1,103,009
2000	9,639,750	1,105,678
2001	13,394,697	1,071,330

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

Source: City of San Diego, Risk Management

Property Insurance

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

The City's "all risk" property insurance policy effective March 31, 2002, through March 31, 2003, will cost approximately $4.5 million. This represents an increase of 250% from the prior year, due to several factors including the events of September 11, 2001.

Earthquake Insurance

Earthquake coverage is provided for the City Hall building and certain City lease financed locations in the amount of $75 million, including coverage for rental interruption caused by

Earthquake. Earthquake coverage is subject to the greater of a 5% or $50,000 per unit deductible, effective through March 31, 2002. The City's earthquake coverage is purchased jointly and shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

Employee Dishonesty and Faithful Performance Insurance

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

LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUNDS OF THE CITY

No Pending Litigation

There is no litigation against the City pending or, to the knowledge of the officers of the City, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the 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. However, taking into account insurance and self-insurance reserves expected to be available to pay liabilities arising from such actions, the City does not expect any or all of such claims to have a material adverse effect on its ability to repay the Notes when due.

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

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

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

international airport in the Otay Mesa region; and (ii) diverting commercial truck traffic onto public streets adjacent to plaintiff's property.

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

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

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

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

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

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

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

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

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

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

Insurance Coverage Issues

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

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

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

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

City Voter Initiatives

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

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

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

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

The City believes that it will either prevail in the litigation or that if Proposition F fails, Proposition E will fail on the same grounds. Regardless of the outcome of the litigation, these lawsuits are unlikely to have any impact to the City's budget or revenue for Fiscal Year 2003, because they relate only to new or increased taxes. The City's proposed budget for Fiscal Year 2003 includes no projected revenues from any such tax enhancing measures.

Other Litigation and Claims

In February 2002, the Public Facilities Financing Authority of the City of San Diego issued lease revenue bonds in the aggregate principal amount of $169,685,000 (the "Ballpark Bonds") for the construction of a state of the art baseball park. The ballpark project has been the subject of a variety of litigation. There are two actions pending in which alleged conflicts of interest of a former City Council member are addressed. The first of these actions is *Skane v. City of San Diego* (San Diego

County Superior Court, Case No. GIC 752505), a taxpayers lawsuit, and the second is *City of San Diego, et al. v. All Persons Interested* (San Diego County Superior Court, Case No. GIC 763487), a validation action brought by the City. A third action, *Simmons v. City of San Diego, et al.* (San Diego County Superior Court, Case No. GIC 779299), is a purported "reverse" validation and a "citizen resident action" brought against the City, the Public Facilities Financing Authority of the City of San Diego and others. On February 8, 2002, the City obtained a validation action judgment from the trial court in the *Simmons* matter. *Simmons* filed an appeal from the judgment against him, and that appeal is in process in the appellate court. The legal opinions delivered in connection with the Ballpark Bonds were qualified in certain respects. The validity of the Ballpark Bonds in light of the above mentioned actions remains undecided. Ballpark Bonds are payable from lease payments charged against the General Fund. The City cannot predict the outcome of the litigation or the impact of the litigation on the General Fund. If the validity of the Ballpark Bonds is overturned, it is possible that claims by other parties related to the Ballpark Bonds could be made which may potentially involve expense to the General Fund.

On March 29, 2002, Brown Field Aviation Park, LLC ("BFAP"), filed a claim seeking damages in excess of $120 million, asserting that the City breached a Memorandum of Understanding regarding BFAP's exclusive right to negotiate its proposal to lease Brown Field and redevelop it. BFAP contends that when the City did not allow them to present their project to City Council the City failed to perform its contractual obligations and denied BFAP its contractual rights and a proper hearing. The City believes that BFAP's claim is without merit. The City is in the process of denying the claim. BFAP will have six months from the date of denial to file a complaint. The City cannot predict whether litigation may be filed, the outcome of the litigation or the impact of the litigation, if any, on the General Fund. If litigation is filed, and is successful, such litigation may potentially involve expense to the General Fund.

INVESTMENT OF FUNDS

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "Investment Pool" or the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Chief Investment Officer. The City is the only participant in the City Pool; there are no other City Pool participants either voluntary or involuntary. The investment objectives of the City Pool are preservation of capital, liquidity and return.

Oversight and Reporting Requirements

The City Treasurer provides an investment report on a monthly basis to the City Manager, the City Auditor and Comptroller and the City Council and annually presents a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council and the City Manager's Investment Advisory Committee. The Investment Advisory Committee was established in 1990 and is comprised of the City Auditor and Comptroller, a Deputy City Manager and three investment professionals from the private sector. The Committee is charged with oversight responsibility to review on an ongoing basis the Investment Guidelines and practices of the City Treasurer and recommend changes. Investments in the City Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section uses outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly portfolio valuation, investment performance statistics and other statistical security reports, which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasury accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, City Manager and other officials.

Authorized Investments

Investments in the City Pool are governed by State law and further restricted by the City's Investment Guidelines. The Guidelines have been written with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, corporate medium term notes, money market instruments and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 35% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Merrill Lynch 1 to 3 year U.S. Treasury Index. Safety of principal and liquidity are the paramount considerations in the management of both portfolios.

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

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of March 31, 2002, approximately 10% of the pool investments mature within 61 days, 14% within 91 days and 25% within 183 days (on a cumulative basis). As of March 31, 2002, the Pool had a weighted average maturity of 1.55 years (565 days) and its weighted yield was 3.76%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.37 years and the Core portfolio had a duration of 1.73 years as of March 31, 2002. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.37% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.73% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City's Investment Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

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

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

(1) Based on Book Value.
(2) These notes consist of both fixed & floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.
(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

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

Derivatives

As of March 31, 2002, and at least since October 14, 1997, the City's Investment Pool has had no assets invested in structured notes or derivatives prohibited in California Government Code 53601. As of March 31, 2002, the City has $7.1 million invested in a simple step-up security purchased on November 9, 2001. The City Treasurer defines a derivative as a financial instrument whose value is derived from an underlying asset, price, index or rate, e.g., options, futures or interest rate swaps. A structured note is an investment instrument that can contain within its structure various combinations of derivatives such as imbedded calls and interest rate swaps that will offer returns to an investor within a defined set of parameters and interest rate scenarios, e.g., step-ups, multiple-indexed notes, inverse floaters or leveraged constant maturity notes. The City Treasurer does not define fixed rate notes, debentures with call features or single index non-leveraged floating rate notes, e.g. monthly LIBOR plus or minus a spread, as structured notes. The City Treasurer limits structured notes eligible for purchase to those investments which, at the time of purchase, have no risk of principal loss if held to maturity and offer an estimated return at purchase that exceeds the return on a comparable fixed term investment in the judgment of the City's Investment Officer. The City Treasurer does not allow the purchase of securities that have a negative amortization of principal. In addition, California law prohibits the purchase by local governments of inverse floaters, range notes or interest only strips derived from pools of mortgages.

Reverse Repurchase Agreements

A reverse repo is a transaction in which the City Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the City Pool's use of the money. Although the City from time to time uses reverse repos, as of March 31, 2002, and since September 18, 1996, the City has had no reverse repos in the City Pool. The Investment Guidelines require that all proceeds of a reverse repo be reinvested in securities whose maturity date or coupon reset date match the maturity of the reverse repo. The Investment Guidelines limit the use of reverse repurchase agreements to 20% of the base value of the City Pool. The City's

reverse repo program is monitored daily and reported monthly, as described above under "Oversight and Reporting Requirements".

BONDED AND OTHER INDEBTEDNESS

General

The City has never failed to pay principal of or interest on any of its debts or lease obligations when due. The City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501 (c) (3) non-profit corporations. These bonds and certificates of participation are not secured by City general funds or revenues.

Long-Term Obligations

As of June 30, 2001, the City had $63,595,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and $388,475,000 aggregate principal amount of long-term general fund lease obligations outstanding. The City's general obligation bond ratings are AAA (Fitch Ratings), Aa1 (Moody's Investors Services) and AA (Standard & Poor's).

The following table is a schedule, by years, of principal and interest payments required to be made by the City or its oversight entities with respect to future obligations, as of June 30, 2001.

Table 20
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS
As of June 30, 2001
(in thousands)

Fiscal Year Ending June 30	General Obligation Bonds	General Fund Lease Obligations	Total Principal and Interest Payable
2002	9,268	37,238	46,506
2003	9,395	35,244	44,639
2004	9,525	35,288	44,813
2005	9,645	35,359	45,004
2006	9,777	32,815	42,592
Thereafter	36,260	508,156	544,416
Subtotal	83,870	684,100	767,970
Less Interest Portion	(20,275)	(295,625)	(315,900)
Total Principal Portion	$63,595	$388,475	$452,070

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

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

Source: City of San Diego, Auditor and Comptroller

Recent Financings

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

Proposed Additional General Fund Lease Commitments

From time to time the City issues debt to fund various capital improvements and projects. In June 2002, the City intends to issue approximately $25.1 million in general fund obligations to fund the rehabilitation and construction of fire stations and life safety facilities throughout the City. The total project cost is estimated at approximately $45.1 million, including $10.9 million for life safety improvements and $34.2 for fire improvements. Additional funding is expected to come from bond proceeds in future fiscal years. On April 16, 2002, the San Diego City Council approved the overall financing plan for the fire and life safety facilities and authorized an ordinance to issue bonds for the project.

Short-Term Borrowings

The City has issued tax anticipation notes since the mid-1960's (except for Fiscal Year 1979) in anticipation of receipt of taxes and other General Fund revenues. The following table presents a 10-year history of the City's short-term borrowings:

Table 21
CITY OF SAN DIEGO
SHORT-TERM BORROWINGS
Fiscal Years Ended June 30, 1993 through May 1, 2002

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

Source: City of San Diego, Auditor and Comptroller

Prior Years' Defeasance of Debt

In prior years, the City, the San Diego Stadium Authority, the Redevelopment Agency, and the Facilities and Equipment Leasing Corporation defeased certain General Fund obligations by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, through certain applicable redemption dates or maturity. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2001, $68,090,000 of defeased bonds are still held by investors.

Operating Lease Commitments

The City has entered into various General Fund lease arrangements under which the City must make annual payments to occupy buildings necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 2001.

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

Fiscal Year Ending June 30	Rent Payable
2002	$ 5,913,218
2003	4,924,290
2004	2,057,269
2005	1,858,148
2006	1,843,564
Thereafter	14,177,597
Total Minimum Payments	$30,774,086

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

Overlapping Debt and Debt Ratios

Table 23 presents a statement of direct and overlapping bonded debt of the City as of October 1, 2001. Revenue bonds, tax allocation bonds and special assessment bonds are not included in the tabulation; lease revenue obligations payable from the City's General Fund or equivalent sources are included.

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

The City periodically issues special assessment or Community Facilities District Mello-Roos bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined extraordinary benefit to the City. These bonds are secured by property owner assessments or special taxes. As of June 30, 2001, there were six 1915 Act District bond issues with aggregate outstanding principal of $47,167,000 and two Community Facilities District (Mello-Roos) bond issues with outstanding principal of $116,830,000. In order to take advantage of a favorable interest rate environment, in February 1999, seven 1915 Act assessment districts were consolidated into one reassessment district through the issuance of lien refunding revenue bonds under the Marks-Roos Bond Local Pooling Act of 1985. Before this refunding, all seven 1915 Act assessment districts had outstanding bonds issued between 1987 and 1992. As of June 30, 2001, there was $33,785,000 in outstanding Marks-Roos revenue bonds associated with this refunding.

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

Table 23
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
as of June 1, 2002

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

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

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

(continued)

Ratios to 2001-02 Assessed Valuation:

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

Ratios to Adjusted Assessed Valuation:

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

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

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

Source: California Municipal Statistics, Inc.

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APPENDIX B

CITY OF SAN DIEGO
GENERAL PURPOSE FINANCIAL STATEMENTS

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CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements and the combining and individual fund and account group financial statements of the City of San Diego, California, as of and for the year ended June 30, 2001, as listed in the foregoing table of contents. These general-purpose financial statements are the responsibility of the City of San Diego, California management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of San Diego, California, as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City of San Diego, California, as of June 30, 2001, and the results of operations of such funds and cash flows of its individual proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 21, 2001, on our consideration of the City of San Diego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City of San Diego, California, taken as a whole and on the combining and individual fund and account group financial statements. The information listed as supporting schedules and statistical data in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of the City of San Diego, California. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the general-purpose, combining and individual fund and account group financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

November 21, 2001 Caldwon, Graham + Osborn

GENERAL PURPOSE FINANCIAL STATEMENTS

THESE STATEMENTS PROVIDE A SUMMARY OVERVIEW OF THE FINANCIAL POSITION OF ALL FUNDS AND ACCOUNT GROUPS AND OF THE OPERATING RESULTS BY FUND TYPES. THEY ALSO SERVE AS AN INTRODUCTION TO THE MORE DETAILED STATEMENTS AND SCHEDULES THAT FOLLOW.

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GENERAL PURPOSE FINANCIAL STATEMENTS

IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, THE FOLLOWING COMBINED STATEMENTS ARE PRESENTED:

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units.

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Unit.

Combined Statement of Revenue, Expenditures and Changes in Undesignated Fund Balances - Budget and Actual (Budgetary Basis) - Budgeted Governmental Fund Types.

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types and Similar Trust Funds and Discretely Presented Component Units.

Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Fund and Discretely Presented Component Units.

Combined Statement of Changes in Plan Net Assets.

Notes to Financial Statements.

Required Supplementary Information:
- Pension Trust Funds Analysis of Funding Progress - Last Six Fiscal Years.

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001
(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS						
Cash or Equity in Pooled Cash and Investments	$ 48 777	$ 262,029	$ 4 498	$ 352,349	$ 691 979	$ 71,703
Cash or Equity in Pooled Cash and Investments - Nonexpendable Trust	---	---	---	---	---	---
Cash With Custodian/Fiscal Agent	---	305	19,951	3	64	---
Cash With Custodian/Fiscal Agent - Nonexpendable Trust	---	---	---	---	---	---
Investments at Fair Value	---	94	150,398	54,522	---	---
Receivables.						
Taxes - Net	32,431	7,199	---	---	---	---
Accounts - Net	38,016	7,717	---	7	78,099	1 813
Claims - Net	16	42	---	---	---	11
Special Assessments - Net	---	458	492	---	15	---
Notes	---	18,290	---	12 577	---	---
Contributions	---	---	---	---	---	2,703
Accrued Interest	3,01[illegible]	2,395	96	4 884	9 478	165
Grants	---	14,774	---	24,690	11,620	---
Loans	---	---	---	---	---	---
Loans to Redevelopment Agency	---	576	---	---	---	---
From Other Funds	87 135	3,157	200	39,867	19,223	---
From Primary Government	---	---	---	---	---	---
From Other Agencies	[illegible],635	327	1,529,[illegible]95	48	---	---
Securities Sold	---	---	---	---	---	---
Advances to Other Funds	10 628	10 861	---	609	37,060	330
Advances to Other Agencies	350	3,726	---	---	---	---
Inventories of Water in Storage	---	---	---	---	12,799	---
Inventories	---	---	---	---	1,117	3,475
Land Held for Resale	---	7,507	---	59,092	---	---
Prepaid and Reimbursable Items and Deposits	152	248	1,397	---	136,470	459
Restricted Assets						
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds	---	---	---	---	20,818	---
Cash with Custodian/Fiscal Agent	---	---	---	---	47	---
Deferred Charges	---	---	---	---	29,934	---
Fixed Assets - Net	---	---	---	---	3,457 465	67,29[illegible]
Amount Available for Payment of General Long-Term Debt	---	---	---	---	---	---
Amount to be Provided for Retirement of General Long-Term Debt	---	---	---	---	---	---
TOTAL ASSETS AND OTHER DEBITS	$ 222,151	$ 339,705	$ 1,706,229	$ 548,648	$ 4,506,188	$ 147,951

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

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Component Unit	Component Unit	Totals Reporting Entity
Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC	(Memorandum Only)
$ 338,339	$ ---	$ ---	$ 1,769,674	$ 2,840	$ 7,357	$ 1,044	$ 1,780,915
139	-		139	---	---	---	139
3	--		20,326	---	---	---	20,326
389	---	-	389	---	--	---	389
3,020,352	--	--	3,225,366	---	28,418	---	3,253,784
---	--	---	39,630	---	---	---	39,630
6,454	-	---	132,106	3,630	855	3,484	140,075
---	--	---	69	---	---	---	69
-	--	---	965	---	---	---	965
---	---	---	30,867	---	63,761	---	94,628
10,641	---	---	13,344	---	---	---	13,344
12,529	---	---	32,560	---	5,449	---	38,009
---	---	---	51,084	---	---	---	51,084
24,061	---	---	24,061	---	---	---	24,061
---	---	---	576	---	---	---	576
--	---	---	149,582	---	---	---	149,582
---	---	---	---	1,026	540	---	1,566
---	---	---	1,531,205	39	3,107	---	1,534,351
20,708	---	---	20,708	---	---	---	20,708
---	--	---	59,488	---	---	---	59,488
---	---	---	4,076	---	---	---	4,076
---	---	---	12,799	---	---	---	12,799
---	--	---	4,592	---	97	---	4,689
---	---	---	66,599	---	---	---	66,599
40	---	---	138,766	898	5	3	139,672
---	---	---	20,818	5,003	754	---	26,575
---	---	---	47	---	---	---	47
---	---	---	29,934	---	---	---	29,934
265	1,618,858	---	5,143,880	24,655	93,528	---	5,262,063
--	---	216,370	216,370	---	---	---	216,370
---	---	2,312,695	2,312,695	10,315	---	---	2,323,010
$ 3,433,920	$ 1,618,858	$ 2,529,065	$ 15,052,715	$ 48,406	$ 203,871	$ 4,531	$ 15,309,523

Continued on next page

COMBINED BALANCE SHEET - ALL FUND TYPES ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001
(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
LIABILITIES						
Accounts Payable	$ 2,057	$ 5,669	$ 27	$ 4,339	$ 50,140	$ 3,972
Accrued Wages and Benefits	27,445	1,377	---	-	23,997	8,971
Other Accrued Liabilities	-	74	- -	---	3,186	---
Employees' 401(k) Plans	---	-	---	---	--	---
Liability Claims	---	--	---	---	7,045	37,366
Matured Bonds, Notes and Interest Payable	---	---	2	---	47	---
Interest Accrued on Long-Term Debt	- -	---	-	---	15,310	279
Long-Term Debt Due Within One Year	---	---	---	---	29,929	4,742
Due to Other Funds	- -	43,369	---	27,691	441	---
Due to Component Unit	---	1,566	---	---	--	---
Due to Other Agencies	---	252	---	149	2,404	-
Deferred Revenue	37,942	52,934	1,529,564	16,017	43,086	3
Advances from Other Funds	--	609	635	- -	-	57,914
Deposits/Advances from Others	---	---	---	--	4,567	---
Sundry Trust Liabilities	---	2,266	---	3,523	-	
Estimated Landfill Closure and Postclosure Care	---	---	---	---	9,920	-
Capital Lease Obligations	---	---	---	---	6,939	17,100
Net Pension Liabilities		-	---	- -	4,433	876
Securities Purchased	---	---	---	---	-	
Contracts and Notes Payable	77,000	---	---	---	1,497,856	--
Loans Payable	---	-	---	---	-	---
Bonds Payable	- -	---	--	---	---	---
TOTAL LIABILITIES	144,444	108,086	1,530,228	51,719	1,699,360	131,173
FUND EQUITY AND OTHER CREDITS						
Investment in General Fixed Assets	--	---	---	---	---	---
Contributed Capital	---	---	---	---	1,630,037	276
Retained Earnings (Deficit)						
Reserved for Claims and Contingencies	---	---	---	---	---	1,096
Reserved for General Long-Term Claims	---	--	---	---	--	(29,281)
Unreserved	---	-	---	---	1,170,856	44,737
Fund Balances						
Reserved for Land Held for Resale	---	7,507	---	69,097	---	
Reserved for Encumbrances	11,150	34,181		117,274	---	-
Reserved for Advances and Deposits	10,978	11,328	---	---	-	---
Reserved for Nonexpendable Trust	-		---			---
Reserved for Pension Benefits	--	--	---	--	---	---
Reserved for Debt Service	---	41,563	174,807	---		---
Unreserved						
Designated for Unrealized Gains	2,287	1,409	1,194	2,268	---	-
Designated for Subsequent Years' Expenditures	2,132	42,643	---	193,078	---	---
Undesignated	51,160	92,986	---	125,217	---	---
TOTAL FUND EQUITY AND OTHER CREDITS	77,707	231,619	176,001	496,929	2,856,888	16,778
TOTAL LIABILITIES AND FUND EQUITY AND OTHER CREDITS	$ 222,151	$ 339,705	$ 1,706,229	$ 548,648	$ 4,556,188	$ 147,951

The accompanying notes are an integral part of the financial statements

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Component Unit	Component Unit	Totals Reporting Entity
Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC	(Memorandum Only)
$ 4,382	$ ---	$ ---	$ 70 536	$ 1,107	$ 1 996	$ 1 187	$ 74,826
342	---	52,122	114,254	1,185	1 818	---	117 257
---	---	---	3 260	2,772	1,449	---	7 481
105,269	---	---	105 269	---	---	---	105 269
---	---	44 963	89,374	---	---	---	89 374
---	---	---	49	9,500	---	---	9,549
---	---	---	15,589	---	---	---	15,589
---	---	---	34,671	---	---	---	34,671
78,061	---	---	149,582	---	---	---	149,582
---	---	---	1,566	---	---	---	1,566
---	---	---	2,755	---	1,188	1,561	5,504
267	---	---	1 679,813	2,005	6,154	---	1 687,972
330	---	---	59,488	---	---	---	59,488
10,456	---	---	15,023	3,600	867	---	19,490
13,695	---	---	19,484	---	---	---	19,484
---	---	---	9,920	---	---	---	9,920
---	---	13 233	37,272	---	---	---	37 272
75	---	25 599	30,983	---	---	---	30,983
204,146	---	---	204,146	---	---	---	204,146
---	---	41 900	1 616,756	---	8,411	---	1 625,167
---	---	3 250	3,250	---	---	---	3 250
---	---	2,347 998	2 347,998	---	---	---	2,347,998
417 023	---	2,529 065	6 61[illegible],038	20,169	21,883	2,748	6 655,838
---	1,618 858	---	1 618,858	24,655	81,568	---	1 725 081
---	---	---	1 630,258	---	---	20	1,630 278
---	---	---	1,096	---	---	---	1 096
---	---	---	(29,281)	---	---	---	(29,281)
---	---	---	1,221,593	---	100 420	1,763	1,323,776
---	---	---	66,599	---	---	---	66,599
4 292	---	---	166,897	---	---	---	166 897
---	---	---	22 306	---	---	---	22 306
12,339	---	---	12 339	---	---	---	12,339
2,996,760	---	---	2 996 760	---	---	---	2,996 760
---	---	---	216,370	---	---	---	216,370
30	---	---	7,188	---	---	---	7 188
700	---	---	238,553	3,582	---	---	242 135
2,776	---	---	272 141	---	---	---	272 141
3,016,897	1,618 858	---	8,441,677	28,237	181,988	1,783	8,653 685
$ 3,433,920	$ 1,618,858	$ 2,529,065	$ 15,052,715	$ 48,406	$ 203,871	$ 4,531	$ 15,309,523

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2001
(In Thousands)

		General
REVENUES		
Property Taxes	$	158,585
Special Assessments		-
Sales Taxes		142,069
Other Local Taxes		109,151
Licenses and Permits		22,154
Fines, Forfeitures and Penalties		29,776
Revenue from Use of Money and Property		40,84[illegible]
Revenue from Federal Agencies		787
Revenue from Other Agencies		87,262
Revenue from Private Sources		---
Charges for Current Services		84,[illegible]56
Other Revenue		2,606
TOTAL REVENUES		677,387
EXPENDITURES		
Current		
General Government		79,800
Community and Economic Development		19,778
Public Safety		369,607
Libraries		26,494
Parks, Recreation and Culture		56,748
Public Works		80,999
Housing and Community Development		---
Public Transportation		--
Employee Relations and Special Projects		548
Miscellaneous and Unallocated		[illegible],367
Cost of Issuance, Bonds and Notes		--
Capital Projects		
Debt Service		
Principal Retirement		--
Interest		4,6[illegible]6
TOTAL EXPENDITURES		639,957
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		37,430
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary/Fiduciary Funds		4,074
Transfers from Other Funds		29,236
Transfers from Component Unit		86
Transfers from Primary Government		---
Transfers to Proprietary Funds		(14,274)
Transfers to Other Funds		(32,601)
Transfers to Component Unit		(650)
Proceeds from Loans Payable		---
Proceeds from Special Assessment Bonds		---
Proceeds from Tax Allocation Bonds		---
TOTAL OTHER FINANCING SOURCES (USES)		(14,129)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES		23,301
Fund Balances at Beginning of Year		54,406
Residual Equity Transfers from (to) Other Funds		--
FUND BALANCES AT END OF YEAR	$	77,707

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

Governmental Fund Types			Fiduciary Fund Type	Totals Primary Government	Component Unit	Totals Reporting Entity
Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	San Diego Convention Center Corporation	(Memorandum Only)
$ 20,033	$ 16,934	$ 6,249	$ ---	$ 201,801	$ ---	$ 201,801
9,026	9,749	---	---	18,775	---	18,775
38,008	---	41,647	---	221,724	---	221,724
84,026	---	---	---	193,177	---	193,177
4,470	---	8,179	---	34,803	---	34,803
3,125	---	1	---	32,902	---	32,902
32,580	11,685	23,239	722	109,067	7,348	116,415
35,938	---	3,411	---	40,136	---	40,136
30,721	94,538	10,347	---	222,868	2,508	225,376
20,667	632	56,284	212	77,795	---	77,795
17,625	---	---	---	101,781	13,860	115,641
3,118	---	5,820	---	11,544	1,182	12,726
299,337	133,538	155,177	934	1,266,373	24,898	1,291,271
7,740	132	8,320	---	95,992	---	95,992
8,052	---	---	---	27,830	---	27,830
36,948	---	25	10	406,590	---	406,590
4,870	---	---	183	31,547	---	31,547
58,175	---	1,272	117	116,312	25,502	141,814
71,279	---	279	1	152,558	---	152,558
13,580	---	61	---	13,641	---	13,641
8	---	---	---	8	---	8
7,878	---	---	9	8,435	---	8,435
4	---	---	---	1,371	---	1,371
---	2,155	1,899	---	4,054	---	4,054
18,334	---	449,435	5,604	473,373	3,808	477,181
1,475	52,758	---	---	54,233	---	54,233
1,620	119,094	---	---	125,330	---	125,330
229,963	174,139	461,291	5,924	1,511,274	29,310	1,540,584
69,374	(40,601)	(306,114)	(4,990)	(244,901)	(4,412)	(249,313)
145	---	1,400	---	5,619	---	5,619
101 575	42,819	62,578	---	236,208	---	236,208
1,050	---	---	---	1,136	---	1,136
---	---	---	---	---	6,638	6,638
(743)	---	(613)	---	(15,630)	---	(15,630)
(170,659)	(2,274)	(30,674)	---	(236,208)	---	(236,208)
(11,733)	---	---	---	(12,383)	---	(12,383)
---	---	222	---	222	---	222
---	4,575	56,264	---	60,839	---	60,839
42,996	13,394	---	---	56,390	---	56 390
(37,369)	58,514	89,177	---	96,193	6,638	102,831
32,005	17,913	(216,937)	(4,990)	(148 708)	2,226	(146,482)
199,239	158,088	713,866	10,099	1,135,698	1,356	1,137,054
375	---	---	---	375	---	375
$ 231,619	$ 176,001	$ 496,929	$ 5,109	$ 987,365	$ 3,582	$ 990,947

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

	General Fund Actual on Budgetary Basis	General Fund Budget
REVENUES		
Property Taxes	$ 158,585	$ 159 874
Special Assessments	---	---
Sales Taxes	142,069	139 696
Other Local Taxes	109,151	99 709
Licenses and Permits	22,154	19 512
Fines Forfeitures and Penalties	29,776	27 143
Revenue from Use of Money and Property	38,554	32 038
Revenue from Federal Agencies	787	875
Revenue from Other Agencies	87,262	75 151
Revenue from Private Sources	---	---
Charges for Current Services	84,156	80,580
Other Revenue	2,606	3,390
Excess Revenue Appropriated	--	4,508
TOTAL REVENUES	675,100	642,476
EXPENDITURES		
Current		
General Government	82 528	85 534
Community and Economic Development	20 643	21 244
Public Safety	373,175	380 181
Libraries	27,094	27 557
Parks Recreation and Culture	59 153	62 419
Public Works	84 118	87 543
Housing and Community Development	---	---
Public Transportation	---	--
Employee Relations and Special Projects	548	636
Miscellaneous and Unallocated	1 418	1,550
Capital Projects	---	---
Debt Service		
Principal Retirement	---	---
Interest	4,616	4,616
TOTAL EXPENDITURES	653,293	671 280
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,807	(28 804)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary/Fiduciary Funds	5,552	11 897
Transfers from Other Funds	29,236	35 465
Transfers from Component Unit	86	86
Transfers to Proprietary Funds	(14 274)	(14 274)
Transfers to Other Funds	(32,601)	(32,601)
Transfers to Component Unit	(650)	(650)
TOTAL OTHER FINANCING SOURCES (USES)	(12 651)	(77)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	9 156	(28,881)
Fund Balances Undesignated at July 1, 2000	29 536	29,536
Reserved for Encumbrances at July 1, 2000	11 628	11,628
Reserved for Debt Service at July 1 2000	---	---
Reserved for Debt Service at June 30, 2001	--	---
Designated for Subsequent Years' Expenditures at July 1 2000	2,972	2,972
Designated for Subsequent Years' Expenditures at June 30 2001	(2,132)	---
FUND BALANCES UNDESIGNATED AT June 30, 2001	$ 51,160	$ 15,255

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

Budgeted Special Revenue Funds		Budgeted Debt Service Funds		Budgeted Capital Projects Funds		Totals (Memorandum Only)		
Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
$ 4,714	$ 4,415	$ 2,358	$ 2,361	$ —	$ —	$ 165 657	$ 166,650	$ (993)
8,919	9,027	—	—	—	—	8,919	9,027	(108)
35 968	40,180	—	—	5,558	1,108	183,595	180,984	2 611
84,026	80,407	—	—	—	—	193,177	180,116	13,061
1,140	1,534	—	—	—	—	23 294	21,046	2,248
3,017	2,409	—	—	—	—	32,793	29,552	3,241
16,932	15,095	168	101	497	21	56,151	47,255	8,896
—	—	—	—	3,195	11,453	3,982	12,328	(8,346)
14,551	14,956	—	—	9,974	16,589	111 787	106,696	5,091
122	42	—	—	3	3	125	45	80
17,066	16,298	—	—	—	—	101,222	96,878	4,344
825	2,878	—	—	4,183	3,187	7,614	9,455	(1,841)
—	—	—	—	—	—	—	4,508	(4,508)
187,280	187,241	2,526	2,462	23,410	32,361	888,316	864,540	23,776
1,287	1,510	—	—	256	2,445	84,071	89,489	5,418
—	—	—	—	—	—	20,643	21,244	601
19,110	21,101	—	—	—	—	392,285	401,282	8,997
—	—	—	—	—	—	27,094	27,557	463
62,359	74,725	—	—	218	2,202	121 730	139,346	17,616
61,064	68,410	—	—	—	—	145,182	155,953	10,771
6,631	7,515	—	—	—	—	6 631	7,515	884
11	130	—	—	—	—	11	130	119
—	—	—	—	—	—	548	636	88
—	—	—	—	—	—	1,418	1,550	132
5,710	13 377	—	—	15,438	29,752	21,148	43,129	21,981
—	—	2,095	2,095	—	—	2,095	2,095	—
—	—	1,498	1,498	—	—	6,114	6,114	—
156,172	186,768	3,593	3,593	15,912	34,399	828,970	896,040	67,070
31,108	473	(1,067)	(1,131)	7,498	(2,038)	59,346	(31,500)	90,846
145	131	—	—	—	—	5,697	12,028	(6,331)
65,761	71,563	1,069	1,069	8,540	8,540	104,606	116,637	(12,031)
1,050	1,000	—	—	—	—	1,136	1,086	50
(743)	(743)	—	—	—	—	(15,017)	(15,017)	—
(107,917)	(110,889)	—	—	(13,452)	(13,452)	(153,970)	(156,942)	2,972
(5,043)	(5,170)	—	—	—	—	(5,693)	(5,820)	127
(46,747)	(44,108)	1,069	1,069	(4,912)	(4 912)	(63 241)	(48,028)	(15,213)
(15,639)	(43,635)	2	(62)	2 586	(6,950)	(3,895)	(79,528)	75,633
44,344	44,260	—	—	3,694	3,694	77,574	77,490	84
13,148	13,148	—	—	2,796	2,796	27,572	27,572	—
—	—	2,993	2,993	—	—	2,993	2,993	—
—	—	(2,995)	(2,995)	—	—	(2,995)	(2,995)	—
11,351	11,351	—	—	1,787	1,787	16,110	16,110	—
(8,324)	—	—	—	(3,724)	—	(14,180)	—	(14,180)
$ 44,880	$ 25,124	$ —	$ (64)	$ 7,139	$ 1,327	$ 103,179	$ 41,642	$ 61,537

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2001
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
OPERATING REVENUES		
Earnings on Investments	$ —	$ —
Sale of Water	195,706	—
Charges for Services	315,378	52 001
Contributions	4	42 639
Revenue from Use of Property	3,442	—
Usage Fees	53,518	30,326
Other	19 675	2,365
TOTAL OPERATING REVENUES	587 723	127,331
OPERATING EXPENSES		
Benefit and Claim Payments	—	47 306
Maintenance and Operations	286,346	45 444
Cost of Materials Issued	319	22 911
Cost of Water Purchased	103,321	—
Taxes	7,803	—
Administration	123,758	15 917
Depreciation and Amortization	59 080	11 103
TOTAL OPERATING EXPENSES	580,627	142,681
OPERATING INCOME (LOSS)	7,096	(15,350)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	54,388	980
Federal Grant Assistance	398	—
Other Agency Grant Assistance	831	—
Debt Service Interest Payments	(72 534)	(561)
Cost of Issuance of Long - Term Debt	(1 204)	—
Gain (Loss) on Sale/Retirement of Fixed Assets	(2 260)	(547)
Distribution to Partner	—	—
Other	13,687	4,951
TOTAL NONOPERATING REVENUES (EXPENSES)	(6,694)	4,823
INCOME (LOSS) BEFORE OPERATING TRANSFERS	402	(10 527)
Operating Transfers In	284	4 212
Transfers from Governmental Funds	613	15 017
Transfers from Primary Government	—	—
Operating Transfers Out	(2,349)	(2,147)
Transfers to Governmental Funds	(2,755)	(2,116)
Transfers to Primary Government	—	—
NET INCOME (LOSS)	(3 805)	4 439
Retained Earnings/Fund Balances at Beginning of Year as Restated	1,181,036	12,113
Residual Equity Transfers to Other Funds	(375)	—
RETAINED EARNINGS/FUND BALANCES AT END OF YEAR	$ 1,176,856	$ 16,552

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

Fiduciary Fund Nonexpendable Trust	Totals Primary Government (Memorandum Only)	Component Unit San Diego Housing Commission	Component Unit San Diego Medical Services Enterprise, LLC	Totals (Memorandum Only)
$ 1,563	$ 1,563	$ —	$ —	$ 1,563
—	195,706	—	—	195,706
63	367,442	6,711	31,123	405,276
—	42,643	—	—	42,643
—	3,442	—	—	3,442
—	83,844	—	—	83,844
—	22,040	4,328	392	26,760
1,626	716,680	11 039	31,515	759 234
—	47,306	—	—	47,306
44	331,834	67,877	30,624	430,335
—	23,230	—	—	23,230
—	103,321	—	—	103,321
—	7,803	—	—	7,803
4	139,679	15,868	—	155,547
—	70,183	2,219	—	72,402
48	723,356	85,964	30,624	839,944
1,578	(6,676)	(74,925)	891	(80,710)
—	55,368	3,012	106	58,486
—	398	73,602	—	74,000
—	831	—	—	831
—	(73,095)	(615)	—	(73,710)
—	(1,204)	—	—	(1,204)
—	(2,807)	—	—	(2,807)
—	—	—	(1,050)	(1,050)
—	18,638	206	—	18,844
—	(1,871)	76,205	(944)	73,390
1 578	(8 547)	1,280	(53)	(7,320)
—	4 496	—	—	4,496
—	15 630	—	—	15,630
—	—	5,095	650	5,745
—	(4,496)	—	—	(4,496)
(748)	(5,619)	—	—	(5,619)
—	—	—	(1,136)	(1,136)
830	1,464	6,375	(539)	7,300
11,509	1 204,658	94,045	2,302	1,301,005
—	(375)	—	—	(375)
$ 12,339	$ 1,205,747	$ 100,420	$ 1,763	$ 1,307,930

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND AND DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2001
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ 7,096	$ (15,350)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities		
Earnings on Investments Included in Operating Income	---	---
Depreciation and Amortization	59,080	11,103
Changes in Assets and Liabilities		
(Increase) Decrease in Receivables		
Accounts and Special Assessments - Net	16,137	(253)
Claims - Net	---	24
Notes - Net	---	---
Contributions	---	(2,703)
From Other Funds	(11,175)	---
From Other Agencies	---	---
From Primary Government	---	---
(Increase) Decrease in Inventories	(2,864)	(189)
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits	91,628	(358)
Increase (Decrease) in Accounts Payable	(5,635)	(431)
Increase (Decrease) in Accrued Wages and Benefits	2,261	1,414
Increase (Decrease) in Other Accrued Liabilities	285	---
Increase (Decrease) in Liability Claims	1,862	1,093
Increase (Decrease) in Due to Other Funds	(1,449)	---
Increase (Decrease) in Due to Other Agencies	3	---
Increase (Decrease) in Deferred Revenue	19,862	(543)
Increase (Decrease) in Net Pension Liabilities	1,207	244
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	814	---
Distribution to Partner	---	---
Other Nonoperating Revenue (Expenses)	13,687	4,951
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	192,799	(998)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Residual Equity Transfers to Other Funds	(375)	---
Operating Transfers In	284	4,212
Transfers from Governmental Funds	613	15,0[illegible]7
Transfers from Primary Government	---	---
Operating Transfers Out	(2,349)	(2,[illegible]47)
Transfers to Governmental Funds	(2,755)	(2,116)
Transfers to Primary Government	---	---
Operating Grants Received	4,609	---
Proceeds from Advances and Deposits	487	5,74[illegible]
Payments for Advances and Deposits	(3,162)	(16)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(2,648)	20,691

The accompanying notes are an integral part of the financial statements

Fiduciary Fund Type Nonexpendable Trust	Totals Primary Government (Memorandum Only)	Component Unit San Diego Housing Commission	Component Unit San Diego Medical Services Enterprise, LLC	Totals (Memorandum Only)
$ 1 578	$ (6,676)	$ (74,925)	$ 891	$ (80,710)
(1,563)	(1,563)	---	---	(1,563)
---	70 183	2,219	---	72,402
1	15,885	60	(1,009)	14,936
---	24	---	---	24
---	---	(4,827)	---	(4,827)
---	(2,703)	---	---	(2,703)
---	(11,175)	---	---	(11,175)
---	---	(1,051)	---	(1,051)
---	---	1,588	---	1,588
---	(3 053)	(9)	---	(3,062)
---	91 270	161	6	91,437
---	(6 066)	108	(63)	(6,021)
---	3,675	30	---	3 705
---	285	323	---	608
---	2,955	---	---	2,955
---	(1 449)	---	---	(1,449)
---	3	(167)	24	(140)
---	19,319	1,131	---	20 450
---	1,451	---	---	1 451
---	814	---	---	814
---	---		(1 050)	(1,050)
---	18,638	206	---	18 844
16	191,817	(75,153)	(1,201)	115,463
---	(375)	---	---	(375)
---	4,496	---	---	4 496
---	15,630	---	---	15 630
---	---	5,095	650	5 745
---	(4,496)	---	---	(4 496)
(748)	(5,619)	---	---	(5,619)
---	---	---	(1,136)	(1 136)
---	4,609	73,602	- -	78 211
---	6 228	---	---	6,228
---	(3,178)	---	---	(3 178)
(748)	17 295	78,697	(486)	95,506

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COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND AND DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2001
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	$ 185,417	$ 7,264
Proceeds from Contributed Capital	38,059	---
Acquisition of Fixed Assets	(265,403)	(20,315)
Proceeds from the Sale of Fixed Assets	346	1,17[illegible]
Principal Payment on Capital Lease	(1,469)	(5,366)
Principal Paid on Long-Term Debt	(25,132)	---
Interest Paid on Long-Term Debt	(72,653)	(550)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(140,835)	(17,796)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase)Sale of Investments	---	---
Interest and Dividends Received on Investments	53,073	951
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	53,073	951
Net Increase (Decrease) in Cash and Cash Equivalents	102,389	2,648
Cash and Cash Equivalents at Beginning of Year	610,519	68,855
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 712,908	$ 71,703

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

Fiduciary Fund Type Nonexpendable Trust	Totals Primary Government (Memorandum Only)	Component Unit San Diego Housing Commission	Component Unit San Diego Medical Services Enterprise, LLC	Totals (Memorandum Only)
$ —	$ 192 681	$ —	$ —	$ 192,681
—	38 059	—	—	38,059
—	(285,718)	(1,219)	—	(286,937)
—	1,517	—	—	1,517
—	(6 835)	(110)	—	(6,945)
—	(25 132)	—	—	(25,132)
—	(73,203)	(615)	—	(73,818)
—	(158 631)	(1,944)	—	(160,575)
(319)	(319)	2,373	—	2,054
1,061	55 085	3,012	106	58,203
742	54 766	5,385	106	60,257
10	105,247	6,985	(1,581)	110,651
518	679,892	1,126	2,625	683,643
$ 528	$ 785,139	$ 8,111	$ 1,044	$ 794,294

COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
Year Ended June 30, 2001
(In Thousands)

		Pension Trust
ADDITIONS		
Contributions	$	175,958
Earnings on Investments		(59,271)
Other Income		371
TOTAL OPERATING ADDITIONS		117,058
DEDUCTIONS		
Benefit and Claim Payments		191,585
Administration		6,252
Depreciation		28
TOTAL OPERATING DEDUCTIONS		197,865
NET INCREASE		(80,807)
NET ASSETS AT BEGINNING OF YEAR		3,080,256
NET ASSETS AT END OF YEAR	$	2,999,449

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT POLICIES

The City of San Diego (the "City") adopted its charter on April 7. 1931 and operates as a municipality in accordance with State laws The City is governed by an elected nine member City Council, including the Mayor. Residents of the City are provided with a wide range of services including parks, recreation. police, fire, water and sewer services.

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

a. Scope of Financial Reporting Entity

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

Blended component units. although legally separate entities, are, in substance. part of the government's operations and so data from these units are combined with data of the primary government Component units should be included in the reporting entity financial statements using the blending method if either of the following criteria are met:

i. The component unit's governing body is substantively the same as the governing body of the primary government (the City).

ii. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively. or almost exclusively, benefits the primary government even though it does not provide services directly to it.

Included within the reporting entity as blended component units:

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

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

A brief description of each blended component unit follows

- Centre City Development Corporation, Inc is a not-for-profit public benefit corporation organized in 1975 by the City to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego Centre City Development Corporation's budget and Governing Board are approved by the City Council and services are provided exclusively to the City

- City of San Diego Metropolitan Transit Development Board Authority was established in 1988 by a joint exercise of powers agreement between the City and the San Diego Metropolitan Development Board The City of San Diego Metropolitan Transit Development Board Authority was created to acquire, construct, maintain repair, manage, operate and control facilities, to provide public capital improvements including public mass transit guideways, public transit systems and related transportation facilities primarily benefiting the City. The City appoints two Councilmembers to the Governing Board and the San Diego Metropolitan Development Board appoints one The Authority provides services almost entirely to the City

- The Convention Center Expansion Financing Authority (the "Authority") is a joint powers authority formed under and pursuant to Section 6500 et seq. of the California Government Code and a Joint Exercise of Powers Agreement dated as of May 1 1996, between the City and the San Diego Unified Port District (the "District") The Authority was established to assist the City and the District with respect to the financing , acquisition and construction of an expansion to the existing convention center The Governing Board is administered by the Mayor, the City Manager the District Direct and a member of the Board of District Commissioners

- The Public Facilities Financing Authority was established in 1991 by a joint exercise of powers agreement between the City and the Redevelopment Agency of the City of San Diego to acquire, construct, maintain repair manage operate and control facilities for public capital improvements The Public Facilities Financing Authority provides services exclusively to the City.

- The Redevelopment Agency of the City of San Diego was established by the City in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the Governing Board and the Redevelopment Agency of the City of San Diego provides services exclusively to the City

- San Diego Data Processing Corporation was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services to public agencies, primarily the City which is the sole member The San Diego Data Processing Corporation's budget and Governing Board are approved by the City Council San Diego Data Processing Corporation provides services almost exclusively to the City

- The San Diego Facilities and Equipment Leasing Corporation is a not-for-profit public benefit corporation established in 1987 by the City for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. The City Council is the Governing Board and the benefit is exclusively to the City

- The San Diego Industrial Development Authority was established in 1983 by the City for the purpo of providing an alternate method of financing to participating parties for economic developme.. purposes The City Council is the Governing Board and benefit is exclusively to the City

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

- The San Diego Open Space Park Facilities District #1 was established in 1978 by the City for the purpose of acquiring open space properties to implement the Open Space Element of the City's General Plan. The boundaries are contiguous with the City's. The City Council is the Governing Board and the benefit is exclusively to the City.

- Southeastern Economic Development Corporation Inc. is a not-for-profit public benefit corporation organized in 1980 by the City to administer certain redevelopment projects in southeast San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego Southeastern Economic Development Corporation's budget and Governing Board are approved by the City Council and services are provided exclusively to the City.

Discretely presented component units, also legally separate entities, have financial data reported in a separate column from the financial data of the primary government to demonstrate they are financially and legally separate from the primary government. Component units should be discretely presented in the reporting entity financial statements when neither of the above two criteria are met

Included within the reporting entity as discretely presented component units:

- San Diego Convention Center Corporation ("SDCCC")

  SDCCC is a not-for-profit public benefit corporation originally organized to market, operate and maintain the San Diego Convention Center. On July 1 1993, SDCCC assumed similar responsibility for the San Diego Concourse as well. The City is a sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints seven voting members out of the nine-member Board of Directors of SDCCC. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC (currently, there is no debt outstanding). SDCCC is discretely presented because it provides services direct to the citizenry

- San Diego Housing Commission ("SDHC")

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

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

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

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Complete financial statements for each of the individual component units may be obtained from the City Auditor and Comptroller's office.

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

b Basis of Presentation

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the City:

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Fund Types) are accounted for through Governmental Fund Types The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination The following are the City's Governmental Fund Types

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those for expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes

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.

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 Fund Types and certain trust funds).

PROPRIETARY FUND TYPES

Proprietary Fund Types are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector and are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City adopts all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its proprietary operations unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements The measurement focus is upon determination of net income, financial position and changes in cash flows The following are the City's Proprietary Fund Types:

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes

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 on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds:

Trust and Agency Funds - Trust and Agency Funds include Expendable, Nonexpendable, Pension Trust and Agency Funds. Nonexpendable and Pension Trust Funds are accounted for and reported in the same manner as Proprietary Fund Types since capital maintenance is critical. Expendable Trust and Agency Funds are accounted for and reported similar to Governmental Fund Types.

ACCOUNT GROUPS

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City, other than those accounted for in the Proprietary Fund Types.

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City, except for that accounted for in the Proprietary Fund Types.

c. Basis of Accounting

Governmental Fund Types, Expendable Trust and Agency Funds:

The modified accrual basis of accounting is followed in the Governmental Fund Types, Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues which are considered susceptible to accrual include real and personal property taxes, other local taxes, refuse collection franchise fees, fines, forfeitures and penalties, motor vehicle license fees, interest and state and federal grants and subventures. In applying the susceptible to accrual concept to state and federal revenues, the legal and contractual requirements of the numerous individual programs are used as guidance

Licenses and permits, charges for services, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

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

SDCCC a discretely presented component unit is accounted for under the modified accrual basis of accounting

Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds

The accrual basis of accounting is used in all Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Estimated unbilled revenues from the Water and Sewer Utility (Enterprise) Funds are recognized at the end of each Fiscal Year. This estimated amount is based on billings during the month following the close of the Fiscal Year.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

SDHC, a discretely presented component unit, is accounted for under the accrual basis of accounting.

SDMSE a discretely presented component unit, is accounted for under the accrual basis of accounting

d Property Taxes

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

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 1 Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Since the passage of California's Proposition 13, beginning with Fiscal Year 1978-79 general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values of properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year.

This Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13)

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Property tax revenue is recognized in the Fiscal Year for which the taxes have been levied, provided the taxes are received within 60 days of the end of the Fiscal Year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

The City provides an allowance for uncollected property taxes of 3% of the outstanding balance which is reflective of historical collections.

e. Budgetary Data

On or before the first meeting in May of each year, the City Manager submits to the City Council a proposed operating and capital improvements budget for the Fiscal Year commencing July 1. Such budget includes annual budgets for the following funds:

General Fund

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

Debt Service Funds
- City of San Diego:
  - Pre-Arraignment Detention Facility
  - Public Safety Communications Project

Capital Projects Funds
- City of San Diego:
  - Capital Outlay

Public hearings are then conducted to obtain citizen comments on the proposed budget. During the month of July the budget is legally adopted through passage of an appropriation ordinance by the City Council.

Budgets are prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered as expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

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

Budgetary control for the City's General Fund is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the other budgeted funds, including those of certain component units is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval except as delegated in the Annual Appropriation Ordinance

Reported budget figures are as originally adopted or subsequently amended plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts Appropriations lapse at year-end to the extent that they have not been expended or encumbered The supplemental budgetary appropriations made in all funds were not material

The following is a reconciliation of the excess (deficiency) of revenues over expenditures prepared on the GAAP basis to that prepared on the budgetary basis (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses - GAAP Basis	$23,301	$ 32,005	$17,913	($216,937)
Add (Deduct) - (Excess) Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - GAAP Basis for Non-Budgeted Funds	0	(31,045)	(17,892)	220,587
Budgeted Funds:				
Deduct.				
Encumbrances Outstanding June 30, 2001	(11,150)	(17,521)	0	(1,052)
Reserved for Advances and Deposits, June 30, 2001	(10,978)	(11,315)	0	0
Designated for Unrealized Gains June 30, 2001	(2,287)	(409)	(19)	(12)
Add - Reserved for Advances and Deposits, June 30, 2000	10,270	12,646	0	0
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - Budgetary Basis	$ 9,156	($15,639)	$ 2	$ 2,586

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

f. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the budgeted Governmental Fund Types

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

g Investments

At July 1, 1997, the City and its blended and discretely presented component units adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires certain investments to be reported at fair value. At June 30, 2001, all such investments are presented at fair value.

h Inventories

Inventories, which consist of both water in storage and operating supplies, are valued at the lower of cost or market Such inventories are expensed when consumed.

i Restricted Assets

Proceeds from debt issuances, funds set aside for payment of Enterprise Fund revenue bonds and SDHC deposits servicing low interest construction and rehabilitation loans made by various banks are classified as restricted assets since their use is limited by applicable bond indentures.

The City is required by state and federal laws and regulations to make annual contributions to finance the closure and postclosure care of its Miramar landfill. Such contributions are presented in the Enterprise Fund financial statements as restricted cash or equity in pooled cash and investments.

j. Land Held for Resale

All property purchases by the Redevelopment Agency are charged to Capital Outlay Expenditures. Land held for resale is capitalized in the Special Revenue and Capital Projects Funds on the lower of acquisition cost or estimated resale value. Fund balances and reserved amounts are equal to the carrying value of land held for resale because such assets are not available to finance the Agency's current operations.

k. Fixed Assets

General Fixed Assets

General fixed assets are those acquired for general governmental purposes. Assets purchased are recorded as expenditures in the Governmental Fund Types and capitalized at cost in the General Fixed Assets Account Group Donated fixed assets are recorded in general fixed assets at estimated fair market value at the date of donation. Certain assets for which actual costs are not practically determined have been valued on the basis of a professional valuation which determined their estimated historical cost.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Fixed assets comprising the infrastructure of the City, including roads bridges pools, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized Such infrastructure assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship and cumulative accountability for capital expenditures is satisfied without recording these assets

No depreciation has been provided on general fixed assets

Proprietary Fund Type Fixed Assets.

Fixed assets owned by the Proprietary Fund Types are stated at cost if purchased or constructed, or at estimated fair market value if received as a donation Depreciation has been provided over the estimated useful lives using the straight-line method The estimated useful lives are as follows

Structures and improvements	30-40 years
Plants, dams canals laterals and equipment	3-150 years

l Interagency Current Receivables, Payables and Long-Term Debt

For reporting purposes the City considers interagency long-term loans to be operating transfers. Accordingly, "loans receivable" are classified as "transfers out" while "loans payable" are classified as "transfers in" Interest on loans are recorded only when due. Loan amounts, including interest, are noted in the footnotes to this report When loans are repaid such transactions are also recorded as "transfers out" (typically from the Debt Service Fund) and "transfers in " and the loan balance is reduced in the footnotes Interagency current receivables and payables are classified as accounts "receivable from" and "due to" other funds

m Long-Term Liabilities

Long-term liabilities expected to be financed in future years from Governmental Fund Types are accounted for in the General Long-Term Debt Account Group Long-term liabilities of all Proprietary Fund Types are accounted for in their respective funds

n. Employee Annual Leave

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees to accumulate between 6 25 weeks and 17 5 weeks, depending on hire date, of earned but unused annual leave Accumulation of these earnings will be paid to employees upon separation from service

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975 is payable upon separation under the following conditions (1) 50% of the employee's accrued amount upon retirement or death or (2) 25% of the employee's accrued amount upon resignation.

In Governmental Fund Types and Expendable Trust Funds, the costs for annual leave that are expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it Amounts not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group No expenditure is reported for these amounts In Proprietary Fund Types annual leave benefits are recorded as a liability in the period earned.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

o. Claims and Judgments

In Governmental Fund Types. the costs of claims and judgments are recorded as expenditures when payments are made. The liability for anticipated future claims is recorded in the General Long-Term Debt Account Group in recognition of the City's obligation to fund such costs from future operations. In Proprietary Fund Types, the costs of claims and judgments are recorded when the liability is incurred and measurable

p. Fund Equity

Portions of fund equity have been reserved for specific purposes Reservations were created to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated or (2) identify the portion of the fund balance that is not 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.

q Statement of Cash Flows

All of the related City's restricted and unrestricted "Cash or Equity in Pooled Cash and Investments" and "Cash with Custodian/Fiscal Agent" are classified as cash and cash equivalents. since they are readily convertible to known amounts of cash or are so close to their maturity that they present an insignificant risk of changes in value because of fluctuations in interest rates.

A summary of noncash investing. capital and financing activities for the year ended June 30, 2001 is as follows (in thousands):

	Enterprise	Internal Service
Non-Cash Fixed Assets Additions		
Donated Assets	$ 151	$ 0
Capital Lease	2,310	6,691
Developer Contributed Assets	30,619	0
Total	$33,080	$6,691

SDHC's investments had a difference between the carrying amount of $21,379,143 and fair value of $21,426,980 equal to $47,837. SDHC did not adjust its books as the difference was deemed immaterial.

r. Memorandum Only - Total Columns on Combined Statements

Amounts in the "Total - Memorandum Only" columns in the combined financial statements are presented to aggregate financial data. The total includes fund types and account groups that use different bases of accounting and the captions "Amount Available for Payment of General Long-Term Debt" and "Amount to be Provided for Retirement of Long-Term Debt" which are not assets in the usual sense.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Data in these columns do not present financial position or results of operations in conformity with GAAP, nor is such data comparable to a consolidation Interfund eliminations have not been made in the aggregation of this data.

s. Comparative Data

Comparative total data for the prior year have been presented in the accompanying combining financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in the combined statements because their inclusion would make certain statements unduly complex and difficult to understand

t. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period

Actual results could differ from those estimates Management believes that the estimates are reasonable.

u Reclassification

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

2. CASH AND INVESTMENTS

As provided for by the Government Code the cash balance of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the accompanying combined balance sheet under the caption "Cash or Equity in Pooled Cash and Investments " Interest earned on pooled investments is deposited to certain participating funds based upon each fund's average daily deposit balance during the allocation period with all remaining interest deposited to the General Fund

"Cash With Custodian/Fiscal Agent" represents funds held by bank trustees on behalf of the City and its component units. For several component units, the purpose of these accounts is to invest cash related to certain outstanding long-term debts and to distribute principal and interest payments to debtholders. For other component units and the City the purpose of these accounts is solely to distribute principal and interest payments to debtholders.

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

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

During the Fiscal Year, the fiscal agent lent Domestic and International Fixed Income and Equity Portfolios and received cash (United States and foreign currency), securities issued or guaranteed by the United States

2. CASH AND INVESTMENTS (Continued)

government, sovereign debt rated A or better, Canadian provincial debt, convertible bonds, and irrevocable letters of credit as collateral. The fiscal agent did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to. (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments. 101.5% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 104.5% of the market value of the loaned securities.

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

During the Fiscal Year, SDCERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2001, such investment pool had an average duration of 75 days and an average weighted maturity of 548 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2001, SDCERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for SDCERS as of June 30, 2001 were $180,088,057and $174,806,297, respectively.

Aggregate cash and investments are as follows at June 30, 2001 (in thousands):

	Total
Cash or equity in pooled cash and investments	$1,769,813
Cash with custodian/fiscal agent, including restricted cash with custodian	20,762
Investments at fair value	3,225,366
Restricted pooled cash and investments	20,818
Total	$5,036,759

Deposits

At June 30, 2001, the carrying amount of the City's cash or equity in pooled cash deposits (cash, non-negotiable certificates of deposit and money market funds) was approximately $243,029,824 and the net balance per various financial institutions was approximately $254,563,634 the difference of which is substantially due to deposits in transit and outstanding checks. Of the balance in financial institutions, approximately $455,472 was covered by federal depository insurance and approximately $248,431,295 was uninsured. Such uninsured deposits are with financial institutions which are individually legally required to have government deposits collateralized with government securities held by the pledging financial institution's trust departments in the government's name. The market value of such pledged securities must equal at least 110% of the government's deposits.

At June 30, 2001, "Cash with Custodian/Fiscal Agent" (approximately $20,762,000) was held by the trust departments of various banks and was not covered by federal depository insurance or collateralized by securities owned by the bank.

2. CASH AND INVESTMENTS (Continued)

Deposits - SDCCC

On June 30. 2001. the carrying amount of SDCCC's cash deposits was $5.315,828 and the bank balance was $6.669 483 Of the bank balance. $100,000 was covered by federal depository insurance. The remainder was covered by collateral held by financial institutions which are individually required by state law to have governmental deposits collateralized at a rate of 110% of the deposit. The collateral is considered to be held in the name of SDCCC

At the end of each business day, all balances over a target balance are automatically transferred and invested in a taxable money market mutual fund which invests in a portfolio of high-quality, short-term securities consistent with SDCCC's investment policy These invested funds are not insured or guaranteed by the FDIC or the U S Government. are not obligations of the bank and are not guaranteed by the bank

Deposits - SDHC

On June 30, 2001. the carrying amount of the SDHC of cash deposits was $7,327,780 and the bank balances was $8,130,299 Of the bank balances, $500.000 is insured. When the balances exceed $500.000, the funds are collateralized according to state statues, which require depositories having public funds on deposit to maintain a pool of securities with the agent of depository having a market value of at least 100% of all public funds on deposit

Deposits - SDMSE

On June 30. 2001, the carrying amount of SDMSE's cash lock box deposits was approximately $1,044,010 and the bank balance was $994,813 Of the bank balance. $100,000 was covered by federal depository insurance The remaining balance was uninsured

Investments

In accordance with the charter of the City of San Diego and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City treasury. This investment policy applies to all of the investment activities of the City. except for the Pension Trust Funds (for which policies are noted below). the proceeds of certain debt issues which are managed and invested by trustees appointed under indenture agreements and the assets of trust funds which are placed in the custody of the Funds Commission by Council ordinance. All financial assets of all other funds are administered in accordance with the provisions noted here

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law as well as by the City's own written investment policy. Within the context of these limitations permissible investments include (1) obligations of the U S. government and federal agencies. (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. (3) bankers' acceptances. (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer (7) financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation (8) mortgage securities purchased under an agreement to resell. (9) medium-term corporate notes of a maximum of five years maturity issued by corporations operating within the United States and (10) shares of beneficial interest issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code.

2. CASH AND INVESTMENTS (Continued)

All non-negotiable time certificates of deposit are to be fully collateralized with mortgages or eligible securities in accordance with state law.

The City invests in the State of California Local Agency Investment Fund ("LAIF"). a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available The City valued its investments in LAIF as of June 30, 2001 by multiplying its account balance with LAIF times a fair value factor determined by LAIF This fair value factor was determined by dividing all LAIF participants total aggregate fair value by total aggregate amortized cost

Accordingly, as of June 30, 2001, the City's investments in LAIF at fair value amounts to $12,614,834 using a LAIF value factor of 1.002237525.

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

The City, through its Investment Policy. has identified the safety of principal as the foremost objective of the City. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk. credit risk and market risk.

Credit Risk shall be mitigated by investing in only very safe securities and by diversifying the investment portfolio so that failure of any one issuer would not unduly harm the City's cash flow.

Market Risk shall be mitigated by limiting the average maturity of the City's portfolio to three years and the maximum maturity of any one security in the portfolio to five years, and by structuring the portfolio with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements. Trading is prohibited when cash or securities are not available to pay for the securities being purchased. The taking of short positions, that is, selling securities which the City does not own, is also prohibited. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall investment return.

The following investments below are additionally restricted as to percentage of the cost value of the portfolio in any one issuer name up to a maximum of 5%. The total cost value invested in any one issuer name will not exceed 5% of an issuer's net worth. An additional 5%, or a total of 10%, of the cost value of the portfolio in any one issuer name can be authorized upon written approval of the City Treasurer.

- Bankers Acceptances
- Commercial Paper
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Local Agency Investment Fund

Ineligible Investments not described in the City's Investment Policy, including, but not limited to, common stocks and long-term corporate notes/bonds are prohibited from use in the portfolio. A copy of the City's Investment Policy may be obtained from the City Treasurer's office

2. CASH AND INVESTMENTS (Continued)

Investments for the Pension Trust Fund are authorized to be made by the Board of Administration of the City Employees' Retirement System in accordance with the charter of the City The Board is authorized to invest in any bonds or securities which are allowed by general law for savings banks. The Board has further restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "prudent man" rule as set forth in state law

These investments include, but are not limited to, bonds. notes or other obligations, real estate investments, common stocks, preferred stocks and pooled vehicles. Investments can also be made in financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation

Investment policies permit the Pension Trust Fund to invest in financial futures contracts. Financial futures contracts, which are recorded at market value, are not hedges of existing assets. and changes in the market value of the contract result in recognition of a gain or loss.

A copy of the Pension Trust Fund's investment policy may be obtained from the Retirement office.

Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value. the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable In fiscal year 2001, however, the City did not enter into any reverse repurchase agreements As such, there was no such credit exposure at year-end

The City's investments at June 30, 2001, that can be specifically identified as to credit risk are categorized as described below including required disclosures for securities lending (in thousands):

Category 1 Insured or registered. with securities held by the City or its agent in the City's name.

Category 2. Uninsured and unregistered with securities held by the counterparty's trust department or agent in the City's name

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name

2. CASH AND INVESTMENTS (Continued)

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

	Category			Fair
	1	2	3	Value
U.S. government and agency securities	$1,308,469	$102,002	$0	$1,410,471
Commercial paper	137,688	0	0	137,688
Equity securities (stocks):				
- Not on securities loan	1,401,784	0	0	1,401,784
- On securities loan for securities collateral	181	0	0	181
Corporate bonds/notes	127,619	0	0	127,619
Fixed income (bonds)	797,034	0	0	797,034
Repurchase Agreements	64,550	0	0	64,550
Negotiable CD's	10,014	0	0	10,014
	$3,847,339	$102,002	$0	$3,949,341

Investments not subject to categorization:	
Fixed income (bonds) on securities loan for cash collateral	18,587
Equity securities (stocks) on securities loan for cash collateral	156,039
Investment with California Local Agency Investment Fund	12,587
Mutual funds	473,595
Real estate/mineral interest funds	156,010
Mortgage Notes	1,618
Other	5,190
Total investments	$4,772,967

2. CASH AND INVESTMENTS (Continued)

Included in the preceding table are investments under the Pension Trust Fund - City Employees Retirement System (SDCERS) with required disclosures for securities lending (in thousands) Following below are those investments specifically attributable to SDCERS

	Category			Fair
	1	2	3	Value
U S. government and agency securities	$ 797,034	$ 0	$ 0	$ 797,034
Equity securities (stocks)				
- Not on securities loan	1,401 784	0	0	1,401,784
- On securities loan for securities collateral	181	0	0	181
	$2,198,999	$ 0	$ 0	$2,198,999
Investments not subject to categorization:				
Fixed income (bonds) on securities loan for cash collateral				18,587
Equity securities (stocks) on securities loan for cash collateral				156,038
Real estate/mineral interest funds				156,010
Mortgage Notes				1,618
Total investments				$2,531,252

Summary of Investments - SDHC

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

	Category			Fair
	1	2	3	Value
Commercial paper	$7,039	$ 0	$ 0	$ 7,039
	$7,039	$ 0	$ 0	$ 7,039
Investments not subject to categorization:				
Investment with California Local Agency Investment Fund				21,379
Total investments				$28,418

Summary of Deposits and Investments

Following is a summary of the carrying amount of cash deposits and investments at June 30, 2001 (in thousands):

Cash and pooled cash deposits	$ 243 030
Cash with custodian/fiscal agent	20 762
Investments	4 772,967
Total	$5,036,759

3. FIXED ASSETS

General Fixed Assets

A summary of changes in general fixed assets for the year ended June 30, 2001 is as follows (in thousands):

	Balance July 1, 2000	Additions	Adjustments and Transfers	Deletions	Balance June 30,2001
Land	$ 450,304	$ 36,716	$ 0	($6,020)	$ 481,000
Structures and Improvements	497,514	41,011	199	(9,281)	529,443
Equipment	180,480	18,999	4,290	(7,449)	196,320
Subtotal	1,128,298	96,726	4,489	(22,750)	1,206,763
Construction in Progress	332,810	126,289	(4,291)	(42,713)	412,095
Total	$1,461,108	$223,015	$ 198	($65,463)	$1,618,858

The following is a summary of general fixed assets for SDCCC at June 30, 2001 (in thousands):

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Furniture, Fixtures and Equipment	$ 5,901	$2,298	$ 3	$ 8,202
Leasehold Improvements	15,173	1,509	(229)	16,453
Total	$21,074	$3,807	($226)	$24,655

Proprietary Fund Type Fixed Assets

A summary of Proprietary Fund Type Fixed Assets at June 30, 2001 is as follows (in thousands):

	Enterprise Funds	Internal Service Funds
Land and Buildings	$50,600	$ 1,383
Property, Plant and Equipment	1,402,438	118,850
Other	976,780	0
Construction in progress	1,606,504	11,885
Total	4,036,322	132,118
Less - Accumulated depreciation	(578,857)	(64,826)
Total, net	$3,457,465	$ 67,292

3. FIXED ASSETS (Continued)

Trust and Agency Fund Type Fixed Assets

The following is a summary of fixed assets at June 30, 2001 (in thousands).

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Equipment	$553	$ 0	$0	$553
Accumulated depreciation	(260)	(28)	0	(288)
Total	$293	($28)	$0	$265

San Diego Housing Commission

The following is a summary of fixed assets at June 30, 2001 (in thousands).

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	$ 38,723	$ 770	$0	$39,493
Structures and Improvements	76,394	0	0	76,394
Equipment	2,509	555	0	3,064
Construction in Progress	6,263	(106)	0	6,157
Subtotal	123,889	1,219	0	125,108
Accumulated depreciation	(29,362)	(2,218)	0	(31,580)
Total	$94,527	($999)	$0	$93,528

Construction In Progress

A summary of construction in progress (CIP) at June 30, 2001 is as follows (in thousands):

General Fixed Asset Account Group	$ 412,095
Enterprise Funds	
Airports	762
Environmental Services	77,160
Golf Course	5,899
Sewer Utility	1,137,078
Water Utility	385,605
Total Enterprise Funds	1,606,504
Internal Service Funds:	
Central Garage and Machine Shop	11,885
Total Construction in Progress	$2,030,484

3. FIXED ASSETS (Continued)

The Sewer Utility Fund and Water Utility Fund CIP of $1,137,078,059 and $385,605,000 respectively, represent 75% of total CIP for the year ended June 30, 2001.

The Sewer Utility's construction plans for various projects were estimated to cost approximately $178,106,000. As of June 30, 2001, the Sewer Utility's contractual commitments for the projects totaled approximately $75,809,000.

The Water Utility's construction plans for various projects were estimated to cost approximately $129,593,000. As of June 30, 2001 the Water Utility's contractual commitments for the projects totaled approximately $77,764,000

4. GENERAL LONG-TERM DEBT

General long-term debt consists of general obligation bonds, revenue bonds, certificates of participation ("COP"), special assessment/Mello-Roos bonds with governmental commitment, tax allocation bonds, contracts payable, notes payable, loans payable, capital lease obligations, pension obligations, liability claims (also see Note 18 and Note 19 for more information on contingencies and third party debt) and accrued annual leave. A summary of these obligations as recorded in the General Long-Term Debt Account Group as of June 30, 2001 is as follows (in thousands):

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
General Obligation Bonds:				
Open Space Park Refunding Bonds, Series 1994	5.0-6.0%	2009	$ 64,260	$45,520
Municipal Improvement Bonds, Series 1991	5 1-6.65	2012	25,500	18,075
Total General Obligation Bonds				$63,595
Revenue Bonds/COPs:				
Public Facilities Financing Authority Sewer Revenue Bonds, Series A & B 1997	3 7-5.61	2027	250,000	233,455
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2-7.45	2027	68,425	65,905
Public Facilities Financing Authority Sewer Revenue Bonds, Series 1995	3.9-6.0	2025	350,000	323,935
Public Facilities Financing Authority Sewer Revenue Bonds, Series 1993	2.8-5 25	2023	250,000	213,185
Metropolitan Transit Development Board Authority Lease Revenue Refunding Bonds, Series 1994	4 25-5 625	2009	66,570	40,505
Metropolitan Transit Development Board Authority Lease Revenue Bonds, Series 1993	4 5-5 375	2023	19,515	16,430
San Diego Facilities Equipment Leasing Corp Certificates of Participation Refunding Series 1996B	4.0-5.7	2011	11,720	10,720
San Diego Facilities Equipment Leasing Corp. Certificates of Participation, Series 1996A	4.0-5.6	2010	33,430	26,975
San Diego Facilities Equipment Leasing Corp Certificates of Participation, Series 1993	3.9-5.6	2023	27,985	21,040
Certificates of Participation, Series 1991	8 0	2002	8,500	1,900
Public Facilities Financing Authority Sewer Revenue Bonds, Series A & B 1999	3 50-5 125	2029	315,410	307,715
Public Facilities Financing Authority Refunding, 1999A & B	3 75-5 1	2017	38,145	33,785
San Diego Facilities & Equipment Leasing Corp. Certificates of Undivided Interests, Series 1998	4 0-5.375	2029	385,000	385,000
Convention Center Expansion Authority Lease Revenue Bonds, Series 1998A	3 8-4 875	2018	205,000	205,000
Centre City Parking Revenue Bonds, Series 1999A	4 5-6 4	2025	12 105	12,105
Total Revenue Bonds/COPs				$1,897,655

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Special Assessment/Mello-Roos Bonds with Governmental Commitment:				
1915 Act Via De La Valle Improvement Bonds, issued October 1986	6.0-6.8%	2003	$ 2,115	$ 210
1915 Act De La Fuente Business Park Phase I Improvement Bonds, issued April 1989	7.0-7 7	2014	4,897	3,160
1915 Act International Business Center Project Improvement Bonds, Issued September 1990	6 1-7 4	2015	4,172	2,810
1915 Act Otay Mesa Industrial Park Improvement Bonds, issued May 1992	5.5-7 95	2013	2,235	595
1915 Act De La Fuente Business Park Phase II Improvement Bonds, issued July 1992	4.0-7 1	2017	5,987	4,940
Special Tax Bonds, 1998 Series Miramar Ranch North, issued July 1998	3.75-5.375	2020	59,465	56,460
Reassessment District Bonds, Series 1999	4.86-7.857	2018	38,145	35,452
Special Tax Bonds, 2000 Series Santaluz issued November 2000	6.333	2031	60,370	60,370
Total Special Assessment/Mello-Roos Bonds With Governmental Commitment				$163,997
Tax Allocation Bonds:				
Centre City Redevelopment Project Tax Allocation Refunding Bonds Series 1992, issued October 1992	3.0-6 0%	2009	$ 36,935	$22,080
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993A & B, issued November 1993	4.875-6.5	2018	54,350	38,176
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	7.8-9.75	2013	1,400	1,090
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995A & B issued June 1995	4.4-8.2	2020	5,155	4,720
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	4.75-6.5	2020	3,750	2,930
Horton Plaza Tax Allocation Refunding Bonds Series 1996 A & B	3.8-6.625	2017	22,800	19,920

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A. B. C. Issued March 1999	3 0-6 25	2024	50,650	50,265
City Heights Redevelopment Tax Allocation Bonds. Series 1999 A & B. Issued April 1999	4 5-6 4	2028	15,830	15,830
Southcrest Redevelopment Project Tax Allocation Bonds. Series 2001. Issued May 2001	Various	2025	1,860	1 845
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000A &B, Issued April 2000	Various	2024	27,490	27,490
Central Imperial Redevelopment Project Tax Allocation Bonds. Series 2000 Issued May 2000 .	Various	2030	3,395	3,380
North Bay Redevelopment Project Tax Allocation Bonds Series 2000. Issued October 2000	Various	2031	20 000	20,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000. Issued November 2000	Various	2022	15 025	15,025
Total Tax Allocation Bonds				222,751
Total Bonds Payable				2,347,998
Contracts Payable.				
Contract Payable to City of National City dated March 1987	7 5	2002	2,171	624
Contract Payable to County of San Diego. dated June 1987	11 0	2013	423	90
Contract Payable to SDSU Foundation dated December 1991	5.6	2010	1,598	1,598
Contract Payable to MTDB. dated January 2000	4 1	2015	1,626	1,626
Total Contracts Payable				3,938
Notes Payable				
Notes payable to San Diego Association of Governments. various dates	Various	Various	45,797	26,382

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Note payable to Horton, dated December 1991	0	2002	34	34
Note payable to Lorren Daro, dated March 1995	8.0	2005	257	123
Note payable to David Engel, dated December 1994	6.0	2004	4,800	4,800
Note payable to Wal-Mart, dated June 1998	4.9	2017	1,308	1,308
Note payable to City Heights, Not yet dated	6.0	2011	5,315	5,315
Total Notes Payable				37,962
Loans Payable.				
JMI Padres - Centre City	8.0	2009	3,272	3,250
Total Loans Payable				3,250
Capital Lease Obligations				13,233
Pension Obligations				25,599
Liability Claims				44,963
Accrued Annual Leave				52,122
Total General Long-Term Debt				$2,529,065

The following is a summary of changes in general long-term debt for the year ended June 30, 2001 (in thousands):

	Balance July 1, 2000	Additions	Retirements	Balance June 30,2001
General Obligation Bonds	$ 68,700	$ 0	$ 5,105	$ 63,595
Revenue Bonds/COPs	1,933,440	0	35,785	1,897,655
Special Assessment/Mello-Roos Bonds With Governmental Commitment	108,180	60,370	4,553	163,997
Tax Allocation Bonds	171,101	56,415	4,765	222,751
Contracts Payable	1,697	2,241	0	3,938
Notes Payable	33,606	6,657	2,301	37,962
Loans Payable	5,972	0	2,722	3,250
Capital Lease Obligations	14,284	0	1,051	13,233
Pension Obligations	24,264	1,335	0	25,599
Liability Claims	32,983	11,980	0	44,963
Accrued Annual Leave	48,275	3,847	0	52,122
Total	$2,442,502	$142,845	$56,282	$2,529,065

4. GENERAL LONG-TERM DEBT (Continued)

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

The following is a summary of changes in general long-term debt for SDCCC at June 30, 2001 (in thousands):

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Accrued Annual Leave	$ 669	$ 146	$ 0	$ 815
Notes Payable	10,000	0	(500)	9,500
Total Long-Term Debt	$ 10,669	$ 146	($500)	$ 10,315

General obligation bonds are secured by a pledge of the full faith and credit of the City or by a pledge of the City to levy ad valorem property taxes without limitation.

Revenue bonds are secured by a pledge of specific revenue generally derived from fees or service charges related to the operation of the project being financed

COPs provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds

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

The annual requirements to amortize such long-term debt outstanding as of June 30, 2001, including interest payments to maturity, are as follows (in thousands).

Year Ending June 30,	General Obligation Bonds	Revenue Bonds/ COPs	Special Assessment/ Mello-Roos Bonds	Tax Allocation Bonds	Contracts Payable	Notes Payable	Loans Payable	Capital Lease Obligations
2002	$ 11,078	$ 143,438	$13,161	$ 17,396	$4,123	$ 3,458	$ 567	$ 4,670
2003	9,428	141,999	13,679	17,670	230	3,596	305	3,901
2004	9,566	142,060	13,739	17,763	229	3,596	330	2,580
2005	9,699	142 136	14,012	17,847	229	8,228	356	1,853
2006	9,841	139,600	14,100	17,967	229	3,271	384	1,416
Thereafter	34,260	2,686,013	232,851	303,768	1,495	29,829	4,598	306
Subtotal	83,872	3,395,246	301,542	392,411	6,535	51,978	6,540	14,726
Less Interest	(20,277)	(1,497,591)	(137,545)	(169,660)	(2,597)	(14,016)	(3,290)	(1,493)
Total	$ 63,595	$1,897,655	$163,997	$222,751	$3,938	$37,962	$3,250	$13,233

Installment Purchase Agreement

The City and the Public Facilities Financing Authority ("PFFA") entered into an installment purchase agreement for the acquisition construction, installation, and improvement of its wastewater system. PFFA obtained financing for the project through issuance of bonds secured by installment payments to be made by the City. The City has pledged revenues from its wastewater system to finance these installment payments in an amount equal to the principal and interest requirements for the associated bonds.

4. GENERAL LONG-TERM DEBT (Continued)

Defeasance of Debt

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

At June 30, 2001, $68,090,000 of defeased bonds including those defeased in prior years are still outstanding.

5. PROPRIETARY FUND TYPE LONG-TERM DEBT

Proprietary Fund Type long-term debt as of June 30, 2001 is comprised of the following (in thousands):

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Notes Payable:				
Installment Purchase Agreement, 1993	2.8-5.25%	2023	$250,000	$ 213,185
Installment Purchase Agreement, 1995	3.9-5.0	2025	350,000	323,935
Installment Purchase Agreement, 1997	3.7-5.61	2027	250,000	233,455
Installment Purchase Agreement, 1998	4.0-5.375	2028	385,000	385,000
Installment Purchase Agreement, 1999	3.9-5.0	2029	315,410	307,715
Total Notes Payable				$1,463,290
Loans Payable:				
Loan Payable to County of San Diego	0	N/A	100	100
Loan Payable to Water Resources Control Board	0	N/A	17,156	60,122
Total Loans Payable				60,222
Line-of-Credit with Sanwa Bank	Various			4,169
Capital Lease Obligations for Various Equipment, Various Dates	Various	Various	Various	28,885
Liability Claims				44,411
Accrued Annual Leave				16,381
Pension Liability				5,309
Total Proprietary Fund Type Debt				$1,622,667

5. PROPRIETARY FUND TYPE LONG-TERM DEBT (Continued)

Annual requirements to amortize such long-term debt as of June 30, 2001, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30,	Notes Payable	Capital Lease Obligations
2002	$102,428	$7,326
2003	102,418	7,482
2004	102,424	6,451
2005	102,430	5,217
2006	102,426	3,702
Thereafter	2,130,165	2,659
Total	2,642,291	32,837
Less-Amounts Representing Interest	(1,179,001)	(3,952)
Total	$1,463,290	$28,885

6. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM DEBT

Discretely presented component unit long-term debt as of June 30, 2001 is comprised as follows (in thousands):

San Diego Housing Commission

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Note payable to Washington Mutual, dated June 1995	Various	2011	$4,725	$4,332
Note payable to Bank of America, dated February 1985	5.0-10.2%	2025	3,789	3,383
Note payable to Redevelopment Agency dated March 1992	0.0	2022	696	696
Total Notes Payable				$8,411

Annual requirements to amortize such long-term debt as of June 30, 2001 to maturity, are as follows (in thousands)

Year Ending June 30,	
2002	$ 127
2003	133
2004	140
2005	147
2006	154
Thereafter	7,710
Total	$8,411

Interest is not included due to the rates being variable. These rates are based upon the Federal Home Loa Bank of San Francisco 11th District Cost of Funds Index plus 1.95%

7. INTERAGENCY LONG-TERM DEBT

Long-term debt between the City and its component units has been eliminated in this report. During the year, the Redevelopment Agency of the City of San Diego has repaid $6,047,005 of principal and $10,842,889 of interest to the City and the City has advanced $11,403,368 to the Agency. Interest of 10.5%, totaling $14,465,444 was accrued to the amounts owed for the year. At June 30, 2001, interagency loans (including interest) were as follows (in thousands):

	Loans and Note Receivable	Loans and Note Payable
City of San Diego	$256,351	$ 0
Redevelopment Agency of the City of San Diego	0	256,351
Total	$256,351	$256,351

8. LEASE COMMITMENTS

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2001 (in thousands):

Year Ending June 30,	
2002	$11,017
2003	7,535
2004	3,031
2005	2,832
2006	2,589
Thereafter	17,050
Total	$44,054

Rent expense as related to operating leases was $11,103,181 for the year ended June 30, 2001.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. A schedule of future minimum lease payments under capital leases as of June 30, 2001 is provided in Notes 4 and 5. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group.

Lease Revenues

The City has operating leases for certain land, buildings and facilities with tenants and concessionaires who will provide the following minimum annual lease payments (in thousands):

8. LEASE COMMITMENTS (Continued)

Year Ending June 30,	
2002	$ 21,874
2003	21,464
2004	20,668
2005	20,029
2006	19,717
Thereafter	591,217
Total	$694,969

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns. Contingent rentals amounted to $37,276,359 in the year ended June 30, 2001.

9. DEFERRED COMPENSATION PLAN

City of San Diego

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of plan participants and their beneficiaries.

Fair value of the plan assets was $116,760,663 at June 30, 2001.

10. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees.

DEFINED BENEFIT PLAN

a. Plan Description

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the San Diego City Employees' Retirement System ("SDCERS").

SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members

In 1963, through an agreement between the City and the District, employees of the District became members of SDCERS.

The Plan is a defined benefit plan which covers all eligible employees of the City and the District. The Plan is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, the length of membership service and the member's final compensation earnable based on the highest one-year period

10. PENSION PLANS (Continued)

The Plan provisions applicable to general members are generally applicable to the District's general members and those applicable to lifeguard members are generally applicable to the District's safety members.

All full-time City and District employees are eligible to participate in the Plan. Salaried classified employees become members of the system upon employment. Salaried unclassified employees hired on or after August 11. 1995 become members upon employment.

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a pension trust fund.

SDCERS issues a stand-alone financial report which is available at its office located at 401 B Street. Suite 400, San Diego, California 92101

b. Funding Policy

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (20 years remaining).

Employees are required to contribute a percentage of their annual salary to the Plan. Contributions vary according to age at entry into the plan and salary. The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. Prior to June 30, 1993, contributions were based on the entry age normal cost method of valuation.

During the period July 1, 2000 to June 30, 2001 contributions totaling $81,914,000 ($45,553,000 employer and $36,361,000 employee) were made. Of the employer contributions, $36,443,000 was applied to normal cost and $9,110,000 was applied to unfunded accrued liability All of the employer offset contributions were applied to normal cost.

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

The changes provide the employer contribution rates be "ramped up" to the actuarially recommended rate in .50 percent increments over a ten year period at such time it was projected that the Projected Unit Credit (PUC) and Entry Age Normal (EAN) rates would be equal and the SDCERS would convert to EAN. The actuary calculated the present value of the difference between the employer contribution rate and actuarial rates over the ten year period and this amount was funded in a reserve. This "Corridor" funding method is unique to the SDCERS and therefore is not one of the six funding methods formally sanctioned by the GASB for expending purposes. As a result for June 30, 2001, the actuary rates are reported to be $30,983,000 more than paid by the City which, technically per GASB 27 effective for periods beginning

10. PENSION PLANS (Continued)

after June 15, 1997, is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve. The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO

c. Annual Required Contribution

The annual required contribution for the current year was determined as part of the June 30 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) projected salary increases of 4.75% per year. Both (a) and (b) included an inflation rate of 4 5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001 was 20 years

d Three-Year Trend Analysis

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

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation
6/30/98	$40,863	75 81%	$15,124
6/30/99	44,008	78 32	23,046
6/30/00	50,044	78 66	30,983

e Net Pension Obligation Three Year-Trend Analysis

The following table shows the calculation of the City's NPO for the most current year available and preceding years (in thousands)

Fiscal Year Ending	Actuarial Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Amortization Factor	APC	Contributions Made	Change in NPO	NPO
6/30/98	$40,660	$ 478	$ 275	21.69	$40,863	$30,979	$9,149	$15,124
6/30/99	43,504	1,210	706	21 41	44,008	34,467	7,922	23,046
6/30/00	49,276	1,844	1,076	21.41	50,044	39,364	7,937	30,983

DEFINED CONTRIBUTION PLANS

a Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan ("SPSP"), a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, which provides pension benefits for eligible full-time employees In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4 5% and 3 05%, respectively, of total salary

10. PENSION PLANS (Continued)

The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement.

The City and the covered employees contributed approximately $41,556,000 for the year ending June 30, 2001. As of June 30, 2001, fair value of Plan assets totaled approximately $390,319,000. SPSP is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

In addition, the City established a 401(k) Plan effective July 1, 1985 The plan is a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, to provide pension benefits for all eligible full-time employees. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program

The employees' 401(k) contributions were calculated pursuant to various combination arrangements. The covered employees and the City contributed approximately $19,316,000 during the Fiscal Year.

As of June 30, 2001, fair value of Plan assets totaled approximately $104,909,000. The 401(k) Plan is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as an Agency Fund.

b. Centre City Development Corporation ("CCDC") has a Money Purchase Pension Plan covering all full-time permanent employees. The plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes quarterly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service.

CCDC's total payroll in Fiscal Year 2001 was approximately $2,445,056 CCDC contributions were calculated using the base salary amount of approximately $2,326,716. CCDC made the required 8% contribution, amounting to approximately $186,137 (net of forfeitures) for Fiscal Year 2001.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous full-time permanent employees The plan is a defined contribution plan. Employees are eligible to participate the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 10% of the total semi-monthly compensation for all employees.

CCDC's contributions for each employee are fully vested at time of contribution.

CCDC's total payroll in Fiscal Year 2001 was approximately $2,445,056. CCDC contributions were calculated using the base salary amount of approximately $2,326,716. CCDC made the required 10% contribution amounting to approximately $232,671 for Fiscal Year 2001. The Tax Deferred Annuity Plan includes amounts deposited by employees prior to CCDC becoming a contributor to the Plan.

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected.

10. PENSION PLANS (Continued)

c The San Diego Convention Center Corporation Money Purchase Pension Plan (the "Plan") became effective January 1, 1986 The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed to the plan plus investment earnings and allocated forfeitures, less allowable plan expenses The Plan covers employees not otherwise covered through a collective bargaining unit agreement Employees are eligible at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on their hire date (or any subsequent plan year) during which they complete 1,000 hours of service. A plan year is defined as a calendar year. Plan balances for each eligible employee are vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years Forfeitures and Plan expenses are allocated in accordance with Plan provisions

Required contributions were calculated using the covered compensation amount of approximately $8,806,412 SDCCC has funded the required contribution as of June 30, 2001

For the Fiscal Year ended June 30, 2001 pension expense for the Plan amounted to $863,187 SDCCC records pension expense during the Fiscal Year based upon estimated covered compensation

SDCCC offers its employees a Deferred Compensation Plan (the "Deferred Plan") created in accordance with Internal Revenue Code Section 457 The Deferred Plan, available to all employees, permits them to defer a portion of their salary until future years The deferred compensation is not available to employees until termination retirement, death disability, or an unforeseeable emergency.

SDCCC funds the deferred compensation through investments in various mutual funds administered by an insurance company Until paid or made available to the employee or other beneficiary, such investments and all related earnings thereon are solely the property and right of SDCCC (without being restricted to the provisions of benefits under the Deferred Plan), subject only to the claims of SDCCC's general creditors Participants under the Deferred Plan have only the right to receive benefits in an amount equal to the balance of their account. SDCCC is of the opinion that it has no liability for the losses under the Deferred Plan but does have the duty of due care that would be required of an ordinary prudent investor. SDCCC believes that it is unlikely that it will use the Deferred Plan's assets to satisfy claims of creditors in the future

d. San Diego Data Processing Corporation ("SDDPC") has accrued and set aside funds in a money market account to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan As of June 30, 2001 and 2000, the balance in the account was $121,798 and $115,453 respectively

The balance at June 30, 2001 consisted of the total estimated liability plus interest earned on the account since its establishment in Fiscal Year 1991

In addition, SDDPC has in effect a Money Purchase Pension Plan ("the Plan") covering substantially all employees. The plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees SDDPC contributions for each employee are fully vested after four years of continuous service

SDDPC's total payroll in Fiscal Year 2001 and 2000 was approximately $22,871,911 and $20,686,496, respectively As all employees are substantially covered, SDDPC contributions were calculated using this base salary amount SDDPC made the required 20% contribution amounting to approximately $4,247,425 and $4,150,505 for Fiscal Years 2001 and 2000 respectively.

10. PENSION PLANS (Continued)

e. San Diego Housing Commission ("SDHC") provides pension benefits for all of its full-time employees through a defined contribution plan. Employees are eligible to participate on the first day of their employment. The SDHC contributes an amount equal to 14% of the employee's base salary semi-monthly. The SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service. The SDHC contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce the SDHC's contribution requirement

SDHC made the required 14% contribution, amounting to approximately $1,493,970 for Fiscal Year 2001 based on covered payroll of approximately $10,374,262.

SDHC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time SDHC employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

Fair value of the Plan assets was $18,856,838 at June 30, 2001.

f. Southeastern Economic Development Corporation ("SEDC") has a Simplified Employee Pension Plan covering all full-time, permanent employees. The plan is a defined contribution plan. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, SEDC contributes monthly an amount equal to 12% of the employee's base salary. Beginning July 1, 1998, SEDC contributed an additional monthly amount equal to 15% of the base salary for management employees. Such contributions are fully vested upon contributions.

SEDC's total payroll in Fiscal Year 2001 was approximately $762,500. SEDC contributions were calculated using the base salary amount of approximately $692,000. SEDC made the required 12% contribution, amounting to approximately $93,600 for Fiscal Year 2001.

11. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain health care insurance benefits for retired general and safety members of SDCERS who retired on or after October 6, 1980. At June 30, 2001, approximately 2,435 eligible retirees received benefits.

Certain health care insurance benefits were established during Fiscal Year 1995 for eligible retirees who retired prior to October 6, 1980 or who were otherwise not eligible to receive City-paid health care insurance as of June 30, 1994. At June 30, 2001, approximately 648 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the Fiscal Year ended June 30, 2001, expenditures of approximately $7,207,018 were recognized for such health care benefits.

Substantially all of the City's general and safety members of SDCERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

12. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund working capital advances balances at June 30, 2001 are as follows (in thousands):

Fund	Advances from Other Funds	Advances to Other Funds
General Fund	$ 0	$10,628
Special Revenue Funds		
City of San Diego:		
Acquisition Improvement and Operation	0	349
Environmental Growth	0	848
Street Division Operations	0	9,574
Other Special Revenue (Budgeted)	0	77
Other Special Revenue (Unbudgeted)	0	13
Centre City Development Corporation	450	0
Southeastern Economic Development Corporation	159	0
Total Special Revenue Funds	609	10,861
Debt Service		
City of San Diego		
Other Special Assessments	13	0
San Diego Open Space Park Facilities District #1	622	0
Total Debt Service Funds	635	0
Capital Projects Funds		
Redevelopment Agency	0	609
Total Capital Projects Funds	0	609
Enterprise Funds		
City of San Diego		
Airports	0	201
Development Services	0	108
Environmental Services	0	4,538
Golf Course	0	762
Recycling	0	3,535
Sewer Utility	0	13,902
Water Utility	0	14,014
Total Enterprise Funds	0	37,060
Internal Service Funds:		
City of San Diego.		
Central Garage and Machine Shop	52,547	36
Central Stores	3,282	46
Engineering and Capital Projects	0	165
Print Shop	0	59
Self Insurance	2,085	0
Miscellaneous Internal Services	0	24
Total Internal Service Funds	57,914	330
Trust and Agency Funds		
City of San Diego:		
Other Miscellaneous Agency	330	0
Total	$59,488	$59,488

12. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

Interfund receivable and payable balances at June 30, 2001 are as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General Fund	$ 87,135	$ 0
Special Revenue Funds:		
City of San Diego.		
Environmental Growth	0	4,665
Qualcomm Stadium Operations	0	2,399
Transient Occupancy Tax	3,157	3,800
Other Special Revenue (Budgeted)	0	609
Other Special Revenue (Unbudgeted)	0	1,449
Redevelopment Agency	0	30,467
Total Special Revenue Funds	3,157	43,389
Debt Service Funds:		
City of San Diego:		
Redevelopment	200	0
Total Debt Service Funds	200	0
Capital Projects Funds:		
City of San Diego:		
Capital Outlay	700	9,600
Other Construction	9,600	0
Convention Center Expansion Financing Authority	0	758
Redevelopment Agency	29,567	0
San Diego Facilities and Equipment Leasing Corporation	0	17,333
Total Capital Projects Funds	39,867	27,691
Enterprise Funds		
City of San Diego.		
Development Services	1,449	441
Environmental Services	441	0
Sewer Utility	0	0
Water Utility	17,333	0
Total Enterprise Funds	19,223	441
Trust and Agency Funds		
Other Miscellaneous Agency	0	78,061
Total Trust and Agency Funds	0	78,061
Total	$149,582	$149,582
Primary Government and Component Unit		
Component Unit - SDCCC	$ 1,026	$ 0
Component Unit - SDHC	540	0
Primary Government - Transient Occupancy Tax	0	1,026
Primary Government - Other Special Revenue (Unbudgeted)	0	540
	$ 1,566	$ 1,566

13. ENTERPRISE FUNDS SEGMENT INFORMATION

The City maintains Enterprise Funds which provide airport, sewer, water and other services. Segment information for the year ended June 30, 2001 is as follows (in thousands)

	Airports	The Centre	City Store	Development Services	Environmental Services	Subtotal
Operating Revenues	$ 3,442	$ 0	$ 753	$38,897	$ 33,933	$77,025
Operating Expenses before Depreciation & Amortization	2,241	0	705	42,289	28,500	73,735
Depreciation & Amortization	476	0	1	856	494	1,827
Operating Income (Loss)	725	0	47	(4,248)	4,939	1,463
Operating Transfers In	1	0	0	72	13	86
Transfers In from Governmental Funds	0	0	0	584	0	584
Operating Transfers Out	(8)	0	0	(132)	(172)	(312)
Transfers Out to Governmental Funds	0	0	0	(467)	(59)	(526)
Nonoperating Revenue	444	0	12	1,365	4,118	5,939
Nonoperating Expense	0	0	0	(150)	(18)	(168)
Net Income (Loss)	1 162	0	59	(2,976)	8,821	7,066
Grant Revenues (Expenses)	125	0	0	0	0	125
Capital Contributions	126	0	0	0	0	126
Net Fixed Asset Additions	272	0	0	(335)	10,893	10,830
(Deletions)	0	(3)	0	(87)	(19)	(109)
Net Working Capital	5,912	0	261	(1,481)	30,188	34,880
Total Assets	15,572	0	298	13,640	150,459	179,969
Total Equity	15,361	0	276	726	137,611	153,974
Long-Term Liabilities Other	37	0	0	841	10,719	11,597

13. ENTERPRISE FUNDS SEGMENT INFORMATION (Continued)

	Subtotal (Previous Page)	Golf Course	Recycling	Sewer Utility	Water Utility	San Diego Data Processing Corporation	Grand Total
Operating Revenues	$77,025	$8,083	$19,554	$ 214,431	$ 211,385	$ 57,245	$587,723
Operating Expenses before Depreciation & Amortization	73,735	5,115	12,742	168,026	211,372	50,557	521,547
Depreciation & Amortization	1,827	210	625	37,776	12,529	6,113	59,080
Operating Income (Loss)	1,463	2,758	6,187	8,629	(12,516)	575	7,096
Operating Transfers In	86	1	25	105	67	0	284
Transfers In from Governmental Funds	584	0	0	29	0	0	613
Operating Transfers Out	(312)	(27)	(24)	(773)	(1,213)	0	(2,349)
Transfers Out to Governmental Funds	(526)	(1,252)	(20)	(187)	(270)	(500)	(2,755)
Nonoperating Revenue	5,939	472	997	34,516	28,176	73	70,173
Nonoperating Expense	(168)	(58)	0	(57,543)	(18,975)	(123)	(76,867)
Net Income (Loss)	7,066	1,894	7,165	(15,224)	(4,731)	25	(3,805)
Grant Revenues (Expenses)	125	0	0	199	905	0	1,229
Capital Contributions	126	151	0	33,888	34,515	0	68,680
Net Fixed Asset Additions	10,830	379	2,716	141,686	116,882	1,107	273,600
(Deletions)	(109)	(12)	0	(3,061)	(34)	0	(3,216)
Net Working Capital	34,880	6,390	16,289	397,152	371,084	(3,456)	822,339
Total Assets	179,969	14,773	24,901	2,872,820	1,390,033	23,692	4,506,188
Total Equity	153,974	14,182	17,391	1,663,382	946,009	11,950	2,806,888
Long-Term Liabilities:							
Other	11,597	93	6,658	1,117,131	384,057	4,179	1,523,715

14. CONTRIBUTED CAPITAL - PROPRIETARY FUNDS

During the year ended June 30, 2001, contributed capital increased (decreased) by the following amounts (in thousands):

	Enterprise Funds							Internal Service Funds
Source	Airports	Development Services	Environmental Services	Golf Course	Recycling	Sewer Utility	Water Utility	Central Garage and Machine Shop
Capacity Charges	$ 0	$ 0	$ 0	$ 0	$ 0	$16,639	$ 16,581	$ 0
Developer-Capital Improvements	0	0	0	0	0	16,345	16,216	0
Federal Grant - Capital Improvements	0	0	0	0	0	654	278	0
Federal Grant - Capital Reimbursements	110	0	0	0	0	0	0	0
Government - General Fixed Assets	0	0	0	151	0	0	0	0
Government - Capital Infusion	0	0	0	0	0	581	1,440	0
Contribution in Aid	0	0	0	0	0	0	0	0
Government - Capital Reimbursement	0	0	0	0	0	0	0	0
Meters and Services	0	0	0	0	0	0	0	0
State Grant - Capital Reimbursements	16	0	0	0	0	(331)	0	0
Total Increases (Decreases)	126	0	0	151	0	33,888	34,515	0
Contributed Capital, July 1, 2000	10,968	371	243	21	327	924,208	625,214	226
Contributed Capital, June 30, 2001	$11,094	$371	$243	$172	$327	$958,096	$659,729	$226

15. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters which may render the City liable to the public and to its employees. The Self Insurance Fund, an Internal Service Fund, was created to provide coverage against such risks up to a maximum of $3.0 million for each workers compensation claim and $1.0 million for each general or automobile claim.

In addition, the City maintains an excess liability insurance policy whereby the City pays the first $1,000,000 per occurrence. Amounts in excess of $1,000,000 up to $24,000,000 per occurrence are covered by insurance. Any amounts over $24,000,000 per occurrence would be paid by the City.

15. RISK MANAGEMENT (Continued)

The City is self-insured for workers' compensation, long-term disability and certain employee group health coverages. Each participating fund contributes an amount equal to an actuarially determined rate times the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the receiving funds

All funds of the City participate in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses

Estimated liabilities for liability claims have been set up in the Self-Insurance Fund, Sewer Utility Fund, Water Utility Fund, as well as in the General Long-Term Debt Account Group. These amounts represent the City's determination of the probable ultimate cost of the claims. Property insurance is maintained on selected capital assets based upon various factors including management's assessment of the risks of loss.

The estimated liabilities as of June 30, 2001 are determined by the City based on recommendations from an independent actuarial evaluation The liabilities are based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and claims that have been incurred but not reported (IBNR).

A reconciliation showing current and prior year activity is presented below (in thousands):

	Public Liability	City's Liability Under Worker's Comp, Long-Term Disability, & Group Health Insurance	Total
Balance July 1, 1999	$ 41,025	$ 33,733	$ 74,758
Claims and Changes in Estimates	6,781	34,478	41,259
Claim Payments	(9,640)	(31,938)	(41,578)
Balance June 30, 2000	38,166	36,273	74,439
Claims and Changes in Estimates	27,237	23,830	51,067
Claim Payments	(13,395)	(22,737)	(36,132)
Balance June 30, 2001	$52,008	$37,366	$89,374

During the current year, there were no significant reductions in insurance coverage from the prior year. For each of the past three Fiscal Years, the settlements have not exceeded insurance coverage.

16. FUND DEFICIT

The Internal Service Funds have a net fund equity surplus of approximately $16,552,000 at June 30, 2001. This balance includes a fund equity deficit in the Self Insurance Fund of approximately $29,300,000 which represents unfunded estimated claims and claim settlements related to worker's compensation, long-term disability and certain employee group health coverages It is anticipated that individual claim settlements will be funded through user charges subsequent to the filing of a claim and prior to its settlement.

17. COMMITMENTS

At June 30. 2001, $77,000 000 of Tax Anticipation Notes issued during Fiscal Year 2000-01 were still outstanding Monies for full redemption of these notes were fully segregated in a separate repayment fund at June 30 2001 and subsequently used to redeem the notes on October 2, 2001 The liability for these notes is shown in the General Fund On July 2, 2001 the City issued $73 000,000 of Tax Anticipation Notes to finance Fiscal Year 2001-02 General Fund cash flow requirements.

The City is currently obligated to transfer up to two-thirds of the annual franchise tax receipts in the Environmental Growth Fund (a Special Revenue Fund) to the San Diego Open Space Park Facilities District #1 (the "District") Fund (a Debt Service Fund) for the payment of debt service on the District's outstanding general obligation bonds Such required debt service on the District's outstanding bond obligations of $45,520,000 at June 30 2001 is approximately $7,178,358 for each of the subsequent five years ending June 30. 2006.

The City has guaranteed the payment of a revolving line of credit in the maximum amount of $7,500,000 on behalf of various individuals through Wells Fargo Bank regarding the CDBG Housing Loan Leveraging Program As of June 30. 2001 approximately $1,225,229 of total leveraged loans are still outstanding

The Sewer Utility's construction plans for various projects are estimated to cost approximately $178,106,000. As of June 30, 2001 the Utility's contractual commitments for the projects totaled approximately $75,809,000 The Utility intends to finance the contractual commitments with approved State and Federal grants, service charges and the Installment Purchase Agreement

The Water Utility's construction plans for various projects are estimated to cost approximately $129,592,554. As of June 30. 2001, the Utility's contractual commitments for the projects totaled approximately $77,763,634. The Utility intends to finance the contractual commitments with reserves and service charges

18. CONTINGENCIES

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant City management believes such disallowances, if any, would not have a material effect on the City's financial position.

In September 1989 legislation was adopted (Assembly Bill No. 2080) which requires the Redevelopment Agency of the City of San Diego to fund Low and Moderate Housing Activity equivalent to at least 20% of tax increment revenue received after Fiscal Year 1985. In October 1990, the Agency adopted a nine-year plan to fully fund the retroactive 20% requirement (Resolution No 's 1911 1912, and 1913) At June 30, 2001, the 20% requirement was fully funded

Proposition 218 was approved by the voters in November 1996 and could limit the City's ability to collect new taxes and fees This measure requires a voter majority approval for all taxes used for "general government purposes" and a two-thirds voter approval for "special taxes" used for defined purposes. Proposition 218 repeals any such taxes imposed after January 1, 1995, that fail to meet these requirements. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would be reduced or eliminated

During 1997 the City entered into a ten year agreement with the San Diego Chargers professional football team which included a clause whereby the City would generally provide stadium rent credits to the San Diego Chargers for the value of unsold tickets up to 60,000 for any home game.

18. CONTINGENCIES (Continued)

In February 2000, a rainstorm partially dislodged a 3000 pound manhole cover leading to blockage in a sewer main in a remote canyon near San Diego State University. As a result, 34 million gallons of sewage spilled into the San Diego River. The proposed $3,400,000 fine from the Regional Water Quality Control Board is currently being appealed.

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

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

19. THIRD PARTY DEBT

The City has authorized the issuance of certain bonds, in its name, to provide tax exempt status because it perceives a substantial public benefit will be achieved through the use of the proceeds. The City has also authorized Section 108 loans from the Department of Housing and Urban Development. The following describes the various types of such third party debt:

Mortgage and Revenue Bonds

Single Family Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates Multi-Family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low or moderate income.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial or business purposes to mutually benefit the citizens of the City of San Diego.

1911 Act Special Assessment Bonds

1911 Act Special Assessment Bonds have been issued to provide funds for the construction or acquisition of public improvements, and/or the acquisition of property for public purposes, for the benefit of particular property holders within the City Each bond is secured by a lien on a specific piece of property
As of June 30, 2001, the status of all third party bonds issued is as follows (in thousands):

19. THIRD PARTY DEBT (Continued)

	Issued	Outstanding
Mortgage Revenue	$469 146,940	$465,570,480
Industrial Development Revenue	366,805,000	357,381,000
1911 Act Special Assessment	184,419	103,945
Totals	$836,136,359	$823,055,425

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans. certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In the opinion of City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit for the taxing authority of the City, the state, or any political subdivision thereof is obligated to the payment of principal or interest on the bonds In essence, the City is acting as an agent for the property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's General Long-Term Debt Account Group

Section 108 Loans

The City has received Section 108 loans from the Department of Housing and Urban Development, to be repaid with future years Community Development Block Grant entitlements. Accordingly, no liability has been recorded in the City's General Long -Term Debt Account Group. As of June 30. 2001, $26,615,000 remains outstanding.

20. *CLOSURE AND POSTCLOSURE CARE COST*

State and federal laws and regulations require that the City of San Diego place a final cover on its Miramar landfill site when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The $9,920,000 reported as landfill closure and postclosure care liability at June 30, 2001 represents the cumulative amount reported to date based on the use of 59.7% of the estimated capacity of the landfill.

The City will recognize the remaining estimated cost of closure and postclosure care of $6,709,297 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1999. The City expects to close the landfill in the year 2003 Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The City is in compliance with these requirements, and, at June 30. 2001 cash or equity in pooled cash and investments of $20,696,000 is held for this purpose. This is reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from other sources

21. OPERATING AGREEMENTS

City of San Diego and San Diego Data Processing Corporation

In September 1979, the San Diego Data Processing Corporation (SDDPC) entered into an operating agreement with the City. Under the terms of the agreement, as amended, SDDPC has agreed to provide data processing and services needed to support the operational and planning requirements of the City.

The rates charged for the various services are subject to adjustment each Fiscal Year. Included in data processing services revenue for the year ended June 30, 2001 and 2000 are $24,475,142 and $25,292,141, respectively, of revenue earned from the City under this agreement.

The operating agreement also requires SDDPC to purchase computer equipment, computer maintenance, various contractual services and other reimbursed expenses as a part of the service it provides to the City. The City then reimburses SDDPC the costs associated with these expenses. Such transactions are not considered to be revenues and expenses of SDDPC and are excluded from its statements of revenues, expenses and retained earnings. The amount of these expenditures for the years ended June 30, 2001 and 2000 are $24,475,142 and $25,292,141, respectively SDDPC earned $1,492,806 and $1,583,210 in general and administrative fees from such transactions for year ended June 30, 2001 and 2000, respectively.

The operating agreement was amended during fiscal 1988 to have SDDPC provide and operate telecommunications services for the City. The rates for the various services are subject to adjustment each Fiscal Year.

San Diego Geographical Information System

In Fiscal Year 1998, a five-year services agreement was finalized between SDDPC and SANGIS.

Included in SDDPC's data processing services revenue are the following amounts relating to SANGIS for the years ended June 30, 2001 and 2000, respectively.

	2001	2000
City-SANGIS	$248,923	$410,374
Totals	$248,923	$410,374

Complete financial statements for each of the individual component units may be obtained from the City Auditor and Comptroller's office.

Automated Regional Justice Information System

On July 1, 1997, SDDPC renewed, through June 30, 2002, its 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 is to provide data processing services to ARJIS at rates which, on an annual basis, are equivalent to those charged to other governmental entity clients Included in SDDPC's data processing services revenue is approximately $2,788,516 and $2,809,396 relating to ARJIS for the years ended June 30, 2001 and 2000, respectively

State of California

During Fiscal Year 1999, the SDDPC entered into an agreement with the State of California Department of Information Technology to provide data processing services. SDDPC's data processing services revenue for the year ended June 30, 2001 was approximately $291,261

21. OPERATING AGREEMENTS (Continued)

San Diego Medical Services Enterprise, LLC

On July 1, 1997, the City entered into an operating agreement with San Diego Medical Services Enterprise, LLC (SDMSE") to provide emergency medical services and emergency medical transportation services. Under the agreement, the City made an advance of $500,000 to SDMSE to cover initial costs associated with emergency medical transports In addition, the City agreed to provide an annual subsidy of $900,000 to the LLC in the first two years of the five-year term of the EMS Agreement. In the remaining three years, the annual subsidy shall be $650,000, totaling $3 75 million over the five-year term of the EMS Agreement.

22. SUBSEQUENT EVENTS

a On July 2, 2001, the City issued the $73,000,000 Fiscal Year 2001-2002 Tax Anticipation Notes.

b. On October 2, 2001, the City paid off the $53,000,000 Fiscal Year 2000-2001 Tax Anticipation Notes, Series A

c. On October 2, 2001, the City paid off the $24,000,000 Fiscal Year 2000-2001 Tax Anticipation Notes, Series B.

d The City is preparing to issue approximately $170,000,000 of Lease Revenue Bonds through the Public Facilities Financing Authority of the City of San Diego to finance a portion of the cost of building a state-of-the-art baseball park, a portion of a public park located adjacent to the baseball park, possible acquisition of certain land for the baseball park and other related land acquisitions, improvements and infrastructure

23. PRIOR PERIOD ADJUSTMENTS

Interest received from the Bond Acquisition funds for the Sewer Utility and Water Utility Enterprise Funds were not recognized in previous fiscal years The fiscal year 2000 financial statements have been restated to reflect the additional revenues received The effect of this adjustment was an increase of $62,704,000 to Prepaid and Reimbursable Items and Deposits and Unreserved Earnings resulting in restated June 30, 2000 balance of $361,080,000 and $1,181,036,000, respectively.

23. PRIOR PERIOD ADJUSTMENTS (Continued)

The following is a reconciliation of the retained earnings (in thousands):

	Sewer	Water
Retained earnings at beginning of year as previously stated	$684,891	$263,926
Interest Adjustment	35,619	27,085
Retained earnings at beginning of year as restated	$720,510	$291,011

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APPENDIX C

BOOK ENTRY ONLY SYSTEM

General

Purchasers of beneficial ownership interests in the Notes will not receive certificates representing their interests in the Notes purchased. The Underwriter will confirm original issuance purchases with statements containing certain terms of the Notes purchased.

The following information concerning DTC and DTCs 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 Notes will be held by DTC as securities depository. The ownership of one fully registered Note for each maturity of Notes, each in the aggregate principal amount of such maturity, is registered in the name of Cede & Co., as nominee for DTC. DTC, an automated clearinghouse for securities transactions, will act as securities depository for the Notes. DTC is a limited-purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership interests in the Notes may be purchased by or through DTC Participants. Such DTC Participants and the persons for whom they acquire interests in the Notes as nominees will not receive certificated Notes, but each such DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's interest in the Notes, which will be confirmed in accordance with DTC's standard procedures. Each such person for whom a DTC Participant acquires an interest in the Notes, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have notices of prepayment, or all other communications of the City to DTC which may affect such persons, forwarded in writing by such DTC Participant and to have notifications made of all payments of principal of or interest on his beneficial interest. NEITHER THE CITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE NOTES IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR PREPAYMENT PRICE OF OR INTEREST REPRESENTED BY THE NOTES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO NOTE HOLDERS

UNDER THE RESOLUTION: THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL PREPAYMENT OF THE NOTES: OR ANY OTHER ACTION TAKEN BY DTC AS NOTE HOLDER.

The City and the Paying Agent may treat DTC (or its nominee) as the sole and exclusive owner of the Notes registered in its name for the purposes of payment of the principal or interest represented by the Notes, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Notes, or other action to be taken by registered owners and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Interest and principal will be paid by the Paying Agent to DTC, or its nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants or the Indirect Participants.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE NOTES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

Discontinuance of DTC Services

In the event (i) DTC, including any successor as securities depository for the Notes, determines not to continue to act as securities depository for the Notes; (ii) DTC shall no longer so act and gives notice to the Paying Agent of such determination, DTC services will be discontinued. If the City determines to replace DTC with another qualified securities depository, the City shall prepare or direct the preparation of a new single, separate, fully registered Note for each of the maturities of the Notes, registered in the name of such successor or substitute qualified securities depository or its nominee or make such other arrangement acceptable to the City, the Paying Agent and the successor securities depository, or its nominee or make such other arrangement acceptable to the City, the Paying Agent and the successor securities depository as are not inconsistent with the terms of the Resolution. If the City fails to identify another qualified securities depository to replace DTC then the Notes shall no longer be restricted to being registered in the Note registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the City, in accordance with the Resolution.

APPENDIX D

FORM OF BOND COUNSEL APPROVING OPINION

[Closing Date], 2002

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

Re: *$93,200,000 City of San Diego, California 2002-2003 Tax Anticipation Notes, Series A*

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of San Diego, California (the "City") of $93,200,000 aggregate principal amount of notes, issued pursuant to and by authority of Resolution No. R-296500 of the City Council of the City duly passed and adopted on May 14, 2002 (together with the Accompanying Document thereto, the "Resolution"), and under and by authority of Section 92 of the City Charter of the City, and Article 7.6, Chapter 4, Part 1, Division 2, Title 5 of the Government Code of the State of California and designated "City of San Diego, California 2002-03 Tax Anticipation Notes, Series A" (the "Notes").

In such connection, we have examined the Resolution, certifications of officers of the City, the initial purchaser of the Notes and others as to certain factual matters and such other documents and matters deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Also, in examining the documents and matters referred to in the preceding paragraph, we have not undertaken to independently verify the accuracy of the factual matters represented, warranted or certified in such documents. Furthermore, we have assumed compliance with all covenants contained in the Resolution including (without limitation) covenants compliance with which is necessary to assure that future actions or events will not cause interest on the Notes to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Notes and the Resolution are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles when equitable remedies are sought and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City has lawful authority for the issuance of the Notes, and the Notes constitute the valid and binding obligations of the City. The principal of and interest on the Notes are payable from certain moneys received by the City from property taxes paid to the City during fiscal year

2002-03, and to the extent not so paid, are payable from any other moneys of the City lawfully available therefor, all as more fully described in the Resolution.

2. Under existing statutes, regulations and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

3. Interest on the Notes is exempt from present State of California personal income taxes.

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

Other than as expressly stated herein, we express no opinion regarding other tax consequences with respect to the Notes.

We call attention to the fact that the foregoing opinions and the exclusion of interest on the Notes from gross income for federal income tax purposes may be affected by actions taken or events occurring after the date hereof which could result in the inclusion of such interest in gross income retroactive to the date of issuance of the Notes. We have not undertaken to determine, or to inform any person, whether such actions or events are taken or occur.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Notes or other offering material relating to the Notes, and purchasers of the Notes should not assume that we have reviewed the Official Statement on their behalf.

Respectfully submitted,

SECTION I – MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one): 139690

1. ☐ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (rule G-34(a))

(a) DATE RECEIVED FROM ISSUER: 6/14/02 (b) DATE SENT TO MSRB: 6/19/02

2. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-34(d) (rule G-34(d))

(a) DATE RECEIVED FROM ISSUER: _____ (b) DATE SENT TO MSRB: _____

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: ☐

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original Form G-34(CUSIP)): ☐

SECTION II – IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here: ☐

A. NAME OF ISSUER: City of San Diego STATE: CA

DESCRIPTION OF ISSUE: TANS DATED DATE: 7/1/02

B. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE: _____ DATED DATE: _____

C. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE: _____ DATED DATE: _____

SECTION III – TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 8/1/03

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 6/4/02

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 7/1/02

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐

A separate Form G-34(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV – UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER: First Albany Corp. SEC REG. NUMBER: 8-2018

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING $ 33,200,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): $ All

D. CHECK ALL THAT APPLY:

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

3. ☐ This offering is exempt from SEC Rule 15c2-12 under subsection (d)(1)(iii) of that rule. Section (d)(1)(B) of SEC Rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment, and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

CONTINUED ON OTHER SIDE

Ver. g34ard4-1 (06/01/99)

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
8/1/03	797236SY3				

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: ☐
(Please see instructions in Form G-34 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: _____

State the reason why such securities have not been assigned a "CUSIP-9" _____

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: ☐

State the reason why such securities are ineligible for CUSIP number assignment: _____

SECTION VI – MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPAN... ...VE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AN... ...AT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

RECEIVED
JUN 17 2002

ON BEHALI...
SECTION I...

SIGNED: ...

NAME ... (P... ...writer)

PHONE ... ...rials)

...e most likely to be read...

...nual for detailed in... ...ILL B...
...completed or noted ...
...TION.
...ies of this form and two copies of the official statement or amended offic...
...e be considered sent to the MSRB within the meaning of rule G-36.
...mpanying materials to MSRB, MSIL System, 1640 King Street, Suite 3...

Ver. ...

The PCAOB and the Social Responsibility of the Independent Auditor
Carmichael, Douglas R
4,365 words
1 June 2004
Accounting Horizons
127
Volume 18; Issue 2; ISSN: 08887993
English
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INTRODUCTION
I have the honor of being the first Chief Auditor of the Public Company Accounting Oversight Board-the primary advisor to the Board on policy and technical issues related to the auditing of public companies, including auditing standards, and the head of the PCAOB's professional standard-setting division. However, the views expressed in this commentary are my own and do not necessarily reflect the views of the Board members or other staff members.
This commentary focuses on the social responsibility of the independent auditor and possible mechanisms for ensuring that audits meet society's needs. Of particular interest to me is how to ensure that the standards set by the PCAOB for audits are responsive to the expectations of the public. I explain the PCAOB's mission, some of the initial standards proposed by the PCAOB, and the implications of these standards and the auditor's social responsibility for accounting educators.

THE PCAOB'S MISSION
Beginning with Enron and culminating with Worldcom, a series of accounting scandals captured headlines and stimulated Congress to adopt the Sarbanes-Oxley Act of 2002 (the "Act"). The centerpiece of the Act was the creation of the PCAOB as a private-sector, nongovernmental body funded by the public companies and investment companies that benefit from independent audits. Unless these companies have paid a fee based on their relative market capitalization, they cannot obtain an auditor's opinion on their financial statements. Thus, the PCAOB is an independent body overseen by the Securities and Exchange Commission (SEC) that is neither government-sponsored nor taxpayer-funded.

The PCAOB's charge as stated in the Act requires the PCAOB:
to oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative accurate and independent audit reports for companies the securities of which are sold to, and held by and for, public investors.
The Act gives the PCAOB significant powers to:
(1) register public accounting firms that prepare audit reports on the financial statements of public companies;
(2) conduct inspections of the auditing practices of these registered public accounting firms;
(3) enforce compliance by these registered firms and their associated persons with professional standards and securities laws;
(4) investigate, discipline, and impose sanctions on firms and associated persons; and
(5) establish or adopt by rule auditing, quality control, ethics, independence, and other standards related to the preparation of audit reports on the financial statements of public companies. To carry out its mission, the Act also instructs the PCAOB to perform any other activities the
Board:
determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and associated persons, or otherwise to carry out this Act in order to protect investors, or to further the public interest.
In short, the underlying mission of the PCAOB is to restore the confidence of investors, and society generally, in the independent auditors of public companies. There is no doubt that the repeated revelations of accounting scandals and audit failures that led to the creation of the PCAOB have seriously damaged public confidence.

THEORY OF INSPIRED CONFIDENCE
This focus on restoring public confidence as the essential aspect of the PCAOB's mission caused me to recall the work of a widely respected teacher of auditing who observed that if the confidence that society places in the effectiveness of the audit and the opinion of the auditor is lost, then the social usefulness of the audit is destroyed.
I refer to Professor Theodore Limperg of the University of Amsterdam and his basic theory of the auditor's function that has come to be known as the Theory of Inspired Confidence. In a series of essays published over 70 years ago (Limperg Institute 1985), Professor Limperg set forth a dynamic theory that connects society's need for reliable financial information to the ability of auditing methods to meet that need. In this commentary, I attempt to draw on Limperg's vision for the auditing profession and apply that vision to the contemporary environment.
Limperg explained how changes in the needs of society and changes in auditing methods interact to bring about changes in the auditor's function. Limperg based his theory on the science of business economics and viewed the development of the audit function from an economic perspective. From this perspective, the development of a separate function of auditing was a natural product of differentiation in production. As with any other aspect of the production process, when the process could be carried out more efficiently by an autonomous branch than in combination with other processes, a separate function developed.

Limperg observed, however, that with respect to the practice of public accounting, the differentiation was caused by more than efficiency in the production process. The independent auditor acts as a confidential agent of the community, or an agent of confidence for society. For the function of confidential agent, independence of the auditor is essential:

NEW ISSUE—BOOK ENTRY ONLY

Insured Ratings		Underlying Ratings	
Moody's:	Aaa	Moody's:	Aa3
Fitch:	AAA	Fitch:	AA+
S&P:	AAA	S&P:	AA-

(See "MISCELLANEOUS—Ratings" herein.)

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

$25,070,000
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS
SERIES 2002B
(FIRE AND LIFE SAFETY FACILITIES PROJECT)

Dated: June 15, 2002 **Due: April 1, as shown below**

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

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

The Bonds are subject to optional, mandatory and extraordinary redemption as described herein. See **"THE BONDS—Redemption Provisions"** herein

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

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

MBIA

MATURITY SCHEDULE
$14,375,000 Serial Bonds

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

$3,515,000 5.00% Term Bonds maturing April 1, 2027 Yield 5.00%
$7,180,000 5.00% Term Bonds maturing April 1, 2032 Yield 5.18%

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

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

Morgan Stanley DW Inc.

Dated: June 12, 2002

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

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

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

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet City or Authority forecasts in any way, regardless of the level of optimism communicated in the information. Neither the City nor the Authority plans to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

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

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APPENDIX G FORM OF MUNICIPAL BOND INSURANCE POLICY OF MBIA INSURANCE CORPORATION

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CITY OF SAN DIEGO
CITY COUNCIL

Dick Murphy, ***Mayor***

Toni Atkins
Donna Frye
Ralph Inzunza
Jim Madaffer

Brian Maienschein
Scott Peters
George Stevens
Byron Wear

CITY OFFICIALS

Michael T. Uberuaga
City Manager

Casey Gwinn, Esq.
City Attorney

Ed Ryan
City Auditor and Comptroller

Patricia T. Frazier
Deputy City Manager

Charles Abdelnour
City Clerk

Mary E. Vattimo
City Treasurer

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

Joseph W. Craver
Chairman

Samuel Brown
Vice Chairman

Ed Ryan
Treasurer

L. Renée Comeau
Secretary

Michael T. Uberuaga
Commissioner

BOND COUNSEL

Hawkins, Delafield & Wood
Los Angeles, California

DISLOSURE COUNSEL

Quateman & Zidell LLP
Los Angeles, California

FINANCIAL ADVISOR

Kelling, Northcross & Nobriga
Oakland, California

TRUSTEE

Wells Fargo Bank, National Association
Los Angeles, California

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OFFICIAL STATEMENT

$25,070,000
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS
SERIES 2002B
(FIRE AND LIFE SAFETY FACILITIES PROJECT)

INTRODUCTION

General

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

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

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

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

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

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

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

Continuing Disclosure

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

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

THE BONDS

General Provisions

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

Debt Service Payment Schedule

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

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

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

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

Redemption Provisions

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

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

Redemption Date	Redemption Price
April 1, 2012 and thereafter	100%

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

Year (April 1,)	Principal Amount
2025	$1,115,000
2026	1,170,000
2027*	1,230,000

* Maturity

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

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

* Maturity

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

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

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

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

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Revenues

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

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

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

Base Rental Payments

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

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

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

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

Reserve Account

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

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

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

Substitution and Removal of Leased Property

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

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

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

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

Insurance

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

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

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

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

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

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

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

(a) The self-insurance program shall be approved by an Insurance Consultant;

(b) The self-insurance program shall be maintained on an actuarially sound basis and MBIA Insurance Corporation (the "Insurer") will annually receive a certified actuarial statement attesting to the sufficiency of the program's assets;

(c) The self-insurance fund shall be held in a separate trust fund by an independent trustee; and

(d) In the event the self-insurance program is discontinued, the actuarial soundness of the claim reserve fund shall be maintained.

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

Title Insurance

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

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

Additional Bonds

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

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

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

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

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

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

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

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

SOURCES AND USES OF BOND PROCEEDS

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

Sources:	
Principal Amount	$25,070,000.00
Accrued Interest	44,949.58
Net Premium	68,237.25
Total	$25,183,186.83
Uses:	
Deposit to Construction Fund	$21,580,758.90
Deposit to Interest Account [1]	988,890.68
Deposit to Reserve Account	1,664,250.00
Costs of Issuance [2]	505,000.00
Underwriter's Discount [3]	444,287.25
Total	$25,183,186.83

(1) Includes capitalized interest in the amount of $943,941.10.
(2) Costs of Issuance include fees and expenses of the Financial Advisor, Bond Counsel, Disclosure Counsel and the Trustee, expenses for obtaining ratings for the Bonds, Official Statement printing costs and other costs related to the issuance of the Bonds.
(3) Includes premium of $252,000.00 for municipal bond insurance policy.

MUNICIPAL BOND INSURANCE POLICY

The MBIA Insurance Corporation Insurance Policy

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

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

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

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

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

The Insurer

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

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

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

Insurer Financial Information

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

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

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

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

Financial Strength Ratings of the Insurer

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

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

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

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

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

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

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

THE PROJECT

General

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

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

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

Fire Station Projects

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

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

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

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

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

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

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

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

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

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

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

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

Lifeguard Station Projects

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

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

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

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

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

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

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

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

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

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

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

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

THE LEASED PROPERTY

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

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

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

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

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

RISK FACTORS

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

Bonds Not General Obligation Debt of City or State

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

Base Rental Payments

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

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

Abatement

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

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

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

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

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

Seismic Considerations

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

Hazardous Substances

Among the most serious factors in terms of the potential reduction in the sale and/or rental value of real property are costs or liabilities in connection with the presence of hazardous substances. In general, the owners and operators of real property may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. It is possible that the discovery of a hazardous substance could affect the ability of the Trustee to re-let the Leased Property or the amount of rent that could be obtained for the Leased Property if the City were to default on its obligations under the Lease, in which event, the holders of the Bonds would not receive their respective payments when due. Also, the effect, should the Leased Property be affected by a hazardous substance, is to reduce its marketability and value by the costs of remedying the condition and the amount of related damages and expenses.

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

Limited Recourse on Default; No Acceleration of Base Rental

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

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

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

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

Possible Insufficiency of Insurance Proceeds

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

Limitations on Remedies Available to Owners of the Bonds

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

Other Financial Matters

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

See also **"LEGAL MATTERS – Litigation Matters."**

THE AUTHORITY

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

LEGAL MATTERS

Tax Exemption

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

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

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

Certain Ongoing Federal Tax Requirements and Covenants

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

Certain Collateral Federal Tax Consequences

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

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

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

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

Original Issue Discount

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

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

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

Bond Premium

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

Legal Opinions

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

Litigation Matters

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

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

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

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

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

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

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

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

The court denied the City a new trial on the remaining claims in the case for inverse condemnation, relating to the airport study and truck routing, finding that he needed to defer to the original judge on these matters. This has the effect of leaving in place $65.3 million in inverse condemnation damages, plus approximately $26.0 million in pre-judgment interest. The total judgment, including pre-judgment interest, is currently approximately $91.3 million.

Appellate counsel for the City has advised that the City should have no obligation to pay these amounts until the appeal is concluded, which will take at least eighteen months to two years. The City will also be responsible for any post-trial interest, which will accrue at the rate of approximately 5.7% per annum, until any judgment is paid.

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

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

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

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

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

Insurance Coverage Issues

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

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

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

any damages to the insurance companies, even if it lost coverage, except in the unlikely event that the Court ordered the City to reimburse suing insurer(s) for past defense costs it has paid to the City.

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

City Voter Initiatives

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

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

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

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

The City believes that it will either prevail in the litigation or that if Proposition F fails, Proposition E will fail on the same grounds. Regardless of the outcome of the litigation, these lawsuits are unlikely to have any impact to the City's budget or revenue for Fiscal Year 2003, because they relate only to new or increased taxes. The City's proposed budget for Fiscal Year 2003 includes no projected revenues from any such tax enhancing measures.

Other Litigation

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

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

On March 29, 2002, Brown Field Aviation Park, LLC ("BFAP"), filed a claim seeking damages in excess of $120 million, asserting that the City breached a Memorandum of Understanding regarding BFAP's exclusive right to negotiate its proposal to lease Brown Field and redevelop it. BFAP contends that when the City did not allow them to present their project to City Council the City failed to perform its contractual obligations and denied BFAP its contractual rights and a proper hearing. The City believes that BFAP's claim is without merit. On May 24, 2002, the City filed a denial of the claim. BFAP will have six months from the date of denial to file a complaint. The City cannot predict whether litigation may be filed, the outcome of the litigation or the impact of the litigation, if any, on the General Fund. If litigation is filed, and is successful, such litigation may potentially involve expense to the General Fund.

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

Legality for Investment in California

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

UNDERWRITING

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

MISCELLANEOUS

Ratings

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

Financial Advisor

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

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

Additional Information

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

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

Execution and Delivery

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

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: /s/ Joseph W. Craver
Chairman

APPENDIX A

THE CITY OF SAN DIEGO

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

INTRODUCTION

With a total population of approximately 1.3 million in 2002, and a land area of 330 square miles, the City of San Diego (the "City") is the seventh largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County") and is the County's business and financial center.

Based on estimates published by the California Department of Finance in May 2002, the City's population grew by 9.7% between 1993 and 2002, for an average increase of approximately 12,300 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts, and golf courses are in constant use.

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

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

Population

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

Table 1
POPULATION GROWTH[1]
Calendar Years 1993 through 2002

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

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

Source: State of California, Department of Finance

As indicated in the following table, attendance in kindergarten through grade 12 in the San Diego Unified School District grew moderately over the last five academic years. The San Diego Unified School District's boundaries include 85% of the City of San Diego's land area.

Table 2
SAN DIEGO UNIFIED SCHOOL DISTRICT
ENROLLMENT[1]
School Year 1997-1998 through 2001-2002

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

(1) ENROLLMENT IS DEFINED AS THE TOTAL NUMBER OF STUDENTS ENROLLED ON A SURVEY DATE IN LATE SEPTEMBER/EARLY OCTOBER OF THE SCHOOL YEAR.
SOURCE: San Diego Unified School District, Pupil Accounting

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 2001 averaged 3.3%, up from a rate of 3.1% during calendar year 2000. The City's 2001 unemployment rate was below both the national rate of 4.8% and the State's rate of 5.3%. During 2001, average employment in the City was up by approximately 8,800 from 2000 levels. Through the first five months of 2002, the City's unemployment rate averaged approximately 4.0%, compared with 2.8% for the same period in 2001. Data for 2001 and 2002 reflect preliminary estimates, which will be revised at a future date.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF CITY OF SAN DIEGO RESIDENT LABOR FORCE
Calendar Years 1997 through 2001

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

(1) Preliminary, subject to future revision.

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

Table 4 provides the California Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County during the period

1997 to 2001. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 175,700 new jobs during this period. During calendar year 2001 alone, employment in San Diego County increased by 33,400 new jobs.

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

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

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

(1) Includes trucking and transit services, telephone and broadcast/cable services, and gas and electric services.
(2) Figures may not add to total due to independent rounding.

Source: State of California Employment Development Department

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

Several key industry categories exhibited strong employment growth in 2001. The Services sector (+16,200) alone represented approximately half of total employment growth for the County. Within the Services sector, Business Services and Engineering & Management continued to lead other components, with increases of 3,500 and 4,000 respectively. It should be noted that the Business Services and Engineering & Management components include many of the City's high tech

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

The increase in the Government sector, which accounted for 17% of the total nonagricultural wage and salary employment in the County, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments.

Taxable Sales

Taxable transactions at retail and other outlets in the City during calendar year 2000, the most recent year for which data are available from the California State Board of Equalization, totaled approximately $16.1 billion, up 11.1% from 1999, and up 42.6% from 1996. Table 5 provides annual sales information by type of outlet for the period 1996 through 2000.

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

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

(1) Data for calendar year 2000 were calculated by adding quarterly reports published by the California State Board of Equalization, and may be subject to future revision.

Source: California State Board of Equalization

Tourism

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military. As shown in Table 6, visitor spending in the County totaled $5.12 billion in 2001, up 17.2% from 1997 and down 2.1% from 2000. This decline in 2001 reflects the impact of the events of September 11, 2001; according to the San Diego Convention and Visitors Bureau, through the eight months ended August 31, 2001, visitor spending was up 4.1% over the same period in 2000.

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

Calendar Year	Amount
1997	$4.37
1998	4.70
1999	4.88
2000	5.23
2001	5.12

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

SOURCE: SAN DIEGO CONVENTION AND VISITORS BUREAU

As shown in Table 7, the City's transient occupancy tax ("TOT") revenues have grown approximately 46% between Fiscal Year 1997 and Fiscal Year 2001, an average annual increase of 9.1%. In the Fiscal Year 2002 Adopted Budget, TOT revenues were projected to increase by 6% over TOT receipts for Fiscal Year 2001. The City Manager currently estimates that actual TOT receipts for Fiscal Year 2002 will be 4.9% less than Fiscal Year 2001 receipts due in part to the lingering effects of a weak economy and the events of September 11, 2001.

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

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

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

Source: City Auditor & Comptroller

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

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

The City also hosted the America's Cup in 1992 and 1995, and the Super Bowl and World Series in 1998. In addition, the City was the site for the Republican National Convention held in August 1996. The Super Bowl is scheduled to return to San Diego in 2003. According to the San Diego Unified Port District, in 2001 there were 7.6 million passenger arrivals, down by approximately 4.2% from 2000.

In September 2001, the San Diego Convention Center expansion was completed, doubling the size of the existing facility to 2.6 million total gross square feet. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention Center has generated $4.5 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

Military

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

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

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

International Trade

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

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

Calendar Year	Total Exports
1995	$5.9
1996	6.7
1997	7.8
1998	8.6
1999	9.0

Source: International Trade Administration

Major Employers

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

Table 9
CITY OF SAN DIEGO
MAJOR EMPLOYERS[1]
As of January 1, 2002

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

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

Source: City of San Diego

Effective Buying Income

Table 10 shows the per capita Effective Buying Income (EBI) for the City, the County, the State, and the United States for calendar years 1996 through 2000.

Table 10
PER CAPITA EFFECTIVE BUYING INCOME[1]
Calendar Years 1996 through 2000

Calendar Year	City of San Diego	County of San Diego	State of California	United States
1996	$15,139	$14,975	$15,068	$15,555
1997	15,804	15,618	15,797	16,281
1998	16,291	16,101	16,299	16,895
1999	17,443	17,270	17,245	17,691
2000	19,238	19,498	19,081	18,426

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

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

Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1997 through 2001. The valuation of non-residential permits includes both private, commercial construction and publicly funded, non-tax generating projects.

Table 11
CITY OF SAN DIEGO
BUILDING PERMIT VALUATIONS
AND NUMBER OF DWELLING UNITS
Fiscal Years Ended June 30, 1997 through 2001

	1997	1998	1999	2000	2001
Valuation (in thousands)					
Residential	$ 541,443	$ 890,476	$ 857,747	$1,185,999	$1,181,385
Nonresidential	478,887	576,170	783,106	960,479	693,687
Total	$ 1,020,330	$1,466,646	$1,640,853	$2,146,478	$1,875,072
Number of New Dwelling Units:					
Single Family	2,197	3,032	2,612	2,084	2,075
Multiple Family	1,014	3,018	2,856	5,662	3,829
Total	3,211	6,050	5,468	7,746	5,904

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

Business Development Program

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

A further element of the City's overall business development effort has focused on streamlining the permitting process and, when feasible, eliminating or reducing fees and permits. A major component of this streamlining effort has been the creation of a "one-stop" permitting center which has in most cases reduced development permit processing time by one-half. The center eliminates the need for permit applicants to seek approval from several City departments by consolidating the review and permit process.

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

Transportation

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

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

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

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

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

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City's proposed budget for Fiscal Year 2003 includes $28.1 million in Proposition A funds. The one-half cent increase to the local sales tax, authorized by Proposition A, is scheduled to expire in 2008.

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

MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION

Governmental Organization

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

Accounting Practices

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

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The annual audit report is generally available about 180 days after the June 30 close of each fiscal year. The City's most recent general purpose financial statements for the Fiscal Year ended June 30, 2001, were audited by Calderon, Jaham & Osborn, CPAs.

Budgetary Process

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

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

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

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

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

Restructuring

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

Five Year Summary of Financial Results

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

Table 12

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

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

Source: City of San Diego Comprehensive Annual Financial Report

Table 13
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1997 through 2001 (in thousands)

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

(1) Includes Proposition 172 Safety Sales Tax.

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

Source: *City of San Diego Comprehensive Annual Financial Report*

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

Table 14
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY
Fiscal Years 2001 - 2003[1]

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

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

(2) Includes Proposition 172 Safety Sales Tax.

(3) In Fiscal Year 2003, General Fund support for the Street Division Operating Fund will be funded directly through a sales tax allocation rather than through a General Fund transfer. As a result, sales taxes deposited in the General Fund are reduced by $15.4 million.

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

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

Source: City of San Diego, Financial Management Department

Fiscal Year 2001

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

Change in Major Revenue Sources
Actual Results Fiscal Year 2001 over Fiscal Year 2000[1]

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

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

Source: City of San Diego, Financial Management Department

Actual Total General Fund Expenditures, presented in a budget format equivalent to Table 14, for Fiscal Year 2001 equaled $686,234,635, an increase of $46.3 million or 7.2% more than the actual results for Fiscal Year 2000, and $9.9 million or 1.5% more than the adopted budget for Fiscal Year 2001.

Fiscal Year 2002 (Adopted Budget)

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

Fiscal Year 2002 Budget Growth Rates[1]

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

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

Source: City of San Diego, Financial Management Department

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

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

Table 15 presents assessed valuation within the City for each of the last ten fiscal years ending June 30, 2002.

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

Fiscal Year Ending June 30	Secured Property	Unsecured Property	Gross Total	Less Exemption [2]	Net Assessed Valuations [3]	Annual Assessed Valuation % Change
1993	$59,787,900	$4,059,854	$63,847,754	$2,099,768	$61,747,986	3.40
1994	60,586,129	4,218,892	64,805,021	2,360,741	62,444,280	1.13
1995	60,939,995	4,371,923	65,311,918	2,420,027	62,891,891	0.72
1996	61,793,760	4,303,198	66,096,958	2,489,507	63,607,451	1.14
1997	61,893,902	4,353,543	66,247,445	2,355,174	63,892,271	0.45
1998	63,562,588	4,988,950	68,551,538	2,910,753	65,640,785	2.74
1999	68,648,609	5,337,916	73,986,525	2,994,814	70,991,711	8.15
2000	75,788,751	5,852,822	81,641,573	2,987,620	78,653,953	10.79
2001	82,195,239	6,347,101	88,542,340	3,249,480	85,292,860	8.44
2002	89,259,317	6,838,926	96,098,243	3,572,188	92,526,055	8.48

(1) Includes both locally assessed and State assessed utility property.
(2) Excludes homeowners' and business inventory exemptions.
(3) Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.

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

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

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

Fiscal Year Ending June 30	Tax Levy[1]	Current Year Collections	Current Year Collections as Percentage of Current Tax Levy	Total Tax Collections	Total Collections as Percentage of Current Tax Levy[2]
1992	$127,143	$121,308	95.41%	$125,153	98.43%
1993	120,574	114,821	95.23	119,867	99.41
1994	109,881	105,911	96.39	110,738	100.78
1995	109,754	104,295	95.03	108,192	98.58
1996	111,281	108,137	97.18	110,513	99.31
1997	111,719	108,676	97.28	110,563	98.96
1998	116,912	114,311	97.78	117,429	100.44
1999	127,846	124,267	97.20	126,923	99.28
2000	141,963	137,859	97.11	140,225	98.78
2001	155,060	150,900	97.32	153,406	98.93

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

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

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

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

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

(1) This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell, and American Telephone and Telegraph, because valuations within the City cannot be readily determined.
(2) Total assessed valuation includes both secured and unsecured property.
(3) Using total Net Assessed Valuation of $91,142,819,000, which excludes homeowners' exemptions.
(4) The City receives approximately 17.2% of total taxes paid.

Source: County of San Diego Assessor's Office

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

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

may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

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

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

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

Article XIII B of the California Constitution

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

Appropriations of an entity of local government subject to Article XIII B generally include any authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of Taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local government entity from (a) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (b) the investment of tax revenues. Article XIII B provides

that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

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

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

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. In June 1990, San Diego voters approved a four-year increase in the City's Article XIII B limit (for Fiscal Years 1992 through 1995). In the November 1994 election, San Diego voters approved another four-year increase in the City's Article XIII B limit (for Fiscal Years 1996 through 1999). The Gann limit waiver does not provide any additional revenues to the City or allow the City to finance additional services. The City's appropriations limit for Fiscal Year 2002 was established at $603,258,862. It is estimated that the City will be under the Gann Limit by approximately $43.8 million. The impact of the appropriations limit on the City's financial needs in the future is unknown.

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

Articles XIII C and XIII D of the California Constitution

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

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

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

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

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

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

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

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

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

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

Article XIIIA Litigation

In June 1978, Article XIIIA of the California Constitution was amended by Proposition 13 to limit, among other things, a County assessor's ability to adjust for inflation to 2% per year. (See

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

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

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986, General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after March 1, 1985, be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the California Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. #4 220; 45 Cal.Rptr.2d 207 (1995).

The City believes that, notwithstanding the *Guardino* decision, the provisions of Proposition 62 do not apply to charter cities. The extent of the application of the decision to taxes authorized prior to the date of the decision is also undecided.

Following the Santa Clara decision, several actions were filed challenging taxes imposed by public agencies after the adoption of Proposition 62. On June 4, 2001, the California Supreme Court rendered its opinion in Howard Jarvis Taxpayers Association v. City of La Habra, et al. (2001) 25 Cal. 4th 809 holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes, without voter approval, was not barred by a three (3)

year statutory of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period begins anew with each collection. However, the court noted that the case did not concern bond issues or other governmental actions that, by state law, are made subject to the accelerated validation procedures of Code of Civil Procedure sections 860 through 870.5.

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

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

Since the enactment of Proposition 62 in 1986, the City has instituted certain tax increases, and pursuant to such increases has collected approximately $274.7 million through June 30, 2001. The City did not increase existing taxes or impose new taxes during Fiscal Year 2001, or year-to-date of Fiscal Year 2002.

While in the opinion of the City Attorney the provisions of Proposition 62 do not apply to charter cities, this position is being challenged by various groups in other jurisdictions and may be the subject of future litigation. If ultimately found valid and applicable to charter cities, Proposition 62 could affect the ability of the City to continue the imposition of certain taxes, such as sales and transient occupancy taxes, and may further restrict the City's ability to raise revenue.

LABOR RELATIONS

Most City employees are represented by one of four labor organizations. Currently, the American Federation of State and County Municipal Employees (Local 127) represents approximately 2,276 employees; The Municipal Employees Association (the "MEA") and unrepresented employees (who are a part of the MEA bargaining unit for contract purposes) represents approximately 4,935 employees; The Police Officers Association (the "POA") represents approximately 2,073 employees; and the International Association of Firefighters (Local 145) represents approximately 991 employees.

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

A labor agreement with POA is in place through June 30, 2003. POA will receive a 2% increase effective July 2002. The POA will also receive a 1.7% increase in retirement compensation effective July 2002.

PENSION PLAN

All benefited City employees participate with the full-time employees of the San Diego Unified Port District (the "District") in the City Employees' Retirement System ("CERS"). CERS is a public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general, safety (police and fire), and legislative members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service, and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

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

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

INSURANCE, CLAIMS, AND LITIGATION

Workers' Compensation and Long-Term Disability

The City is self-insured for Workers' Compensation and Long-term Disability. The City's self-insured liability for Workers' Compensation and Long-term Disability is accounted for in the Self Insurance Fund. The Self Insurance Fund for Workers' Compensation and Long-Term Disability is supported by contributions from each of the City's operating funds. These contributions are determined by multiplying an annually established rate by the gross salaries payable from each of the City's operating funds. As of June 30, 2001, there is a fund equity deficit in the Self Insurance Fund of approximately $29,281,000. It is anticipated that individual claim settlements will be funded through participating operating fund contributions subsequent to the filing of a claim and prior to its settlement.

Employee Group Health Insurance

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

Public Liability Insurance

The City carries public liability insurance in the amount of $54 million in excess of the City's $1 million self-insured retention. This means that the City may pay up to the first $1 million in any one insured public liability loss and that insured losses above $1 million and up to $54 million are paid by the City's public liability insurance. The City's public liability insurance is purchased in layers, jointly with a number of counties in the California State Association of Counties – Excess Insurance Authority ("CSAC-EIA"), however, there is no sharing of policy limits with other members of CSAC-EIA for public liability claims. The City budgets for public liability claims on an annual basis. The City has incurred total annual liability claims and liability insurance premium payments as shown below in Table 18.

Table 18
CITY OF SAN DIEGO
LIABILITY CLAIMS[1] AND PREMIUMS
Fiscal Years ended June 30, 1997 through 2001

Fiscal Year	Liability Claims Expenses and Settlement Costs	Liability Premium Payments
1997	$ 7,228,465	$1,575,162
1998	9,970,097	1,209,474
1999	7,202,644	1,103,009
2000	9,639,750	1,105,678
2001	13,394,697	1,071,330

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

Source: City of San Diego, Risk Management

Property Insurance

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

The City's "all risk" property insurance policy effective March 31, 2002, through March 31, 2003, will cost approximately $4.5 million. This represents an increase of 250% from the prior year, due to several factors including the events of September 11, 2001.

Earthquake Insurance

Earthquake coverage is provided for the City Hall building and certain City lease financed locations in the amount of $75 million, including coverage for rental interruption caused by Earthquake. Earthquake coverage is subject to the greater of a 5% or $50,000 per unit deductible, effective through March 31, 2002. The City's earthquake coverage is purchased jointly and shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an earthquake. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

Employee Dishonesty and Faithful Performance Insurance

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

INVESTMENT OF FUNDS

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "Investment Pool" or the "City Pool"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Chief Investment Officer. The City is the only participant in the City Pool; there are no other City Pool participants either voluntary or involuntary. The investment objectives of the City Pool are preservation of capital, liquidity and return.

Oversight and Reporting Requirements

The City Treasurer provides an investment report on a monthly basis to the City Manager, the City Auditor and Comptroller and the City Council and annually presents a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council and the City Manager's Investment Advisory Committee. The Investment Advisory Committee was established in 1990 and is comprised of the City Auditor and Comptroller, a Deputy City Manager and three investment professionals from the private sector. The Committee is charged with oversight responsibility to review on an ongoing basis the Investment Guidelines and practices of the City Treasurer and recommend changes. Investments in the City Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section uses outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly portfolio valuation, investment performance statistics and other statistical security reports, which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasury accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, City Manager and other officials.

Authorized Investments

Investments in the City Pool are governed by State law and further restricted by the City's Investment Guidelines. The Guidelines have been written with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, corporate medium term notes, money market instruments and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. The main operating funds of the City are being managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 35% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Merrill Lynch 1 to 3 year U.S. Treasury Index. Safety of principal and liquidity are the paramount considerations in the management of both portfolios.

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

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of March 31, 2002, approximately 10% of the pool investments mature within 61 days, 14% within 91 days and 25% within 183 days (on a cumulative basis). As of March 31, 2002, the Pool had a weighted average maturity of 1.55 years (565 days) and its weighted yield was 3.76%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.37 years and the Core portfolio had a duration of 1.73 years as of March 31, 2002. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.37% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.73% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City's Investment Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

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

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

(1) Based on Book Value.
(2) These notes consist of both fixed & floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.
(3) These securities consist of commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

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

Derivatives

As of March 31, 2002, and at least since October 14, 1997, the City's Investment Pool has had no assets invested in structured notes or derivatives prohibited in California Government Code 53601. As of March 31, 2002, the City has $7.1 million invested in a simple step-up security purchased on November 9, 2001. The City Treasurer defines a derivative as a financial instrument whose value is derived from an underlying asset, price, index or rate, e.g., options, futures or interest rate swaps. A structured note is an investment instrument that can contain within its structure various combinations of derivatives such as imbedded calls and interest rate swaps that will offer returns to an investor within a defined set of parameters and interest rate scenarios, e.g., step-ups, multiple-indexed notes, inverse floaters or leveraged constant maturity notes. The City Treasurer does not define fixed rate notes, debentures with call features or single index non-leveraged floating rate notes, e.g. monthly LIBOR plus or minus a spread, as structured notes. The City Treasurer limits structured notes eligible for purchase to those investments which, at the time of purchase, have no risk of principal loss if held to maturity and offer an estimated return at purchase that exceeds the return on a comparable fixed term investment in the judgment of the City's Investment Officer. The City Treasurer does not allow the purchase of securities that have a negative amortization of principal. In addition, California law prohibits the purchase by local governments of inverse floaters, range notes or interest only strips derived from pools of mortgages.

Reverse Repurchase Agreements

A reverse repo is a transaction in which the City Pool sells a security and concurrently agrees to buy it back from the same party at a later date for a price that includes an interest component for the City Pool's use of the money. Although the City from time to time uses reverse repos, as of March 31, 2002, and since September 18, 1996, the City has had no reverse repos in the City Pool. The Investment Guidelines require that all proceeds of a reverse repo be reinvested in securities whose maturity date or coupon reset date match the maturity of the reverse repo. The Investment Guidelines

limit the use of reverse repurchase agreements to 20% of the base value of the City Pool. The City's reverse repo program is monitored daily and reported monthly, as described above under "Oversight and Reporting Requirements".

BONDED AND OTHER INDEBTEDNESS

General

The City has never failed to pay principal of or interest on any of its debts or lease obligations when due. The City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501 (c) (3) non-profit corporations. These bonds and certificates of participation are not secured by City general funds or revenues.

Long Term Obligations

As of June 30, 2001, the City had $63,595,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and $388,475,000 aggregate principal amount of long-term general fund lease obligations outstanding. The City's general obligation bond ratings are AAA (Fitch Ratings), Aa1 (Moody's Investors Services) and AA (Standard & Poor's).

The following table is a schedule, by years, of principal and interest payments required to be made by the City or its oversight entities with respect to future obligations, as of June 30, 2001.

Table 20
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS
As of June 30, 2001
(in thousands)

Fiscal Year Ending June 30	General Obligation Bonds	General Fund Lease Obligations	Total Principal and Interest Payable
2002	9,268	37,238	46,506
2003	9,395	35,244	44,639
2004	9,525	35,288	44,813
2005	9,645	35,359	45,004
2006	9,777	32,815	42,592
Thereafter	36,260	508,156	544,416
Subtotal	83,870	684,100	767,970
Less Interest Portion	(20,275)	(295,625)	(315,900)
Total Principal Portion	$63,595	$388,475	$452,070

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

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

Source: City of San Diego, Auditor and Comptroller

Recent Financings

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

Short-Term Borrowings

The City has issued tax anticipation notes since the mid-1960's (except for Fiscal Year 1979) in anticipation of receipt of taxes and other General Fund revenues. The following table presents a 10-year history of the City's short-term borrowings:

Table 21
CITY OF SAN DIEGO
SHORT-TERM BORROWINGS
Fiscal Years Ended June 30, 1993 through May 1, 2002

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

Source: City of San Diego, Auditor and Comptroller

Prior Years' Defeasance of Debt

In prior years, the City, the San Diego Stadium Authority, the Redevelopment Agency, and the Facilities and Equipment Leasing Corporation defeased certain General Fund obligations by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, through certain applicable redemption dates or maturity. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2001, $68,090,000 of defeased bonds are still held by investors.

Operating Lease Commitments

The City has entered into various General Fund lease arrangements under which the City must make annual payments to occupy buildings necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancellable lease terms in excess of one year, as of June 30. 2001.

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

Fiscal Year Ending June 30	Rent Payable
2002	$ 5,913,218
2003	4,924,290
2004	2,057,269
2005	1,858,148
2006	1,843,564
Thereafter	14,177,597
Total Minimum Payments	$30,774,086

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

Overlapping Debt and Debt Ratios

Table 23 presents a statement of direct and overlapping bonded debt of the City as of June 1, 2002. Revenue bonds, tax allocation bonds and special assessment bonds are not included in the tabulation; lease revenue obligations payable from the City's General Fund or equivalent sources are included.

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

The City periodically issues special assessment or Community Facilities District Mello-Roos bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined extraordinary benefit to the City. These bonds are secured by property owner assessments or special taxes. As of June 30, 2001, there were six 1915 Act District bond issues with aggregate outstanding principal of $47,167,000 and two Community Facilities District (Mello-Roos) bond issues with outstanding principal of $116,830,000. In order to take advantage of a favorable interest rate environment, in February 1999, seven 1915 Act assessment districts were consolidated into one reassessment district through the issuance of lien refunding revenue bonds under the Marks-Roos Bond Local Pooling Act of 1985. Before this refunding, all seven 1915 Act assessment districts had outstanding bonds issued between 1987 and 1992. As of June 30, 2001, there was $33,785,000 in outstanding Marks-Roos revenue bonds associated with this refunding.

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

Table 23
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
as of June 1, 2002

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

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

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

Ratios to 2001-02 Assessed Valuation:

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

Ratios to Adjusted Assessed Valuation:

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

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

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

Source: California Municipal Statistics, Inc.

APPENDIX B

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

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CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

www.cjo.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements and the combining and individual fund and account group financial statements of the City of San Diego, California, as of and for the year ended June 30, 2001, as listed in the foregoing table of contents. These general-purpose financial statements are the responsibility of the City of San Diego, California management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of San Diego, California, as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City of San Diego, California, as of June 30, 2001, and the results of operations of such funds and cash flows of its individual proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 21, 2001, on our consideration of the City of San Diego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City of San Diego, California, taken as a whole and on the combining and individual fund and account group financial statements. The information listed as supporting schedules and statistical data in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of the City of San Diego, California. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the general-purpose, combining and individual fund and account group financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

November 21, 2001 Calderon, Graham + Osborn

GENERAL PURPOSE FINANCIAL STATEMENTS

THESE STATEMENTS PROVIDE A SUMMARY OVERVIEW OF THE FINANCIAL POSITION OF ALL FUNDS AND ACCOUNT GROUPS AND OF THE OPERATING RESULTS BY FUND TYPES. THEY ALSO SERVE AS AN INTRODUCTION TO THE MORE DETAILED STATEMENTS AND SCHEDULES THAT FOLLOW.

GENERAL PURPOSE FINANCIAL STATEMENTS

IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, THE FOLLOWING COMBINED STATEMENTS ARE PRESENTED:

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units.

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Unit.

Combined Statement of Revenue, Expenditures and Changes in Undesignated Fund Balances - Budget and Actual (Budgetary Basis) - Budgeted Governmental Fund Types.

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types and Similar Trust Funds and Discretely Presented Component Units.

Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Fund and Discretely Presented Component Units.

Combined Statement of Changes in Plan Net Assets.

Notes to Financial Statements.

Required Supplementary Information:
- Pension Trust Funds Analysis of Funding Progress - Last Six Fiscal Years.

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001
(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
ASSETS AND OTHER DEBITS	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Cash or Equity in Pooled Cash and Investments	$ 48 777	$ 262 029	$ 4 496	$ 352,349	$ 691,979	$ 71,703
Cash or Equity in Pooled Cash and Investments - Nonexpendable Trust	---	---	---	---	---	---
Cash With Custodian/Fiscal Agent	---	305	19 951	3	64	---
Cash With Custodian/Fiscal Agent - Nonexpendable Trust	---	---	---	---	---	---
Investments at Fair Value	---	94	150,398	54,522	---	---
Receivables:						
Taxes - Net	32,431	7,199	---	---	---	---
Accounts - Net	38,016	7,717	---	7	78,099	1,813
Claims - Net	16	42	---	---	---	11
Special Assessments - Net	---	458	492	---	15	---
Notes	---	18,290	---	12,577	---	---
Contributions	---	---	---	---	---	2 703
Accrued Interest	3,011	2 395	96	4,884	9,478	165
Grants	---	14 774	---	24,690	11,620	---
Loans	---	---	---	---	---	---
Loans to Redevelopment Agency	---	576	---	---	---	---
From Other Funds	87,135	3 157	200	39,867	19,223	---
From Primary Government	---	---	---	---	---	---
From Other Agencies	1,835	327	1,529,195	48	---	---
Securities Sold	---	---	---	---	---	---
Advances to Other Funds	10,628	10,861	---	609	37,060	330
Advances to Other Agencies	350	3,726	---	---	---	---
Inventories of Water in Storage	---	---	---	---	12,799	---
Inventories	---	---	---	---	1,117	3,475
Land Held for Resale	---	7,507	---	59,092	---	---
Prepaid and Reimbursable Items and Deposits	152	248	1 397	---	136,470	459
Restricted Assets						
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds	---	---	---	---	20,818	---
Cash with Custodian/Fiscal Agent	---	---	---	---	47	---
Deferred Charges	---	---	---	---	29,934	---
Fixed Assets - Net	---	---	---	---	3,457,465	67,292
Amount Available for Payment of General Long-Term Debt	---	---	---	---	---	---
Amount to be Provided for Retirement of General Long-Term Debt	---	---	---	---	---	---
TOTAL ASSETS AND OTHER DEBITS	$ 222,151	$ 339,705	$ 1,706,229	$ 548,648	$ 4,506,188	$ 147,951

The accompanying notes are an integral part of the financial statements

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Component Unit	Component Unit	Totals Reporting Entity
Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC	(Memorandum Only)
$ 338,339	$ ---	$ ---	$ 1,769,674	$ 2,840	$ 7,357	$ 1,044	$ 1,780,915
139	---	---	139	---	---	---	139
3	---	---	20,326	---	---	---	20,326
389	---	---	389	---	---	---	389
3,020,352	---	---	3,225,366	---	28,418	---	3,253,784
---	---	---	39,630	---	---	---	39,630
6,454	---	---	132,106	3,630	855	3,484	140,075
---	---	---	69	---	---	---	69
---	---	---	965	---	---	---	965
---	---	---	30,867	---	63,761	---	94,628
10,641	---	---	13,344	---	---	---	13,344
12,529	---	---	32,580	---	5,449	---	38,009
---	---	---	51,084	---	---	---	51,084
24,061	---	---	24,061	---	---	---	24,061
---	---	---	576	---	---	---	576
---	---	---	149,582	---	---	---	149,582
---	---	---	---	1,026	540	---	1,566
---	---	---	1,531,205	39	3,107	---	1,534,351
20,708	---	---	20,708	---	---	---	20,708
---	---	---	59,488	---	---	---	59,488
---	---	---	4,076	---	---	---	4,076
---	---	---	12,799	---	---	---	12,799
---	---	---	4,592	---	97	---	4,689
---	---	---	66,599	---	---	---	66,599
40	---	---	138,766	898	5	3	139,672
---	---	---	20,818	5,003	754	---	26,575
---	---	---	47	---	---	---	47
---	---	---	29,934	---	---	---	29,934
265	1,618,858	---	5,143,880	24,655	93,528	---	5,262,063
---	---	216,370	216,370	---	---	---	216,370
---	---	2,312,695	2,312,695	10,315	---	---	2,323,010
$ 3,433,920	$ 1,618,858	$ 2,529,065	$ 15,052,715	$ 46,406	$ 203,871	$ 4,531	$ 15,309,523

Continued on next page

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001
(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
LIABILITIES						
Accounts Payable	$ 2,057	$ 5,665	$ 27	$ 4,339	$ 50,140	$ 3,922
Accrued Wages and Benefits	27,445	1 377	---	---	23,997	8,971
Other Accrued Liabilities	---	74	---	---	3,186	---
Employees' 401(k) Plans	---	---	---	---	---	---
Liability Claims	---	---	---	---	7,045	37,366
Matured Bonds, Notes and Interest Payable	---	---	2	---	47	---
Interest Accrued on Long-Term Debt	---	---	---	---	15,310	279
Long-Term Debt Due Within One Year	---	---	---	---	29,929	4,742
Due to Other Funds	---	43,389	---	27,691	441	---
Due to Component Unit	---	1,566	---	---	---	---
Due to Other Agencies	---	202	---	149	2,404	---
Deferred Revenue	37,942	52,934	1 529 584	16,017	43,086	3
Advances from Other Funds	---	609	635	---	---	57,914
Deposits/Advances from Others	---	---	---	---	4,567	---
Sundry Trust Liabilities	---	2,266	---	3,523	---	---
Estimated Landfill Closure and Posiclosure Care	---	---	---	---	9,920	---
Capital Lease Obligations	---	---	---	---	6,939	17,100
Net Pension Liabilities	---	---	---	---	4,433	876
Securities Purchased	---	---	---	---	---	---
Contracts and Notes Payable	77,000	---	---	---	1,497,856	---
Loans Payable	---	---	---	---	---	---
Bonds Payable	---	---	---	---	---	---
TOTAL LIABILITIES	144,444	108,086	1,530,228	51,719	1,699,300	131,173
FUND EQUITY AND OTHER CREDITS						
Investment in General Fixed Assets	---	---	---	---	---	---
Contributed Capital	---	---	---	---	1 630,032	226
Retained Earnings (Deficit)						
Reserved for Claims and Contingencies	---	---	---	---	---	1,096
Reserved for General Long-Term Claims	---	---	---	---	---	(29,281)
Unreserved	---	---	---	---	1,176,856	44,737
Fund Balances						
Reserved for Land Held for Resale	---	7,507	---	59,092	---	---
Reserved for Encumbrances	11,150	34,181	---	117,274	---	---
Reserved for Advances and Deposits	10,978	11 328	---	---	---	---
Reserved for Nonexpendable Trust	---	---	---	---	---	---
Reserved for Pension Benefits	---	---	---	---	---	---
Reserved for Debt Service	---	41,563	174,807	---	---	---
Unreserved						
Designated for Unrealized Gains	2,287	1,409	1,194	2,268	---	---
Designated for Subsequent Years' Expenditures	2,132	42,643	---	193,078	---	---
Undesignated	51,160	92,988	---	125,217	---	---
TOTAL FUND EQUITY AND OTHER CREDITS	77,707	231,619	176,001	496,929	2,806,888	16,778
TOTAL LIABILITIES AND FUND EQUITY AND OTHER CREDITS	$ 222,151	$ 339 705	$ 1 706,229	$ 548,648	$ 4,506,188	$ 147,951

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

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Component Unit	Component Unit	Totals Reporting Entity
Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC	(Memorandum Only)
$ 4,382	$ ---	$ ---	$ 70,536	$ 1,107	$ 1,996	$ 1,187	$ 74,826
342	---	52,122	114,254	1,185	1,818	---	117,257
---	---	---	3,260	2,772	1,449	---	7,481
105,269	---	---	105,269	---	---	---	105,269
---	---	44,963	89,374	---	---	---	89,374
---	---	---	49	9,500	---	---	9,549
---	---	---	15,589	---	---	---	15,589
---	---	---	34,671	---	---	---	34,671
78,061	---	---	149,582	---	---	---	149,582
---	---	---	1,566	---	---	---	1,566
---	---	---	2,755	---	1,188	1,561	5,504
267	---	---	1,679,813	2,005	6,154	---	1,687,972
330	---	---	59,488	---	---	---	59,488
10,456	---	---	15,023	3,600	867	---	19,490
13,695	---	---	19,484	---	---	---	19,484
---	---	---	9,920	---	---	---	9,920
---	---	13,233	37,272	---	---	---	37,272
75	---	25,599	30,983	---	---	---	30,983
204,146	---	---	204,146	---	---	---	204,146
---	---	41,900	1,616,756	---	8,411	---	1,625,167
---	---	3,250	3,250	---	---	---	3,250
---	---	2,347,998	2,347,998	---	---	---	2,347,998
417,023	---	2,529,065	6,611,038	20,169	21,883	2,748	6,655,838
---	1,618,858	---	1,618,858	24,655	81,568	---	1,725,081
---	---	---	1,630,258	---	---	20	1,630,278
---	---	---	1,096	---	---	---	1,096
---	---	---	(29,281)	---	---	---	(29,281)
---	---	---	1,221,593	---	100,420	1,763	1,323,776
---	---	---	66,599	---	---	---	66,599
4,292	---	---	166,897	---	---	---	166,897
---	---	---	22,306	---	---	---	22,306
12,339	---	---	12,339	---	---	---	12,339
2,996,760	---	---	2,996,760	---	---	---	2,996,760
---	---	---	216,370	---	---	---	216,370
30	---	---	7,188	---	---	---	7,188
700	---	---	238,563	3,582	---	---	242,135
2,776	---	---	272,141	---	---	---	272,141
3,016,897	1,618,858	---	8,441,677	28,237	181,988	1,783	8,653,685
$ 3,433,920	$ 1,618,858	$ 2,529,065	$ 15,052,715	$ 48,406	$ 203,871	$ 4,531	$ 15,309,523

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2001
(In Thousands)

	General
REVENUES	
Property Taxes	$ 158,585
Special Assessments	---
Sales Taxes	142,069
Other Local Taxes	109,151
Licenses and Permits	22,154
Fines, Forfeitures and Penalties	29,776
Revenue from Use of Money and Property	40,841
Revenue from Federal Agencies	787
Revenue from Other Agencies	87,262
Revenue from Private Sources	—
Charges for Current Services	84,156
Other Revenue	2,606
TOTAL REVENUES	677,387
EXPENDITURES	
Current:	
General Government	79,800
Community and Economic Development	19,778
Public Safety	369,807
Libraries	26,494
Parks, Recreation and Culture	56,748
Public Works	80,999
Housing and Community Development	—
Public Transportation	—
Employee Relations and Special Projects	548
Miscellaneous and Unallocated	1,367
Cost of Issuance, Bonds and Notes	—
Capital Projects	—
Debt Service:	
Principal Retirement	—
Interest	4,616
TOTAL EXPENDITURES	639,957
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	37,430
OTHER FINANCING SOURCES (USES)	
Transfers from Proprietary/Fiduciary Funds	4,074
Transfers from Other Funds	29,236
Transfers from Component Unit	86
Transfers from Primary Government	—
Transfers to Proprietary Funds	(14,274)
Transfers to Other Funds	(32,601)
Transfers to Component Unit	(650)
Proceeds from Loans Payable	—
Proceeds from Special Assessment Bonds	—
Proceeds from Tax Allocation Bonds	—
TOTAL OTHER FINANCING SOURCES (USES)	(14,129)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	23,301
Fund Balances at Beginning of Year	54,406
Residual Equity Transfers from (to) Other Funds	—
FUND BALANCES AT END OF YEAR	$ 77,707

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

Governmental Fund Types			Fiduciary Fund Type	Totals Primary Government	Component Unit	Totals Reporting Entity
Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	San Diego Convention Center Corporation	(Memorandum Only)
$ 20,033	$ 16,934	$ 6 249	$ ---	$ 201,801	$ ---	$ 201,801
9,026	9,749	---	---	18,775	---	18,775
38,008	---	41,647	---	221,724	---	221,724
84,026	---	---	---	193,177	---	193,177
4,470	---	8,179	---	34,803	---	34,803
3,125	---	1	---	32,902	---	32,902
32,580	11,685	23,239	722	109,067	7,348	116,415
35,938	---	3,411	---	40 136	---	40,136
30,721	94,538	10,347	---	222,868	2,508	225,376
20,667	632	56,284	212	77 795	---	77,795
17,625	---	---	---	101 781	13,860	115,641
3,118	---	5 820	---	11,544	1,182	12,726
299,337	133,538	155,177	934	1,266 373	24,898	1,291,271
7,740	132	8,320	---	95,992	---	95,992
8,052	---	---	---	27,830	---	27,830
36,948	---	25	10	406,590	---	406,590
4,870	---	---	183	31,547	---	31,547
58,175	---	1,272	117	116,312	25,502	141,814
71,279	---	279	1	152,558	---	152,558
13,580	---	61	---	13,641	---	13,641
8	---	---	---	8	---	8
7,878	---	---	9	8,435	---	8,435
4	---	---	---	1,371	---	1,371
---	2,155	1 899	---	4,054	---	4,054
18,334	---	449,435	5 604	473,373	3,808	477,181
1,475	52,758	---	---	54,233	---	54,233
1,620	119,094	---	---	125,330	---	125,330
229,963	174,139	461,291	5,924	1,511,274	29,310	1,540,584
69,374	(40,601)	(306,114)	(4,990)	(244,901)	(4,412)	(249,313)
145	---	1,400	---	5,619	---	5,619
101,575	42,819	62,578	---	236,208	---	236,208
1,050	---	---	---	1 136	---	1,136
---	---	---	---	---	6 638	6,638
(743)	---	(613)	---	(15,630)	---	(15,630)
(170,659)	(2,274)	(30,674)	---	(236,208)	---	(236,208)
(11,733)	---	---	---	(12,383)	---	(12,383)
---	---	222	---	222	---	222
---	4,575	56,264	---	60,839	---	60,839
42,996	13,394	---	---	56,390	---	56 390
(37,369)	58,514	89,177	---	96,193	6,638	102,831
32,005	17,913	(216,937)	(4,990)	(148 708)	2,226	(146,482)
199,239	158,086	713 866	10,099	1,135 698	1,356	1,137,054
375	---	---	---	375	---	375
$ 231,619	$ 176,001	$ 496,929	$ 5,109	$ 987,365	$ 3,582	$ 990,947

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

	General Fund	
	Actual on Budgetary Basis	Budget
REVENUES		
Property Taxes	$ 158,585	$ 159,874
Special Assessments	—	—
Sales Taxes	142,069	139 696
Other Local Taxes	109,15[illegible]	99 709
Licenses and Permits	22,154	15 512
Fines Forfeitures and Penalties	29,776	27 143
Revenue from Use of Money and Property	38,554	32,038
Revenue from Federal Agencies	787	875
Revenue from Other Agencies	87,262	75,151
Revenue from Private Sources	—	—
Charges for Current Services	84,156	80,580
Other Revenue	2,606	3,390
Excess Revenue Appropriated	—	4,508
TOTAL REVENUES	675,100	642,476
EXPENDITURES		
Current		
General Government	82,528	85,534
Community and Economic Development	20,643	21,244
Public Safety	373,175	380,181
Libraries	27,094	27,557
Parks, Recreation and Culture	59,153	62,419
Public Works	84,118	87,543
Housing and Community Development	—	—
Public Transportation	—	—
Employee Relations and Special Projects	548	636
Miscellaneous and Unallocated	1 418	1,550
Capital Projects	—	—
Debt Service		
Principal Retirement	—	—
Interest	4,616	4,616
TOTAL EXPENDITURES	653,293	671,280
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,807	(28,804)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary/Fiduciary Funds	5,552	11,897
Transfers from Other Funds	29,236	35,465
Transfers from Component Unit	86	86
Transfers to Proprietary Funds	(14,274)	(14 274)
Transfers to Other Funds	(32,601)	(32,601)
Transfers to Component Unit	(650)	(650)
TOTAL OTHER FINANCING SOURCES (USES)	(12,651)	(77)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	9,156	(28,881)
Fund Balances Undesignated at July 1, 2000	29,536	29,536
Reserved for Encumbrances at July 1, 2000	11,628	11,628
Reserved for Debt Service at July 1, 2000	—	—
Reserved for Debt Service at June 30, 2001	—	—
Designated for Subsequent Years' Expenditures at July 1, 2000	2,972	2,972
Designated for Subsequent Years' Expenditures at June 30, 2001	(2,132)	—
FUND BALANCES UNDESIGNATED AT June 30, 2001	$ 51,160	$ 15,255

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

Budgeted Special Revenue Funds		Budgeted Debt Service Funds		Budgeted Capital Projects Funds		Totals (Memorandum Only)		
Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
$ 4 714	$ 4,4"5	$ 2,358	$ 2,361	$ —	$ —	$ 165,657	$ 166,650	$ (993)
8 919	9,027	—	—	—	—	8,919	9,027	(108)
35,968	40,180	—	—	5 556	1 108	183,595	180,984	2 611
84,026	80,407	—	—	—	—	193,177	190,116	*3 061
1 140	1,534	—	—	—	—	23,294	21,046	2,248
3 017	2,409	—	—	—	—	32,793	29,552	3,241
16,932	15 095	168	101	497	21	56,151	47,255	8,896
—	—	—	—	3,195	11,453	3,982	12,328	(8,346)
14,551	14,956	—	—	9,974	16,589	111 787	106,696	5,091
122	42	—	—	3	3	125	45	80
17,066	16,298	—	—	—	—	101,222	96,878	4,344
825	2,878	—	—	4,183	3,187	7,614	9,455	(1 841)
—	—	—	—	—	—	—	4,508	(4 508)
187,280	187,241	2,526	2,462	23 410	32,361	888,316	864,540	23,776
1 287	1 510	—	—	256	2,445	84,071	89,489	5 418
—	—	—	—	—	—	20,643	21,244	601
19,110	21,101	—	—	—	—	392,285	401,282	8,997
—	—	—	—	—	—	27,094	27,557	463
62,359	74,725	—	—	218	2,202	121,730	139,346	17,616
61,064	68,410	—	—	—	—	145,182	155,953	10,771
6,631	7,515	—	—	—	—	6,631	7,515	884
11	130	—	—	—	—	11	130	119
—	—	—	—	—	—	548	636	88
—	—	—	—	—	—	1,418	1,550	132
5,710	13 377	—	—	15 438	29,752	21,148	43,129	21,981
—	—	2,095	2,095	—	—	2,095	2,095	—
—	—	1,498	1,498	—	—	6,114	6,114	—
156 172	186,768	3,593	3,593	15,912	34,399	828,970	896,040	67 070
31,108	473	(1,067)	(1,131)	7,498	(2,038)	59,346	(31,500)	90,846
145	131	—	—	—	—	5,697	12,028	(6,331)
65,761	71,563	1,069	1,069	8,540	8,540	104,606	116,637	(12 031)
1,050	1,000	—	—	—	—	1,136	1,086	50
(743)	(743)	—	—	—	—	(15,017)	(15,017)	—
(107,917)	(110,889)	—	—	(13,452)	(13,452)	(153,970)	(156,942)	2,972
(5,043)	(5 170)	—	—	—	—	(5,693)	(5,820)	127
(46,747)	(44,108)	1,069	1,069	(4 912)	(4,912)	(63,241)	(48,028)	(15,213)
(15,639)	(43,635)	2	(62)	2 586	(6,950)	(3 895)	(79,528)	75 633
44,344	44,260	—	—	3,694	3,694	77,574	77,490	84
13 148	13,148	—	—	2,796	2 796	27,572	27,572	—
—	—	2,993	2,993	—	—	2,993	2,993	—
—	—	(2,995)	(2,995)	—	—	(2,995)	(2,995)	—
11 351	11,351	—	—	1 787	1,787	16,110	16,110	—
(8 324)	—	—	—	(3,724)	—	(14,180)	—	(14,180)
$ 44 880	$ 25,124	$ —	$ (64)	$ 7 139	$ 1,327	$ 103,179	$ 41,642	$ 61 537

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2001
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
OPERATING REVENUES		
Earnings on Investments	$ —	$ —
Sale of Water	195,706	—
Charges for Services	315,378	52,001
Contributions	4	42,639
Revenue from Use of Property	3,442	—
Usage Fees	53,518	30,326
Other	19,675	2,365
TOTAL OPERATING REVENUES	587,723	127,331
OPERATING EXPENSES		
Benefit and Claim Payments	—	47,306
Maintenance and Operations	286,346	45,444
Cost of Materials Issued	319	22,911
Cost of Water Purchased	103,321	—
Taxes	7,803	—
Administration	123,758	15,917
Depreciation and Amortization	59,080	11 103
TOTAL OPERATING EXPENSES	580 627	142,681
OPERATING INCOME (LOSS)	7,096	(15,350)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	54,388	980
Federal Grant Assistance	398	—
Other Agency Grant Assistance	831	—
Debt Service Interest Payments	(72 534)	(561)
Cost of Issuance of Long - Term Debt	(1 204)	—
Gain (Loss) on Sale/Retirement of Fixed Assets	(2,260)	(547)
Distribution to Partner	—	—
Other	13,687	4,951
TOTAL NONOPERATING REVENUES (EXPENSES)	(6,694)	4,823
INCOME (LOSS) BEFORE OPERATING TRANSFERS	402	(10,527)
Operating Transfers In	284	4,212
Transfers from Governmental Funds	613	15,017
Transfers from Primary Government	—	—
Operating Transfers Out	(2,349)	(2,147)
Transfers to Governmental Funds	(2 755)	(2,116)
Transfers to Primary Government	—	—
NET INCOME (LOSS)	(3 805)	4,439
Retained Earnings/Fund Balances at Beginning of Year as Restated	1,181,036	12,113
Residual Equity Transfers to Other Funds	(375)	—
RETAINED EARNINGS/FUND BALANCES AT END OF YEAR	$ 1,176,856	$ 16,552

The accompanying notes are an integral part of the financial statements

Fiduciary Fund Nonexpendable Trust	Totals Primary Government (Memorandum Only)	Component Unit San Diego Housing Commission	Component Unit San Diego Medical Services Enterprise, LLC	Totals (Memorandum Only)
$ 1,563	$ 1,563	$ ---	$ ---	$ 1,563
---	195,706	---	---	195,706
63	367,442	6,711	31,123	405,276
---	42,643	---	---	42,643
---	3,442	---	---	3,442
---	83,844	---	---	83,844
---	22,040	4,328	392	26,760
1,626	716,680	11,039	31,515	759,234
---	47,306	---	---	47,306
44	331,834	67,877	30,624	430,335
---	23,230	---	---	23,230
---	103,321	---	---	103,321
---	7,803	---	---	7,803
4	139,679	15,868	---	155,547
---	70,183	2,219	---	72,402
48	723,356	85,964	30,624	839,944
1,578	(6,676)	(74,925)	891	(80,710)
---	55,368	3,012	106	58,486
---	398	73,602	---	74,000
---	831	---	---	831
---	(73,095)	(615)	---	(73,710)
---	(1,204)	---	---	(1,204)
---	(2,807)	---	---	(2,807)
---	---	---	(1,050)	(1,050)
---	18,638	206	---	18,844
---	(1,871)	76,205	(944)	73,390
1,578	(8,547)	1,280	(53)	(7,320)
---	4,496	---	---	4,496
---	15,630	---	---	15,630
---	---	5,095	650	5,745
---	(4,496)	---	---	(4,496)
(748)	(5,619)	---	---	(5,619)
---	---	---	(1,136)	(1,136)
830	1,464	6,375	(539)	7,300
11,509	1,204,658	94,045	2,302	1,301,005
---	(375)	---	---	(375)
$ 12,339	$ 1,205,747	$ 100,420	$ 1,763	$ 1,307,930

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND AND DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2001
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ 7,096	$ (15,350)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities		
Earnings on Investments Included in Operating Income	—	—
Depreciation and Amortization	59,080	11,103
Changes in Assets and Liabilities		
(Increase) Decrease in Receivables		
Accounts and Special Assessments - Net	16,137	(253)
Claims - Net	—	24
Notes - Net	—	—
Contributions	—	(2,703)
From Other Funds	(11,175)	—
From Other Agencies	—	—
From Primary Government	—	—
(Increase) Decrease in Inventories	(2,864)	(189)
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits	91,628	(358)
Increase (Decrease) in Accounts Payable	(5,635)	(431)
Increase (Decrease) in Accrued Wages and Benefits	2,261	1,414
Increase (Decrease) in Other Accrued Liabilities	285	—
Increase (Decrease) in Liability Claims	1,862	1,093
Increase (Decrease) in Due to Other Funds	(1,449)	—
Increase (Decrease) in Due to Other Agencies	3	—
Increase (Decrease) in Deferred Revenue	19,862	(543)
Increase (Decrease) in Net Pension Liabilities	1,207	244
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	814	—
Distribution to Partner	—	—
Other Nonoperating Revenue (Expenses)	13,687	4,951
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	192,799	(998)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Residual Equity Transfers to Other Funds	(375)	—
Operating Transfers In	284	4,212
Transfers from Governmental Funds	613	15,017
Transfers from Primary Government	—	—
Operating Transfers Out	(2,349)	(2,147)
Transfers to Governmental Funds	(2,755)	(2,116)
Transfers to Primary Government	—	—
Operating Grants Received	4,609	—
Proceeds from Advances and Deposits	487	5,741
Payments for Advances and Deposits	(3,162)	(16)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(2,648)	20,691

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

Fiduciary Fund Type Nonexpendable Trust	Totals Primary Government (Memorandum Only)	Component Unit San Diego Housing Commission	Component Unit San Diego Medical Services Enterprise, LLC	Totals (Memorandum Only)
$ 1,578	$ (6,676)	$ (74,925)	$ 891	$ (80,710)
(1,563)	(1,563)	—	—	(1,563)
—	70,183	2,219	—	72,402
1	15,885	60	(1,009)	14,936
—	24	—	—	24
—	—	(4,827)	—	(4,827)
—	(2,703)	—	—	(2,703)
—	(11,175)	—	—	(11,175)
—	—	(1,051)	—	(1,051)
—	—	1,588	—	1,588
—	(3,053)	(9)	—	(3,062)
—	91,270	161	6	91,437
—	(6,066)	108	(63)	(6,021)
—	3,675	30	—	3,705
—	285	323	—	608
—	2,955	—	—	2,955
—	(1,449)	—	—	(1,449)
—	3	(167)	24	(140)
—	19,319	1,131	—	20,450
—	1,451	—	—	1,451
—	814	—	—	814
—	—		(1,050)	(1,050)
—	18,638	206	—	18,844
16	191,817	(75,153)	(1,201)	115,463
—	(375)	—	—	(375)
—	4,496	—	—	4,496
—	15,630	—	—	15,630
—	—	5,095	650	5,745
—	(4,496)	—	—	(4,496)
(748)	(5,619)	—	—	(5,619)
—	—	—	(1,136)	(1,136)
—	4,609	73,602	—	78,211
—	6,228	—	—	6,228
—	(3,178)	—	—	(3,178)
(748)	17,295	78,697	(486)	95,506

Continued on next page

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND AND DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2001
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	$ 185,417	$ 7,264
Proceeds from Contributed Capital	38,059	—
Acquisition of Fixed Assets	(265,403)	(20,315)
Proceeds from the Sale of Fixed Assets	346	1,171
Principal Payment on Capital Lease	(1,469)	(5,366)
Principal Paid on Long-Term Debt	(25,132)	—
Interest Paid on Long-Term Debt	(72,653)	(550)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(140,835)	(17,796)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase)Sale of Investments	—	—
Interest and Dividends Received on Investments	53 073	951
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	53 073	951
Net Increase (Decrease) in Cash and Cash Equivalents	102,389	2 848
Cash and Cash Equivalents at Beginning of Year	610,519	68 855
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 712,908	$ 71,703

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

Fiduciary Fund Type Nonexpendable Trust	Totals Primary Government (Memorandum Only)	Component Unit San Diego Housing Commission	Component Unit San Diego Medical Services Enterprise, LLC	Totals (Memorandum Only)
$ —	$ 192 681	$ —	$ —	$ 192,681
—	38 059	—	—	38,059
—	(285,718)	(1,219)	—	(286,937)
—	1 517	—	—	1,517
—	(6 835)	(110)	—	(6,945)
—	(25 132)	—	—	(25,132)
—	(73 203)	(615)	—	(73,818)
—	(158 631)	(1,944)	—	(160 575)
(319)	(319)	2,373	—	2,054
1,061	55 085	3,012	106	58,203
742	54 766	5 385	106	60,257
10	105,247	6 985	(1,581)	110 651
516	679 892	1,126	2,625	683,643
$ 528	$ 785,139	$ 8,111	$ 1,044	$ 794,294

COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
Year Ended June 30, 2001
(In Thousands)

		Pension Trust
ADDITIONS		
Contributions	$	175,958
Earnings on Investments		(59,271)
Other Income		371
TOTAL OPERATING ADDITIONS		117,058
DEDUCTIONS		
Benefit and Claim Payments		191,585
Administration		6,252
Depreciation		28
TOTAL OPERATING DEDUCTIONS		197,865
NET INCREASE		(80,807)
NET ASSETS AT BEGINNING OF YEAR		3,080,256
NET ASSETS AT END OF YEAR	$	2,999,449

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT POLICIES

The City of San Diego (the "City") adopted its charter on April 7 1931 and operates as a municipality in accordance with State laws. The City is governed by an elected nine member City Council, including the Mayor Residents of the City are provided with a wide range of services including parks, recreation, police, fire, water and sewer services

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

a. Scope of Financial Reporting Entity

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

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Component units should be included in the reporting entity financial statements using the blending method if either of the following criteria are met.

i The component unit's governing body is substantively the same as the governing body of the primary government (the City).

ii. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

Included within the reporting entity as blended component units:

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

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

A brief description of each blended component unit follows

- Centre City Development Corporation, Inc is a not-for-profit public benefit corporation organized in 1975 by the City to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. Centre City Development Corporation's budget and Governing Board are approved by the City Council and services are provided exclusively to the City

- City of San Diego Metropolitan Transit Development Board Authority was established in 1988 by a joint exercise of powers agreement between the City and the San Diego Metropolitan Development Board The City of San Diego Metropolitan Transit Development Board Authority was created to acquire, construct, maintain, repair, manage, operate and control facilities, to provide public capital improvements including public mass transit guideways, public transit systems and related transportation facilities primarily benefiting the City. The City appoints two Councilmembers to the Governing Board and the San Diego Metropolitan Development Board appoints one The Authority provides services almost entirely to the City

- The Convention Center Expansion Financing Authority (the "Authority") is a joint powers authority formed under and pursuant to Section 6500 et seq of the California Government Code and a Joint Exercise of Powers Agreement dated as of May 1 1996, between the City and the San Diego Unified Port District (the "District") The Authority was established to assist the City and the District with respect to the financing , acquisition and construction of an expansion to the existing convention center The Governing Board is administered by the Mayor, the City Manager, the District Director and a member of the Board of District Commissioners

- The Public Facilities Financing Authority was established in 1991 by a joint exercise of powers agreement between the City and the Redevelopment Agency of the City of San Diego to acquire construct, maintain, repair manage, operate and control facilities for public capital improvements The Public Facilities Financing Authority provides services exclusively to the City.

- The Redevelopment Agency of the City of San Diego was established by the City in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the Governing Board and the Redevelopment Agency of the City of San Diego provides services exclusively to the City.

- San Diego Data Processing Corporation was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services to public agencies, primarily the City, which is the sole member The San Diego Data Processing Corporation's budget and Governing Board are approved by the City Council. San Diego Data Processing Corporation provides services almost exclusively to the City.

- The San Diego Facilities and Equipment Leasing Corporation is a not-for-profit public benefit corporation established in 1987 by the City for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City The City Council is the Governing Board and the benefit is exclusively to the City

- The San Diego Industrial Development Authority was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes The City Council is the Governing Board and benefit is exclusively to the City

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

- The San Diego Open Space Park Facilities District #1 was established in 1978 by the City for the purpose of acquiring open space properties to implement the Open Space Element of the City's General Plan. The boundaries are contiguous with the City's. The City Council is the Governing Board and the benefit is exclusively to the City

- Southeastern Economic Development Corporation Inc. is a not-for-profit public benefit corporation organized in 1980 by the City to administer certain redevelopment projects in southeast San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego Southeastern Economic Development Corporation's budget and Governing Board are approved by the City Council and services are provided exclusively to the City.

Discretely presented component units, also legally separate entities, have financial data reported in a separate column from the financial data of the primary government to demonstrate they are financially and legally separate from the primary government. Component units should be discretely presented in the reporting entity financial statements when neither of the above two criteria are met.

Included within the reporting entity as discretely presented component units:

- San Diego Convention Center Corporation ("SDCCC")

  SDCCC is a not-for-profit public benefit corporation originally organized to market, operate and maintain the San Diego Convention Center. On July 1, 1993, SDCCC assumed similar responsibility for the San Diego Concourse as well. The City is a sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints seven voting members out of the nine-member Board of Directors of SDCCC. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC (currently, there is no debt outstanding). SDCCC is discretely presented because it provides services direct to the citizenry

- San Diego Housing Commission ("SDHC")

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

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

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

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Complete financial statements for each of the individual component units may be obtained from the City Auditor and Comptroller's office.

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

b. Basis of Presentation

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the City:

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Fund Types) are accounted for through Governmental Fund Types The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination. The following are the City's Governmental Fund Types:

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those for expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes

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.

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 Fund Types and certain trust funds).

PROPRIETARY FUND TYPES

Proprietary Fund Types are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector and are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred The City adopts all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30 1989 in accounting and reporting for its proprietary operations unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements The measurement focus is upon determination of net income, financial position and changes in cash flows The following are the City's Proprietary Fund Types:

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes

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 on a cost-reimbursement basis

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds:

Trust and Agency Funds - Trust and Agency Funds include Expendable, Nonexpendable, Pension Trust and Agency Funds. Nonexpendable and Pension Trust Funds are accounted for and reported in the same manner as Proprietary Fund Types since capital maintenance is critical Expendable Trust and Agency Funds are accounted for and reported similar to Governmental Fund Types

ACCOUNT GROUPS

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City, other than those accounted for in the Proprietary Fund Types.

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City, except for that accounted for in the Proprietary Fund Types.

c. Basis of Accounting

Governmental Fund Types, Expendable Trust and Agency Funds

The modified accrual basis of accounting is followed in the Governmental Fund Types, Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period

Revenues which are considered susceptible to accrual include real and personal property taxes, other local taxes, refuse collection franchise fees, fines, forfeitures and penalties, motor vehicle license fees, interest and state and federal grants and subventures In applying the susceptible to accrual concept to state and federal revenues, the legal and contractual requirements of the numerous individual programs are used as guidance

Licenses and permits, charges for services, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt which are recognized when due, and (2) employee annual leave and claims and judgments from litigation and self-insurance which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources The total future liability is reflected in the General Long-Term Debt Account Group.

SDCCC, a discretely presented component unit, is accounted for under the modified accrual basis of accounting.

Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds:

The accrual basis of accounting is used in all Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred Estimated unbilled revenues from the Water and Sewer Utility (Enterprise) Funds are recognized at the end of each Fiscal Year This estimated amount is based on billings during the month following the close of the Fiscal Year.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

SDHC, a discretely presented component unit, is accounted for under the accrual basis of accounting.

SDMSE, a discretely presented component unit, is accounted for under the accrual basis of accounting

d Property Taxes

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

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Since the passage of California's Proposition 13, beginning with Fiscal Year 1978-79 general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation Taxable values of properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year.

This Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13)

2. CASH AND INVESTMENTS (Continued)

Investments for the Pension Trust Fund are authorized to be made by the Board of Administration of the City Employees' Retirement System in accordance with the charter of the City. The Board is authorized to invest in any bonds or securities which are allowed by general law for savings banks. The Board has further restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "prudent man" rule as set forth in state law.

These investments include, but are not limited to, bonds, notes or other obligations, real estate investments, common stocks, preferred stocks and pooled vehicles. Investments can also be made in financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation

Investment policies permit the Pension Trust Fund to invest in financial futures contracts. Financial futures contracts, which are recorded at market value, are not hedges of existing assets, and changes in the market value of the contract result in recognition of a gain or loss

A copy of the Pension Trust Fund's investment policy may be obtained from the Retirement office.

Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value, the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable. In fiscal year 2001, however, the City did not enter into any reverse repurchase agreements. As such, there was no such credit exposure at year-end.

The City's investments at June 30, 2001, that can be specifically identified as to credit risk are categorized as described below including required disclosures for securities lending (in thousands):

Category 1: Insured or registered, with securities held by the City or its agent in the City's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name

2. CASH AND INVESTMENTS (Continued)

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

	Category			Fair
	1	2	3	Value
U.S government and agency securities	$1,308,469	$102,002	$0	$1,410,471
Commercial paper	137,688	0	0	137,688
Equity securities (stocks):				
- Not on securities loan	1,401,784	0	0	1,401,784
- On securities loan for securities collateral	181	0	0	181
Corporate bonds/notes	127,619	0	0	127,619
Fixed income (bonds)	797,034	0	0	797,034
Repurchase Agreements	64,550	0	0	64,550
Negotiable CD's	10,014	0	0	10,014
	$3,847,339	$102,002	$0	$3,949,341

Investments not subject to categorization:	
Fixed income (bonds) on securities loan for cash collateral	18,587
Equity securities (stocks) on securities loan for cash collateral	156,039
Investment with California Local Agency Investment Fund	12,587
Mutual funds	473,595
Real estate/mineral interest funds	156,010
Mortgage Notes	1,618
Other	5,190
Total investments	$4,772,967

2. CASH AND INVESTMENTS (Continued)

Included in the preceding table are investments under the Pension Trust Fund - City Employees Retirement System (SDCERS) with required disclosures for securities lending (in thousands). Following below are those investments specifically attributable to SDCERS:

	Category			Fair
	1	2	3	Value
U.S. government and agency securities	$ 797,034	$ 0	$ 0	$ 797,034
Equity securities (stocks)				
- Not on securities loan	1,401,784	0	0	1,401,784
- On securities loan for securities collateral	181	0	0	181
	$2,198,999	$ 0	$ 0	$2,198,999
Investments not subject to categorization:				
Fixed income (bonds) on securities loan for cash collateral				18,587
Equity securities (stocks) on securities loan for cash collateral				156,038
Real estate/mineral interest funds				156,010
Mortgage Notes				1,618
Total investments				$2,531,252

Summary of Investments - SDHC

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

	Category			Fair
	1	2	3	Value
Commercial paper	$7,039	$ 0	$ 0	$ 7,039
	$7,039	$ 0	$ 0	$ 7,039
Investments not subject to categorization:				
Investment with California Local Agency Investment Fund				21,379
Total investments				$28,418

Summary of Deposits and Investments

Following is a summary of the carrying amount of cash deposits and investments at June 30, 2001 (in thousands):

Cash and pooled cash deposits	$ 243,030
Cash with custodian/fiscal agent	20,762
Investments	4,772,967
Total	$5,036,759

3. FIXED ASSETS

General Fixed Assets

A summary of changes in general fixed assets for the year ended June 30, 2001 is as follows (in thousands).

	Balance July 1, 2000	Additions	Adjustments and Transfers	Deletions	Balance June 30,2001
Land	$ 450,304	$ 36,716	$ - 0	($6,020)	$ 481,000
Structures and Improvements	497,514	41,011	199	(9,281)	529,443
Equipment	180,480	18,999	4,290	(7,449)	196,320
Subtotal	1,128,298	96,726	4,489	(22,750)	1,206,763
Construction in Progress	332,810	126,289	(4,291)	(42,713)	412,095
Total	$1,461,108	$223,015	$ 198	($65,463)	$1,618,858

The following is a summary of general fixed assets for SDCCC at June 30, 2001 (in thousands):

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Furniture, Fixtures and Equipment	$ 5,901	$2,298	$ 3	$ 8,202
Leasehold Improvements	15,173	1,509	(229)	16,453
Total	$21,074	$3 807	($226)	$24,655

Proprietary Fund Type Fixed Assets

A summary of Proprietary Fund Type Fixed Assets at June 30, 2001 is as follows (in thousands):

	Enterprise Funds	Internal Service Funds
Land and Buildings	$50,600	$ 1,383
Property, Plant and Equipment	1,402,438	118,850
Other	976,780	0
Construction in progress	1,606,504	11,885
Total	4,036,322	132,118
Less - Accumulated depreciation	(578,857)	(64,826)
Total, net	$3,457,465	$ 67,292

3. FIXED ASSETS (Continued)

Trust and Agency Fund Type Fixed Assets

The following is a summary of fixed assets at June 30, 2001 (in thousands)

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Equipment	$553	$ 0	$0	$553
Accumulated depreciation	(260)	(28)	0	(288)
Total	$293	($28)	$0	$265

San Diego Housing Commission

The following is a summary of fixed assets at June 30, 2001 (in thousands).

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	$ 38,723	$ 770	$0	$39,493
Structures and Improvements	76,394	0	0	76,394
Equipment	2,509	555	0	3,064
Construction in Progress	6,263	(106)	0	6,157
Subtotal	123,889	1,219	0	125,108
Accumulated depreciation	(29,362)	(2,218)	0	(31,580)
Total	$94,527	($999)	$0	$93,528

Construction In Progress

A summary of construction in progress (CIP) at June 30, 2001 is as follows (in thousands):

General Fixed Asset Account Group	$ 412,095
Enterprise Funds:	
Airports	762
Environmental Services	77,160
Golf Course	5,899
Sewer Utility	1,137,078
Water Utility	385,605
Total Enterprise Funds	1,606,504
Internal Service Funds.	
Central Garage and Machine Shop	11,885
Total Construction in Progress	$2,030,484

3. FIXED ASSETS (Continued)

The Sewer Utility Fund and Water Utility Fund CIP of $1,137,078,059 and $385,605,000 respectively, represent 75% of total CIP for the year ended June 30, 2001.

The Sewer Utility's construction plans for various projects were estimated to cost approximately $178,106,000. As of June 30, 2001, the Sewer Utility's contractual commitments for the projects totaled approximately $75,809,000.

The Water Utility's construction plans for various projects were estimated to cost approximately $129,593,000. As of June 30, 2001, the Water Utility's contractual commitments for the projects totaled approximately $77,764,000.

4. GENERAL LONG-TERM DEBT

General long-term debt consists of general obligation bonds, revenue bonds, certificates of participation ("COP"), special assessment/Mello-Roos bonds with governmental commitment, tax allocation bonds, contracts payable, notes payable, loans payable, capital lease obligations, pension obligations, liability claims (also see Note 18 and Note 19 for more information on contingencies and third party debt) and accrued annual leave. A summary of these obligations as recorded in the General Long-Term Debt Account Group as of June 30, 2001 is as follows (in thousands):

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
General Obligation Bonds:				
Open Space Park Refunding Bonds, Series 1994	5 0-6.0%	2009	$ 64,260	$45,520
Municipal Improvement Bonds, Series 1991	5 1-6.65	2012	25,500	18,075
Total General Obligation Bonds				$63,595
Revenue Bonds/COPs:				
Public Facilities Financing Authority Sewer Revenue Bonds, Series A & B 1997	3 7-5.61	2027	250,000	233,455
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2-7 45	2027	68,425	65,905
Public Facilities Financing Authority Sewer Revenue Bonds, Series 1995	3.9-6.0	2025	350,000	323,935
Public Facilities Financing Authority Sewer Revenue Bonds, Series 1993	2.8-5 25	2023	250,000	213,185
Metropolitan Transit Development Board Authority Lease Revenue Refunding Bonds, Series 1994	4 25-5 625	2009	66,570	40,505
Metropolitan Transit Development Board Authority Lease Revenue Bonds, Series 1993	4.5-5.375	2023	19,515	16,430
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding Series 1996B	4 0-5 7	2011	11,720	10,720
San Diego Facilities Equipment Leasing Corp Certificates of Participation, Series 1996A	4 0-5 6	2010	33,430	26,975
San Diego Facilities Equipment Leasing Corp. Certificates of Participation, Series 1993	3.9-5.6	2023	27,985	21,040
Certificates of Participation, Series 1991	8 0	2002	8,500	1,900
Public Facilities Financing Authority Sewer Revenue Bonds, Series A & B 1999	3 50-5.125	2029	315,410	307,715
Public Facilities Financing Authority Refunding, 1999A & B	3.75-5.1	2017	38,145	33,785
San Diego Facilities & Equipment Leasing Corp. Certificates of Undivided Interests, Series 1998	4.0-5.375	2029	385,000	385,000
Convention Center Expansion Authority Lease Revenue Bonds, Series 1998A	3 8-4.875	2018	205,000	205,000
Centre City Parking Revenue Bonds, Series 1999A	4 5-6 4	2025	12,105	12,105
Total Revenue Bonds/COPs				$1,897,655

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Special Assessment/Mello-Roos Bonds with Governmental Commitment:				
1915 Act Via De La Valle Improvement Bonds, issued October 1986	6.0-6.8%	2003	$ 2,115	$ 210
1915 Act De La Fuente Business Park Phase I Improvement Bonds, issued April 1989	7 0-7.7	2014	4,897	3,160
1915 Act International Business Center Project Improvement Bonds, Issued September 1990	6 1-7 4	2015	4,172	2,810
1915 Act Otay Mesa Industrial Park Improvement Bonds, issued May 1992	5 5-7 95	2013	2,235	595
1915 Act De La Fuente Business Park Phase II Improvement Bonds, issued July 1992	4 0-7 1	2017	5,987	4,940
Special Tax Bonds, 1998 Series Miramar Ranch North, issued July 1998	3 75-5 375	2020	59,465	56,460
Reassessment District Bonds, Series 1999	4.86-7.857	2018	38,145	35,452
Special Tax Bonds, 2000 Series Santaluz issued November 2000	6.333	2031	60,370	60,370
Total Special Assessment/Mello-Roos Bonds With Governmental Commitment				$163,997
Tax Allocation Bonds:				
Centre City Redevelopment Project Tax Allocation Refunding Bonds Series 1992, issued October 1992	3.0-6.0%	2009	$ 36,935	$22,080
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993A & B, issued November 1993	4.875-6 5	2018	54,350	38,176
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	7.8-9.75	2013	1,400	1,090
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995A & B issued June 1995	4 4-8 2	2020	5,155	4,720
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	4.75-6 5	2020	3,750	2,930
Horton Plaza Tax Allocation Refunding Bonds Series 1996 A & B	3 8-6.625	2017	22,800	19,920

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A, B, C, Issued March 1999	3 0-6.25	2024	50,650	50,265
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A & B, Issued April 1999	4 5-6.4	2028	15,830	15,830
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2001, Issued May 2001	Various	2025	1,860	1,845
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000A &B, Issued April 2000	Various	2024	27,490	27,490
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000, Issued May 2000	Various	2030	3,395	3,380
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000, Issued October 2000	Various	2031	20,000	20,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000, Issued November 2000	Various	2022	15,025	15,025
Total Tax Allocation Bonds				222,751
Total Bonds Payable				2,347,998
Contracts Payable				
Contract Payable to City of National City, dated March 1987	7 5	2002	2,171	624
Contract Payable to County of San Diego, dated June 1987	11 0	2013	423	90
Contract Payable to SDSU Foundation, dated December 1991	5.6	2010	1,598	1,598
Contract Payable to MTDB, dated January 2000	4.1	2015	1,626	1,626
Total Contracts Payable				3,938
Notes Payable				
Notes payable to San Diego Association of Governments, various dates	Various	Various	45,797	26,382

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Note payable to Horton, dated December 1991	0	2002	34	34
Note payable to Lorren Daro, dated March 1995	8 0	2005	257	123
Note payable to David Engel, dated December 1994	6.0	2004	4,800	4,800
Note payable to Wal-Mart, dated June 1998	4.9	2017	1,308	1,308
Note payable to City Heights, Not yet dated	6 0	2011	5,315	5,315
Total Notes Payable				37,962
Loans Payable:				
JMI Padres - Centre City	8.0	2009	3,272	3,250
Total Loans Payable				3,250
Capital Lease Obligations				13,233
Pension Obligations				25,599
Liability Claims				44,963
Accrued Annual Leave				52,122
Total General Long-Term Debt				$2,529,065

The following is a summary of changes in general long-term debt for the year ended June 30, 2001 (in thousands):

	Balance July 1, 2000	Additions	Retirements	Balance June 30,2001
General Obligation Bonds	$ 68,700	$ 0	$ 5,105	$ 63,595
Revenue Bonds/COPs	1,933,440	0	35,785	1,897,655
Special Assessment/Mello-Roos Bonds With Governmental Commitment	108,180	60,370	4,553	163,997
Tax Allocation Bonds	171,101	56,415	4,765	222,751
Contracts Payable	1,697	2,241	0	3,938
Notes Payable	33,606	6,657	2,301	37,962
Loans Payable	5,972	0	2,722	3,250
Capital Lease Obligations	14,284	0	1,051	13,233
Pension Obligations	24,264	1,335	0	25,599
Liability Claims	32,983	11,980	0	44,963
Accrued Annual Leave	48,275	3,847	0	52,122
Total	$2,442,502	$142,845	$56,282	$2,529,065

4. GENERAL LONG-TERM DEBT (Continued)

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

The following is a summary of changes in general long-term debt for SDCCC at June 30, 2001 (in thousands)

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Accrued Annual Leave	$ 669	$ 146	$ 0	$ 815
Notes Payable	10,000	0	(500)	9,500
Total Long-Term Debt	$ 10,669	$ 146	($500)	$ 10,315

General obligation bonds are secured by a pledge of the full faith and credit of the City or by a pledge of the City to levy ad valorem property taxes without limitation.

Revenue bonds are secured by a pledge of specific revenue generally derived from fees or service charges related to the operation of the project being financed.

COPs provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds

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

The annual requirements to amortize such long-term debt outstanding as of June 30, 2001, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30,	General Obligation Bonds	Revenue Bonds/ COPs	Special Assessment/ Mello-Roos Bonds	Tax Allocation Bonds	Contracts Payable	Notes Payable	Loans Payable	Capital Lease Obligations
2002	$ 11,078	$ 143,438	$13,161	$ 17,396	$4,123	$ 3,458	$ 567	$ 4,670
2003	9,428	141,999	13 679	17,670	230	3,596	305	3,901
2004	9,566	142,060	13,739	17,763	229	3,596	330	2,580
2005	9,699	142 136	14,012	17,847	229	8,228	356	1,853
2006	9,841	139,600	14,100	17,967	229	3,271	384	1,416
Thereafter	34,260	2,686,013	232,851	303,768	1,495	29,829	4,598	306
Subtotal	83,872	3,395,246	301,542	392,411	6,535	51,978	6,540	14,726
Less Interest	(20,277)	(1,497,591)	(137,545)	(169,660)	(2,597)	(14,016)	(3,290)	(1,493)
Total	$ 63,595	$1,897,655	$163,997	$222,751	$3,938	$37,962	$3,250	$13,233

Installment Purchase Agreement

The City and the Public Facilities Financing Authority ("PFFA") entered into an installment purchase agreement for the acquisition, construction, installation, and improvement of its wastewater system PFFA obtained financing for the project through issuance of bonds secured by installment payments to be made by the City The City has pledged revenues from its wastewater system to finance these installment payments in an amount equal to the principal and interest requirements for the associated bonds

4. GENERAL LONG-TERM DEBT (Continued)

Defeasance of Debt

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

At June 30, 2001, $68,090,000 of defeased bonds including those defeased in prior years are still outstanding

5. PROPRIETARY FUND TYPE LONG-TERM DEBT

Proprietary Fund Type long-term debt as of June 30, 2001 is comprised of the following (in thousands):

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Notes Payable				
Installment Purchase Agreement, 1993	2.8-5.25%	2023	$250,000	$ 213,185
Installment Purchase Agreement, 1995	3.9-5.0	2025	350,000	323,935
Installment Purchase Agreement, 1997	3.7-5 61	2027	250,000	233,455
Installment Purchase Agreement, 1998	4.0-5.375	2028	385,000	385,000
Installment Purchase Agreement, 1999	3.9-5.0	2029	315,410	307,715
Total Notes Payable				$1,463,290
Loans Payable:				
Loan Payable to County of San Diego	0	N/A	100	100
Loan Payable to Water Resources Control Board	0	N/A	17,156	60,122
Total Loans Payable				60,222
Line-of-Credit with Sanwa Bank	Various			4,169
Capital Lease Obligations for Various Equipment, Various Dates	Various	Various	Various	28,885
Liability Claims				44,411
Accrued Annual Leave				16,381
Pension Liability				5,309
Total Proprietary Fund Type Debt				$1,622,667

5. PROPRIETARY FUND TYPE LONG-TERM DEBT (Continued)

Annual requirements to amortize such long-term debt as of June 30, 2001, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30	Notes Payable	Capital Lease Obligations
2002	$102 428	$7,326
2003	102,418	7,482
2004	102,424	6,451
2005	102.430	5,217
2006	102,426	3,702
Thereafter	2,130,165	2,659
Total	2,642,291	32,837
Less-Amounts Representing Interest	(1,179,001)	(3,952)
Total	$1,463,290	$28,885

6. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM DEBT

Discretely presented component unit long-term debt as of June 30, 2001 is comprised as follows (in thousands).

San Diego Housing Commission

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2001
Note payable to Washington Mutual, dated June 1995	Various	2011	$4,725	$4,332
Note payable to Bank of America, dated February 1985	5 0-10 2%	2025	3,789	3,383
Note payable to Redevelopment Agency dated March 1992	0.0	2022	696	696
Total Notes Payable				$8,411

Annual requirements to amortize such long-term debt as of June 30, 2001 to maturity, are as follows (in thousands):

Year Ending June 30,	
2002	$ 127
2003	133
2004	140
2005	147
2006	154
Thereafter	7,710
Total	$8,411

Interest is not included due to the rates being variable These rates are based upon the Federal Home Loan Bank of San Francisco 11th District Cost of Funds Index plus 1.95%.

7. INTERAGENCY LONG-TERM DEBT

Long-term debt between the City and its component units has been eliminated in this report. During the year, the Redevelopment Agency of the City of San Diego has repaid $6,047,005 of principal and $10,842,889 of interest to the City and the City has advanced $11,403,368 to the Agency Interest of 10.5% totaling $14,465,444 was accrued to the amounts owed for the year At June 30, 2001, interagency loans (including interest) were as follows (in thousands):

	Loans and Note Receivable	Loans and Note Payable
City of San Diego	$256,351	$ 0
Redevelopment Agency of the City of San Diego	0	256,351
Total	$256,351	$256,351

8. LEASE COMMITMENTS

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2001 (in thousands):

Year Ending June 30,	
2002	$11,017
2003	7,535
2004	3,031
2005	2,832
2006	2,589
Thereafter	17,050
Total	$44,054

Rent expense as related to operating leases was $11,103,181 for the year ended June 30, 2001.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. A schedule of future minimum lease payments under capital leases as of June 30, 2001 is provided in Notes 4 and 5. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group.

Lease Revenues

The City has operating leases for certain land, buildings and facilities with tenants and concessionaires who will provide the following minimum annual lease payments (in thousands):

8. LEASE COMMITMENTS (Continued)

Year Ending June 30,	
2002	$ 21,874
2003	21,464
2004	20,668
2005	20,029
2006	19,717
Thereafter	591,217
Total	$694,969

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns Contingent rentals amounted to $37,276,359 in the year ended June 30, 2001.

9. DEFERRED COMPENSATION PLAN

City of San Diego

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of plan participants and their beneficiaries.

Fair value of the plan assets was $116,760,663 at June 30, 2001

10. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees.

DEFINED BENEFIT PLAN

a Plan Description

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the San Diego City Employees' Retirement System ("SDCERS").

SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members

In 1963, through an agreement between the City and the District, employees of the District became members of SDCERS.

The Plan is a defined benefit plan which covers all eligible employees of the City and the District. The Plan is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, the length of membership service and the member's final compensation earnable based on the highest one-year period

10. PENSION PLANS (Continued)

The Plan provisions applicable to general members are generally applicable to the District's general members and those applicable to lifeguard members are generally applicable to the District's safety members

All full-time City and District employees are eligible to participate in the Plan. Salaried classified employees become members of the system upon employment. Salaried unclassified employees hired on or after August 11 1995 become members upon employment

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a pension trust fund.

SDCERS issues a stand-alone financial report which is available at its office located at 401 B Street, Suite 400, San Diego, California 92101.

b. Funding Policy

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (20 years remaining).

Employees are required to contribute a percentage of their annual salary to the Plan. Contributions vary according to age at entry into the plan and salary. The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. Prior to June 30, 1993, contributions were based on the entry age normal cost method of valuation.

During the period July 1, 2000 to June 30, 2001 contributions totaling $81,914,000 ($45,553,000 employer and $36,361,000 employee) were made. Of the employer contributions, $36,443,000 was applied to normal cost and $9,110,000 was applied to unfunded accrued liability. All of the employer offset contributions were applied to normal cost

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

The changes provide the employer contribution rates be "ramped up" to the actuarially recommended rate in 50 percent increments over a ten year period at such time it was projected that the Projected Unit Credit (PUC) and Entry Age Normal (EAN) rates would be equal and the SDCERS would convert to EAN. The actuary calculated the present value of the difference between the employer contribution rate and actuarial rates over the ten year period and this amount was funded in a reserve. This "Corridor" funding method is unique to the SDCERS and therefore is not one of the six funding methods formally sanctioned by the GASB for expending purposes. As a result for June 30, 2001, the actuary rates are reported to be $30,983,000 more than paid by the City which, technically per GASB 27 effective for periods beginning

10. PENSION PLANS (Continued)

after June 15, 1997, is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO

c. Annual Required Contribution

The annual required contribution for the current year was determined as part of the June 30 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) projected salary increases of 4.75% per year. Both (a) and (b) included an inflation rate of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001 was 20 years.

d Three-Year Trend Analysis

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

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation
6/30/98	$40,863	75.81%	$15,124
6/30/99	44,008	78.32	23,046
6/30/00	50,044	78 66	30,983

e Net Pension Obligation Three Year-Trend Analysis

The following table shows the calculation of the City's NPO for the most current year available and preceding years (in thousands):

Fiscal Year Ending	Actuarial Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Amortization Factor	APC	Contributions Made	Change in NPO	NPO
6/30/98	$40,660	$ 478	$ 275	21.69	$40,863	$30,979	$9,149	$15,124
6/30/99	43,504	1,210	706	21 41	44,008	34,467	7,922	23,046
6/30/00	49,276	1,844	1,076	21.41	50,044	39,364	7,937	30,983

DEFINED CONTRIBUTION PLANS

a. Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan ("SPSP"), a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, which provides pension benefits for eligible full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4.5% and 3 05%, respectively, of total salary.

10. PENSION PLANS (Continued)

The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement

The City and the covered employees contributed approximately $41,556,000 for the year ending June 30, 2001 As of June 30, 2001, fair value of Plan assets totaled approximately $390,319,000. SPSP is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

In addition, the City established a 401(k) Plan effective July 1, 1985 The plan is a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, to provide pension benefits for all eligible full-time employees. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program

The employees' 401(k) contributions were calculated pursuant to various combination arrangements. The covered employees and the City contributed approximately $19,316,000 during the Fiscal Year.

As of June 30, 2001, fair value of Plan assets totaled approximately $104,909,000 The 401(k) Plan is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as an Agency Fund.

b. Centre City Development Corporation ("CCDC") has a Money Purchase Pension Plan covering all full-time permanent employees. The plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes quarterly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service

CCDC's total payroll in Fiscal Year 2001 was approximately $2,445,056 CCDC contributions were calculated using the base salary amount of approximately $2,326 716 CCDC made the required 8% contribution, amounting to approximately $186,137 (net of forfeitures) for Fiscal Year 2001.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous full-time permanent employees. The plan is a defined contribution plan. Employees are eligible to participate the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 10% of the total semi-monthly compensation for all employees.

CCDC's contributions for each employee are fully vested at time of contribution

CCDC's total payroll in Fiscal Year 2001 was approximately $2,445,056 CCDC contributions were calculated using the base salary amount of approximately $2,326,716 CCDC made the required 10% contribution amounting to approximately $232,671 for Fiscal Year 2001 The Tax Deferred Annuity Plan includes amounts deposited by employees prior to CCDC becoming a contributor to the Plan

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected.

10. PENSION PLANS (Continued)

c The San Diego Convention Center Corporation Money Purchase Pension Plan (the "Plan") became effective January 1, 1986. The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed to the plan plus investment earnings and allocated forfeitures, less allowable plan expenses The Plan covers employees not otherwise covered through a collective bargaining unit agreement Employees are eligible at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on their hire date (or any subsequent plan year) during which they complete 1,000 hours of service. A plan year is defined as a calendar year. Plan balances for each eligible employee are vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years Forfeitures and Plan expenses are allocated in accordance with Plan provisions

Required contributions were calculated using the covered compensation amount of approximately $8,806,412. SDCCC has funded the required contribution as of June 30, 2001.

For the Fiscal Year ended June 30, 2001, pension expense for the Plan amounted to $863,187. SDCCC records pension expense during the Fiscal Year based upon estimated covered compensation.

SDCCC offers its employees a Deferred Compensation Plan (the "Deferred Plan") created in accordance with Internal Revenue Code Section 457 The Deferred Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency.

SDCCC funds the deferred compensation through investments in various mutual funds administered by an insurance company Until paid or made available to the employee or other beneficiary, such investments and all related earnings thereon are solely the property and right of SDCCC (without being restricted to the provisions of benefits under the Deferred Plan), subject only to the claims of SDCCC's general creditors Participants under the Deferred Plan have only the right to receive benefits in an amount equal to the balance of their account SDCCC is of the opinion that it has no liability for the losses under the Deferred Plan but does have the duty of due care that would be required of an ordinary prudent investor. SDCCC believes that it is unlikely that it will use the Deferred Plan's assets to satisfy claims of creditors in the future.

d. San Diego Data Processing Corporation ("SDDPC") has accrued and set aside funds in a money market account to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan As of June 30, 2001 and 2000, the balance in the account was $121,798 and $115,453, respectively.

The balance at June 30, 2001 consisted of the total estimated liability plus interest earned on the account since its establishment in Fiscal Year 1991

In addition, SDDPC has in effect a Money Purchase Pension Plan ("the Plan") covering substantially all employees The plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings Employees are eligible to participate from the date of employment During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC contributions for each employee are fully vested after four years of continuous service.

SDDPC's total payroll in Fiscal Year 2001 and 2000, was approximately $22,871,911 and $20,686,496, respectively As all employees are substantially covered SDDPC contributions were calculated using this base salary amount SDDPC made the required 20% contribution amounting to approximately $4,247,425 and $4,150,505 for Fiscal Years 2001 and 2000 respectively

10. PENSION PLANS (Continued)

e. San Diego Housing Commission ("SDHC") provides pension benefits for all of its full-time employees through a defined contribution plan. Employees are eligible to participate on the first day of their employment The SDHC contributes an amount equal to 14% of the employee's base salary semi-monthly The SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service The SDHC contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce the SDHC's contribution requirement.

SDHC made the required 14% contribution, amounting to approximately $1,493,970 for Fiscal Year 2001 based on covered payroll of approximately $10,374,262.

SDHC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time SDHC employees, permits them to defer a portion of their salary until future years The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency

Fair value of the Plan assets was $18,856,838 at June 30, 2001

f. Southeastern Economic Development Corporation ("SEDC") has a Simplified Employee Pension Plan covering all full-time, permanent employees. The plan is a defined contribution plan Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, SEDC contributes monthly an amount equal to 12% of the employee's base salary. Beginning July 1, 1998, SEDC contributed an additional monthly amount equal to 15% of the base salary for management employees. Such contributions are fully vested upon contributions

SEDC's total payroll in Fiscal Year 2001 was approximately $762,500. SEDC contributions were calculated using the base salary amount of approximately $692,000. SEDC made the required 12% contribution, amounting to approximately $93,600 for Fiscal Year 2001.

11. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain health care insurance benefits for retired general and safety members of SDCERS who retired on or after October 6, 1980. At June 30, 2001, approximately 2,435 eligible retirees received benefits

Certain health care insurance benefits were established during Fiscal Year 1995 for eligible retirees who retired prior to October 6, 1980 or who were otherwise not eligible to receive City-paid health care insurance as of June 30, 1994. At June 30, 2001, approximately 648 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the Fiscal Year ended June 30, 2001, expenditures of approximately $7,207,018 were recognized for such health care benefits.

Substantially all of the City's general and safety members of SDCERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

12. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund working capital advances balances at June 30, 2001 are as follows (in thousands):

Fund	Advances from Other Funds	Advances to Other Funds
General Fund	$ 0	$10,628
Special Revenue Funds:		
City of San Diego:		
Acquisition, Improvement and Operation	0	349
Environmental Growth	0	848
Street Division Operations	0	9,574
Other Special Revenue (Budgeted)	0	77
Other Special Revenue (Unbudgeted)	0	13
Centre City Development Corporation	450	0
Southeastern Economic Development Corporation	159	0
Total Special Revenue Funds	609	10,861
Debt Service:		
City of San Diego		
Other Special Assessments	13	0
San Diego Open Space Park Facilities District #1	622	0
Total Debt Service Funds	635	0
Capital Projects Funds:		
Redevelopment Agency	0	609
Total Capital Projects Funds	0	609
Enterprise Funds:		
City of San Diego.		
Airports	0	201
Development Services	0	108
Environmental Services	0	4,538
Golf Course	0	762
Recycling	0	3,535
Sewer Utility	0	13,902
Water Utility	0	14,014
Total Enterprise Funds	0	37,060
Internal Service Funds:		
City of San Diego.		
Central Garage and Machine Shop	52,547	36
Central Stores	3,282	46
Engineering and Capital Projects	0	165
Print Shop	0	59
Self Insurance	2,085	0
Miscellaneous Internal Services	0	24
Total Internal Service Funds	57,914	330
Trust and Agency Funds		
City of San Diego		
Other Miscellaneous Agency	330	0
Total	$59,488	$59,488

12. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

Interfund receivable and payable balances at June 30, 2001 are as follows (in thousands).

Fund	Due from Other Funds	Due to Other Funds
General Fund	$ 87,135	$ 0
Special Revenue Funds		
City of San Diego:		
Environmental Growth	0	4,665
Qualcomm Stadium Operations	0	2,399
Transient Occupancy Tax	3,157	3,800
Other Special Revenue (Budgeted)	0	609
Other Special Revenue (Unbudgeted)	0	1,449
Redevelopment Agency	0	30,467
Total Special Revenue Funds	3,157	43,389
Debt Service Funds		
City of San Diego:		
Redevelopment	200	0
Total Debt Service Funds	200	0
Capital Projects Funds.		
City of San Diego:		
Capital Outlay	700	9,600
Other Construction	9,600	0
Convention Center Expansion Financing Authority	0	758
Redevelopment Agency	29,567	0
San Diego Facilities and Equipment Leasing Corporation	0	17,333
Total Capital Projects Funds	39,867	27,691
Enterprise Funds		
City of San Diego		
Development Services	1,449	441
Environmental Services	441	0
Sewer Utility	0	0
Water Utility	17,333	0
Total Enterprise Funds	19,223	441
Trust and Agency Funds:		
Other Miscellaneous Agency	0	78,061
Total Trust and Agency Funds	0	78,061
Total	$149,582	$149,582
Primary Government and Component Unit		
Component Unit - SDCCC	$ 1,026	$ 0
Component Unit - SDHC	540	0
Primary Government - Transient Occupancy Tax	0	1,026
Primary Government - Other Special Revenue (Unbudgeted)	0	540
	$ 1,566	$ 1,566

13. ENTERPRISE FUNDS SEGMENT INFORMATION

The City maintains Enterprise Funds which provide airport, sewer, water and other services. Segment information for the year ended June 30, 2001 is as follows (in thousands)

	Airports	The Centre	City Store	Development Services	Environmental Services	Subtotal
Operating Revenues	$ 3,442	$ 0	$ 753	$38,897	$ 33,933	$77,025
Operating Expenses before Depreciation & Amortization	2,241	0	705	42,289	28,500	73,735
Depreciation & Amortization	476	0	1	856	494	1,827
Operating Income (Loss)	725	0	47	(4,248)	4,939	1,463
Operating Transfers In	1	0	0	72	13	86
Transfers In from Governmental Funds	0	0	0	584	0	584
Operating Transfers Out	(8)	0	0	(132)	(172)	(312)
Transfers Out to Governmental Funds	0	0	0	(467)	(59)	(526)
Nonoperating Revenue	444	0	12	1,365	4,118	5,939
Nonoperating Expense	0	0	0	(150)	(18)	(168)
Net Income (Loss)	1,162	0	59	(2,976)	8,821	7,066
Grant Revenues (Expenses)	125	0	0	0	0	125
Capital Contributions	126	0	0	0	0	126
Net Fixed Asset Additions	272	0	0	(335)	10,893	10,830
(Deletions)	0	(3)	0	(87)	(19)	(109)
Net Working Capital	5,912	0	261	(1,481)	30,188	34,880
Total Assets	15,572	0	298	13,640	150,459	179,969
Total Equity	15,361	0	276	726	137,611	153,974
Long-Term Liabilities:						
Other	37	0	0	841	10,719	11,597

13. ENTERPRISE FUNDS SEGMENT INFORMATION (Continued)

	Subtotal (Previous Page)	Golf Course	Recycling	Sewer Utility	Water Utility	San Diego Data Processing Corporation	Grand Total
Operating Revenues	$77,025	$8,083	$19,554	$ 214,431	$ 211,385	$ 57,245	$587,723
Operating Expenses before Depreciation & Amortization	73,735	5,115	12,742	168,026	211,372	50,557	521,547
Depreciation & Amortization	1,827	210	625	37,776	12,529	6,113	59,080
Operating Income (Loss)	1,463	2,758	6,187	8,629	(12,516)	575	7,096
Operating Transfers In	86	1	25	105	67	0	284
Transfers In from Governmental Funds	584	0	0	29	0	0	613
Operating Transfers Out	(312)	(27)	(24)	(773)	(1,213)	0	(2,349)
Transfers Out to Governmental Funds	(526)	(1,252)	(20)	(187)	(270)	(500)	(2,755)
Nonoperating Revenue	5,939	472	997	34,516	28,176	73	70,173
Nonoperating Expense	(168)	(58)	0	(57,543)	(18,975)	(123)	(76,867)
Net Income (Loss)	7,066	1,894	7,165	(15,224)	(4,731)	25	(3,805)
Grant Revenues (Expenses)	125	0	0	199	905	0	1,229
Capital Contributions	126	151	0	33,888	34,515	0	68,680
Net Fixed Asset Additions	10,830	379	2,716	141,686	116,882	1,107	273,600
(Deletions)	(109)	(12)	0	(3,061)	(34)	0	(3,216)
Net Working Capital	34,880	6,390	16,289	397,152	371,084	(3,456)	822,339
Total Assets	179,969	14,773	24,901	2,872,820	1,390,033	23,692	4,506,188
Total Equity	153,974	14,182	17,391	1,663,382	946,009	11,950	2,806,888
Long-Term Liabilities:							
Other	11,597	93	6,658	1,117,131	384,057	4,179	1,523,715

14. CONTRIBUTED CAPITAL - PROPRIETARY FUNDS

During the year ended June 30, 2001, contributed capital increased (decreased) by the following amounts (in thousands).

	Enterprise Funds							Internal Service Funds
Source	Airports	Development Services	Environmental Services	Golf Course	Recycling	Sewer Utility	Water Utility	Central Garage and Machine Shop
Capacity Charges	$ 0	$ 0	$ 0	$ 0	$ 0	$16,639	$ 16,581	$ 0
Developer-Capital Improvements	0	0	0	0	0	16,345	16,216	0
Federal Grant - Capital Improvements	0	0	0	0	0	654	278	0
Federal Grant - Capital Reimbursements	110	0	0	0	0	0	0	0
Government - General Fixed Assets	0	0	0	151	0	0	0	0
Government - Capital Infusion	0	0	0	0	0	581	1,440	0
Contribution in Aid	0	0	0	0	0	0	0	0
Government - Capital Reimbursement	0	0	0	0	0	0	0	0
Meters and Services	0	0	0	0	0	0	0	0
State Grant - Capital Reimbursements	16	0	0	0	0	(331)	0	0
Total Increases (Decreases)	126	0	0	151	0	33,888	34,515	0
Contributed Capital, July 1, 2000	10,968	371	243	21	327	924,208	625,214	226
Contributed Capital, June 30, 2001	$11,094	$371	$243	$172	$327	$958,096	$659,729	$226

15. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions, injuries to employees and natural disasters which may render the City liable to the public and to its employees. The Self Insurance Fund, an Internal Service Fund, was created to provide coverage against such risks up to a maximum of $3 0 million for each workers compensation claim and $1 0 million for each general or automobile claim

In addition, the City maintains an excess liability insurance policy whereby the City pays the first $1,000,000 per occurrence. Amounts in excess of $1,000,000 up to $24,000,000 per occurrence are covered by the insurance. Any amounts over $24,000 000 per occurrence would be paid by the City.

15. RISK MANAGEMENT (Continued)

The City is self-insured for workers' compensation, long-term disability and certain employee group health coverages Each participating fund contributes an amount equal to an actuarially determined rate times the gross salaries of the fund These payments are treated as operating expenditures in the contributing funds and operating revenues in the receiving funds

All funds of the City participate in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

Estimated liabilities for liability claims have been set up in the Self-Insurance Fund, Sewer Utility Fund, Water Utility Fund, as well as in the General Long-Term Debt Account Group. These amounts represent the City's determination of the probable ultimate cost of the claims. Property insurance is maintained on selected capital assets based upon various factors including management's assessment of the risks of loss.

The estimated liabilities as of June 30, 2001 are determined by the City based on recommendations from an independent actuarial evaluation The liabilities are based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and claims that have been incurred but not reported (IBNR)

A reconciliation showing current and prior year activity is presented below (in thousands):

	Public Liability	City's Liability Under Worker's Comp, Long-Term Disability, & Group Health Insurance	Total
Balance July 1, 1999	$ 41,025	$ 33,733	$ 74,758
Claims and Changes in Estimates	6,781	34,478	41,259
Claim Payments	(9,640)	(31,938)	(41,578)
Balance June 30, 2000	38,166	36,273	74,439
Claims and Changes in Estimates	27,237	23,830	51,067
Claim Payments	(13,395)	(22,737)	(36,132)
Balance June 30, 2001	$52,008	$37,366	$89,374

During the current year, there were no significant reductions in insurance coverage from the prior year For each of the past three Fiscal Years, the settlements have not exceeded insurance coverage.

16. FUND DEFICIT

The Internal Service Funds have a net fund equity surplus of approximately $16,552,000 at June 30, 2001. This balance includes a fund equity deficit in the Self Insurance Fund of approximately $29,300,000 which represents unfunded estimated claims and claim settlements related to worker's compensation, long-term disability and certain employee group health coverages It is anticipated that individual claim settlements will be funded through user charges subsequent to the filing of a claim and prior to its settlement

17. COMMITMENTS

At June 30, 2001, $77,000,000 of Tax Anticipation Notes issued during Fiscal Year 2000-01 were still outstanding. Monies for full redemption of these notes were fully segregated in a separate repayment fund at June 30, 2001 and subsequently used to redeem the notes on October 2, 2001. The liability for these notes is shown in the General Fund. On July 2, 2001, the City issued $73,000,000 of Tax Anticipation Notes to finance Fiscal Year 2001-02 General Fund cash flow requirements.

The City is currently obligated to transfer up to two-thirds of the annual franchise tax receipts in the Environmental Growth Fund (a Special Revenue Fund) to the San Diego Open Space Park Facilities District #1 (the "District") Fund (a Debt Service Fund) for the payment of debt service on the District's outstanding general obligation bonds Such required debt service on the District's outstanding bond obligations of $45,520,000 at June 30, 2001 is approximately $7 178,358 for each of the subsequent five years ending June 30, 2006

The City has guaranteed the payment of a revolving line of credit in the maximum amount of $7,500,000 on behalf of various individuals through Wells Fargo Bank regarding the CDBG Housing Loan Leveraging Program As of June 30, 2001, approximately $1,225,229 of total leveraged loans are still outstanding.

The Sewer Utility's construction plans for various projects are estimated to cost approximately $178,106,000. As of June 30, 2001, the Utility's contractual commitments for the projects totaled approximately $75,809,000. The Utility intends to finance the contractual commitments with approved State and Federal grants, service charges and the Installment Purchase Agreement.

The Water Utility's construction plans for various projects are estimated to cost approximately $129,592,554. As of June 30, 2001, the Utility's contractual commitments for the projects totaled approximately $77,763,634. The Utility intends to finance the contractual commitments with reserves and service charges.

18. CONTINGENCIES

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position.

In September 1989, legislation was adopted (Assembly Bill No. 2080) which requires the Redevelopment Agency of the City of San Diego to fund Low and Moderate Housing Activity equivalent to at least 20% of tax increment revenue received after Fiscal Year 1985. In October 1990, the Agency adopted a nine-year plan to fully fund the retroactive 20% requirement (Resolution No 's 1911, 1912, and 1913). At June 30, 2001, the 20% requirement was fully funded.

Proposition 218 was approved by the voters in November 1996 and could limit the City's ability to collect new taxes and fees This measure requires a voter majority approval for all taxes used for "general government purposes" and a two-thirds voter approval for "special taxes" used for defined purposes. Proposition 218 repeals any such taxes imposed after January 1, 1995, that fail to meet these requirements. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would be reduced or eliminated

During 1997 the City entered into a ten year agreement with the San Diego Chargers professional football team which included a clause whereby the City would generally provide stadium rent credits to the San Diego Chargers for the value of unsold tickets up to 60,000 for any home game

18. CONTINGENCIES (Continued)

In February 2000. a rainstorm partially dislodged a 3000 pound manhole cover leading to blockage in a sewer main in a remote canyon near San Diego State University. As a result, 34 million gallons of sewage spilled into the San Diego River The proposed $3,400,000 fine from the Regional Water Quality Control Board is currently being appealed.

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

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

19. THIRD PARTY DEBT

The City has authorized the issuance of certain bonds, in its name, to provide tax exempt status because it perceives a substantial public benefit will be achieved through the use of the proceeds. The City has also authorized Section 108 loans from the Department of Housing and Urban Development The following describes the various types of such third party debt.

Mortgage and Revenue Bonds

Single Family Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-Family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low or moderate income.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial or business purposes to mutually benefit the citizens of the City of San Diego.

1911 Act Special Assessment Bonds

1911 Act Special Assessment Bonds have been issued to provide funds for the construction or acquisition of public improvements, and/or the acquisition of property for public purposes, for the benefit of particular property holders within the City Each bond is secured by a lien on a specific piece of property.
As of June 30. 2001, the status of all third party bonds issued is as follows (in thousands):

19. THIRD PARTY DEBT (Continued)

	Issued	Outstanding
Mortgage Revenue	$469 146,940	$465,570,480
Industrial Development Revenue	366,805,000	357,381,000
1911 Act Special Assessment	184,419	103,945
Totals	$836,136,359	$823,055,425

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans, certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In the opinion of City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit for the taxing authority of the City, the state, or any political subdivision thereof is obligated to the payment of principal or interest on the bonds. In essence, the City is acting as an agent for the property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's General Long-Term Debt Account Group

Section 108 Loans

The City has received Section 108 loans from the Department of Housing and Urban Development, to be repaid with future years Community Development Block Grant entitlements. Accordingly, no liability has been recorded in the City's General Long -Term Debt Account Group. As of June 30, 2001, $26,615,000 remains outstanding.

20. CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require that the City of San Diego place a final cover on its Miramar landfill site when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The $9,920,000 reported as landfill closure and postclosure care liability at June 30, 2001 represents the cumulative amount reported to date based on the use of 59.7% of the estimated capacity of the landfill.

The City will recognize the remaining estimated cost of closure and postclosure care of $6,709,297 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1999 The City expects to close the landfill in the year 2003 Actual cost may be higher due to inflation, changes in technology, or changes in regulations

The City is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The City is in compliance with these requirements, and, at June 30, 2001 cash or equity in pooled cash and investments of $20,696,000 is held for this purpose. This is reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from other sources.

21. OPERATING AGREEMENTS

City of San Diego and San Diego Data Processing Corporation

In September 1979, the San Diego Data Processing Corporation (SDDPC) entered into an operating agreement with the City. Under the terms of the agreement, as amended, SDDPC has agreed to provide data processing and services needed to support the operational and planning requirements of the City.

The rates charged for the various services are subject to adjustment each Fiscal Year. Included in data processing services revenue for the year ended June 30, 2001 and 2000 are $24,475,142 and $25,292,141, respectively, of revenue earned from the City under this agreement

The operating agreement also requires SDDPC to purchase computer equipment, computer maintenance, various contractual services and other reimbursed expenses as a part of the service it provides to the City. The City then reimburses SDDPC the costs associated with these expenses. Such transactions are not considered to be revenues and expenses of SDDPC and are excluded from its statements of revenues, expenses and retained earnings. The amount of these expenditures for the years ended June 30, 2001 and 2000 are $24,475,142 and $25,292,141, respectively SDDPC earned $1,492,806 and $1,583,210 in general and administrative fees from such transactions for year ended June 30, 2001 and 2000, respectively.

The operating agreement was amended during fiscal 1988 to have SDDPC provide and operate telecommunications services for the City. The rates for the various services are subject to adjustment each Fiscal Year.

San Diego Geographical Information System

In Fiscal Year 1998, a five-year services agreement was finalized between SDDPC and SANGIS.

Included in SDDPC's data processing services revenue are the following amounts relating to SANGIS for the years ended June 30, 2001 and 2000, respectively:

	2001	2000
City-SANGIS	$248,923	$410,374
Totals	$248,923	$410,374

Complete financial statements for each of the individual component units may be obtained from the City Auditor and Comptroller's office.

Automated Regional Justice Information System

On July 1, 1997, SDDPC renewed, through June 30, 2002, its 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 is to provide data processing services to ARJIS at rates which, on an annual basis, are equivalent to those charged to other governmental entity clients Included in SDDPC's data processing services revenue is approximately $2,788,516 and $2,809,396 relating to ARJIS for the years ended June 30, 2001 and 2000, respectively.

State of California

During Fiscal Year 1999, the SDDPC entered into an agreement with the State of California Department of Information Technology to provide data processing services. SDDPC's data processing services revenue for the year ended June 30, 2001 was approximately $291,261.

21. OPERATING AGREEMENTS (Continued)

San Diego Medical Services Enterprise, LLC

On July 1, 1997, the City entered into an operating agreement with San Diego Medical Services Enterprise, LLC ("SDMSE") to provide emergency medical services and emergency medical transportation services. Under the agreement, the City made an advance of $500,000 to SDMSE to cover initial costs associated with emergency medical transports. In addition, the City agreed to provide an annual subsidy of $900,000 to the LLC in the first two years of the five-year term of the EMS Agreement. In the remaining three years, the annual subsidy shall be $650 000, totaling $3 75 million over the five-year term of the EMS Agreement

22. SUBSEQUENT EVENTS

a. On July 2, 2001, the City issued the $73,000,000 Fiscal Year 2001-2002 Tax Anticipation Notes

b. On October 2, 2001, the City paid off the $53,000,000 Fiscal Year 2000-2001 Tax Anticipation Notes, Series A

c. On October 2, 2001, the City paid off the $24,000,000 Fiscal Year 2000-2001 Tax Anticipation Notes, Series B.

d. The City is preparing to issue approximately $170,000,000 of Lease Revenue Bonds through the Public Facilities Financing Authority of the City of San Diego to finance a portion of the cost of building a state-of-the-art baseball park, a portion of a public park located adjacent to the baseball park, possible acquisition of certain land for the baseball park and other related land acquisitions, improvements and infrastructure.

23. PRIOR PERIOD ADJUSTMENTS

Interest received from the Bond Acquisition funds for the Sewer Utility and Water Utility Enterprise Funds were not recognized in previous fiscal years. The fiscal year 2000 financial statements have been restated to reflect the additional revenues received. The effect of this adjustment was an increase of $62,704,000 to Prepaid and Reimbursable Items and Deposits and Unreserved Earnings resulting in restated June 30, 2000 balance of $361,080,000 and $1,181,036,000, respectively.

23. PRIOR PERIOD ADJUSTMENTS (Continued)

The following is a reconciliation of the retained earnings (in thousands):

	Sewer	Water
Retained earnings at beginning of year as previously stated	$684,891	$263,926
Interest Adjustment	35,619	27,085
Retained earnings at beginning of year as restated	$720,510	$291,011

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APPENDIX C

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

This Appendix C contains only a brief summary of certain of the terms of the legal documents with respect to the Bonds being offered and a full review should be made of the entire Official Statement including the cover page and the Appendices thereto. All statements contained in this Appendix C are qualified in their entirety by reference to the entire Official Statement including the cover page and the Appendices thereto. Terms used herein but not defined herein shall be as defined in the Official Statement and in the respective document referred to herein. References to, and summaries of, provisions of the documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions of such documents.

DEFINITIONS

The following are definitions of certain terms used in this Appendix or elsewhere in this Official Statement:

"Additional Bonds" means all lease revenue bonds or refunding lease revenue bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

"Annual Debt Service" means, for any Bond Year, the sum of (i) the interest payable on all Outstanding Bonds in such Bond Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds, if any, are redeemed or paid from the Sinking Account as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Bonds); (ii) the principal amount of all Outstanding Serial Bonds, if any, maturing by their terms in such Bond Year; and (iii) the principal amount of all Outstanding Term Bonds, if any, required to be redeemed or paid in such Bond Year (together with the redemption premiums, if any, thereon).

"Authorized Denominations" means $5,000 and any integral multiple thereof.

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

"Bond Year" means the period from April 1 to the following March 31.

"Business Day" means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the New York Stock Exchange is closed.

"Certificate of the Authority" means an instrument in writing signed by the Chair, the Vice Chair, the Treasurer or the Secretary of the Authority, or by any other officer or authorized delegate of the Authority duly authorized by the Authority for that purpose.

"Certificate of the City" means an instrument in writing signed by the City Manager of the City, or by any other officer of the City duly authorized by the City for that purpose.
City

"Closing Date" means June 28, 2002.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the City and the Trustee, dated as of June 1, 2002, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the issuance, sale and delivery of the Bonds and the execution and delivery of the Site Lease and the Lease, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for transportation and safekeeping of the Bonds and charges and fees in connection with the foregoing.

"Fitch" means Fitch Ratings, or any successor credit rating agency selected by the Authority.

"Interest Payment Date" means each April 1 and October 1 commencing October 1, 2002.

"Insurer" means MBIA Insurance Corporation, a New York stock insurance company, or any successor thereto or assignee thereof, as provider of the Municipal Bond Insurance Policy.

"Maximum Annual Debt Service" means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds.

"Moody's" means Moody's Investors Service, Inc., or any successor credit rating agency selected by the Authority.

"Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the 2002B Bonds as provided therein.

"Net Proceeds" means, collectively, the net proceeds of any insurance or condemnation award resulting from any damage or destruction of any portion of the Leased Property payable in accordance with the Lease.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the Indenture including, but not limited to, 2002B Bonds as described in the Indenture, except:

(1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed by the Authority and authenticated and delivered pursuant to the Indenture.

"Owner" means any person who shall be the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee pursuant to the Indenture.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Lease, permit to remain unpaid; (ii) the Site Lease; (iii) the Lease and the Assignment Agreement, as it may be amended from time to time; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the Closing Date; and (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of recordation of the Lease and to which the Authority and the City consent in writing.

"Permitted Investments" means any of the following to the extent then permitted by law and the Indenture:

(1) United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations of, or obligations guaranteed directly or indirectly by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank) or securities or other instruments evidencing direct ownership interests in such obligations or in specified portions of the interest on or principal of such obligations, which shall be held by a custodian on behalf of such owners;

(2) (i) obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation or the Tennessee Valley Authority; or (ii) obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal); or (iii) guaranteed portions of Small Business Administration notes; or (iv) obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise; provided, however, that prior to investing in investments described in clause (iv) hereof, the City shall have provided to the Trustee a Certificate of the City that such investment shall have been approved for investment under the Indenture by the Rating Agencies;

(3) bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or its affiliates), otherwise known as bankers acceptances, which are drawn on any bank the short-term obligations of which are of the highest letter and numerical rating category as provided by the Ratings Agencies; provided that purchases of eligible bankers acceptances may not exceed 270 days' maturity;

(4) commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by the Ratings Agencies, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars ($500,000,000) and that have an "A" or higher rating for the issuer's unsecured debentures, other than commercial paper, as provided by the Ratings Agencies; provided that purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee or its affiliates) or a state or federal savings and loan association, provided that such certificates of deposit shall be either (i) continuously and fully insured by the Federal Deposit Insurance Corporation, or (ii) have maturities of not more than 365 days and issued by any state or national bank or a state or federal savings and loan association, the short term obligations of which are rated in the highest short term letter and numerical rating category by the Rating Agencies;

(6) any repurchase agreement with any state or national bank (including the Trustee or its affiliates) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is either (i) with any institution which has debt rated no lower than "AA" or whose commercial paper is rated by at least two nationally recognized credit agencies and if rated, no lower than "F-1" by Fitch, if then rating the Bonds, no lower than "P-1" by Moody's, if then rating the Bonds, and no lower than "A-1" by S&P, if then rating the Bonds; (ii) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code provided that: (a) the term of such repurchase agreement is less than one year or due on demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral is maintained at levels acceptable to the Rating Agencies as evidenced by a Certificate of the City delivered to the Trustee; (d) failure to maintain the requisite collateral levels by the agreed "cure period" will require the Trustee to liquidate the collateral immediately; (e) the repurchase agreement securities must be either obligations of, or fully guaranteed as to principal and interest by, the United States of America or any agency of the United States of America, certificates of deposit or bankers' acceptances; and (f) repurchase agreement securities are free and clear of any third-party lien or claim; or (iii) with financial institutions insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; provided that: (a) the market value of the collateral is maintained at levels acceptable to the Rating Agencies as evidenced by a Certificate of the City delivered to the Trustee; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage by the agreed "cure period" will require the Trustee to liquidate the collateral immediately ("cure period" is defined as the time agreed to by the parties as the deadline for satisfaction of margin maintenance obligations which in the absence of an agreed "cure period" would be in accordance with market practices the same day as the margin notice is received);

(7) certificates, notes, warrants, bonds or other evidence of indebtedness of the State of California or of any political subdivision or public agency thereof which are rated in

the highest short-term rating category or within one of the two highest long term rating categories of the Rating Agencies (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(8) for amounts less than $10,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank including affiliates of the Trustee, or state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(9) investments in taxable government money market portfolios restricted to obligations with an average maturity of one year or less, issued, or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America or repurchase agreements with underlying collateral which is issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, and rated in either of the two highest rating categories by the Rating Agencies, including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(10) investment agreements including guaranteed investment contracts with providers rated "AA" or better by at least two Rating Agencies and approved by the Insurer and forward delivery agreements for the delivery of investments otherwise qualifying as Permitted Investments, provided that any investment agreement for the investment of the Bond Fund will also be subject to the review and acceptance of Fitch;

(11) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which consists exclusively of investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended.

"Project" means the capital improvements and equipment to be acquired, delivered, installed, equipped, remodeled or constructed with the net proceeds of the Bonds made available to the City and all additions, betterments, extensions and improvements thereto, as further described in Exhibit A to the Lease.

"Rating Agencies" means Moody's, S&P and Fitch, or in the event that Moody's, S&P and Fitch no longer maintains a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Moody's, S&P and Fitch or other nationally recognized rating agency then maintains a rating on the Bonds.

"Reserve Requirement" means, as of any date of calculation, the least of (1) 10% of the stated principal amount of the Bonds; (2) Maximum Annual Debt Service for the current or any future Bond Year; or (3) 125% of average Annual Debt Service. For purposes of determining if the amount on deposit in the Reserve Account equal the Reserve Requirement, any Credit Facility shall be deemed to be a deposit in the face amount or stated amount of such Credit Facility, less any unreimbursed drawings or other amounts not reinstated under such Credit Facility.

"Revenues" means all Base Rental Payments made pursuant to the Lease and interest or profits from the investment of money in any fund, account or subaccount (other than the Rebate Fund) pursuant to the Indenture.

"S&P" means Standard & Poor's Credit Market Services, or any successor credit rating agency selected by the Authority.

"Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of the Indenture or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Certificate" means the Tax Certificate delivered by the Authority at the time of the issuance and delivery of a series of Bonds, as the same may be amended or supplemented in accordance with its terms.

THE LEASE

Acquisition and Construction of the Project

Under the Lease, the City covenants to cause the Project to be constructed, acquired and installed as agent of the Authority. The City shall enter into contracts and provide for, as agent of the Authority, the complete construction, acquisition and installation of the Project. The City agrees that it will cause the construction, acquisition and installation of the Project to be diligently performed.

Substitution or Removal of Leased Property

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

No Substitution or Removal shall take place under the Lease until the City delivers to the Authority and the Trustee the following:

(1) A Certificate of the City containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place.

(2) A Certificate of the City, accompanied by an MAI fair market appraisal or a fair market appraisal utilizing appropropriate valuation methodology from an appraiser, who may be an employee of the City, evidencing that the annual fair rental value of the Leased Property after such substitution or removal will be at least equal to 100% of the maximum amount of the Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year; and stating that the useful economic life of the Substituted Property is at least equal to the remaining term of the Lease.

(3) An Opinion of Counsel to the effect that the amendments referenced under the Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the City and the Authority enforceable in accordance with their terms.

(4) A policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property

bears to the total principal portion of Base Rental Payments, insuring the Authority's interest in the Substituted Property (except any portion thereof which is not real property) subject to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the 2002B Bonds and any Additional Bonds.

(5) An opinion of the City Attorney of the City to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the City for the purposes of leasing or using the Substituted Property.

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the 2002B Bonds and any Additional Bonds to be includable in gross income of the Owners thereof for federal income tax purposes.

(7) A Certificate of the City stating that the City has complied with the covenants contained in clauses (a)(1) and (a)(2) of the section entitled "Insurance" under the Lease with respect to the Substituted Property.

(8) Evidence that the City has delivered to the Rating Agencies copies of the certificates and appraisal described in clauses (1) and (2) above.

(9) Evidence that the City has delivered to each of the Rating Agencies then rating the 2002B Bonds or any Additional Bonds copies of the certificates and appraisal described in clauses (1) and (2) above, and evidence from each of the Rating Agencies then rating the 2002B Bonds or any Additional Bonds that such Substitution or Removal, in and of itself, will not result in a reduction of its rating on the 2002B Bonds or any Additional Bonds from the rating which then prevails.

Acquisition of Substitute Project Components

Moneys deposited into the Construction Fund shall be applied to acquire, deliver, install, equip, remodel or construct the Project described in an appendix attached to the Lease; provided however, that the City shall have the right to substitute the Project or any component thereof scheduled to be acquired, delivered, installed, equipped, remodeled or constructed for another Project or, in the event the actual cost of construction or acquisition of the Project is less than that estimated by the City as of the dated date of the Lease, to add a new component of the Project (or any part thereof) in an amount equal to the difference between such estimated and actual cost of construction or acquisition, whether or not listed in the exhibit attached to the Lease, and not yet acquired, by delivering or causing to be delivered to the Authority a bill of sale or other evidence of cost therefor. Any substitution or addition of a Project component shall be identified on the books of the City. Upon completion of all Project components and the delivery of the Certificate of Completion in accordance with the Indenture, in the event the Project components were changed from those set forth in the exhibit attached to the Lease, the City shall amend or supplement the Lease and revise the exhibit describing the final Project.

All costs and expenses incurred in connection with such addition or substitution shall be borne by the City. Notwithstanding the addition or substitution of any new Project, (1) there shall be no reduction in the Base Rental Payments due from the City under the Lease as a result of such addition or substitution; (2) any Leased Property substituted in connection with the substitution of the Project or added under the Lease shall have a useful life no shorter than that of the original Leased Property under the Lease; and (3) any additional Leased Property shall, in accordance with such duly recorded

amendment or supplement to the Lease, be leased under the terms of a duly recorded amendment or supplement to the Lease.

Term of the Lease

The term of the Lease shall commence on the Closing Date, and shall end on April 1, 2032, unless terminated sooner as provided under the Lease. If on April 1, 2032, the rental payable under the Lease shall not be fully paid and all 2002B Bonds and Additional Bonds shall not be fully paid and defeased, or if the rental payable under the Lease shall have been abated at any time and for any reason, then the term of the Lease shall be extended until ten days after the rental payable under the Lease shall be fully paid and all 2002B Bonds and Additional Bonds shall be fully paid and defeased, except that the term of the Lease shall in no event be extended beyond April 1, 2032. If prior to April 1, 2032, the rental payable under the Lease shall be fully paid and all 2002B Bonds and Additional Bonds shall have been fully paid or defeased in accordance with the Indenture, the term of the Lease shall end ten days thereafter or ten days after written notice by the City to the Authority to the effect that the rental payable under the Lease shall be fully paid and all 2002B Bonds and Additional Bonds have been fully paid, whichever is earlier, and the Lease shall thereupon terminate.

The City shall take possession of the Leased Property on the Closing Date and the obligation of the City to pay Base Rental Payments and Additional Rental shall commence on the Closing Date, subject to the limitations set forth in the Lease.

Rental Payments

Base Rental. The City shall pay to the Authority rental under the Lease as Base Rental Payments with respect to the Leased Property at the times and in the amounts set forth in a Base Rental Payment Schedule attached as an exhibit to the Lease and made a part thereof. The obligation of the City to pay Base Rental Payments (and Additional Rental) shall commence on the Closing Date. Notwithstanding the foregoing, the City shall deposit with the Authority not later than the seventh Business Day preceding each April 1 and October 1, commencing October 1, 2002, Base Rental Payments (provided that the Base Rental Payment due on October 1, 2002 will be in an amount representing payments due for that period ending on such date as set forth in Exhibit C) and the same shall be held by the Authority as security for the Base Rental Payments due on such dates.

Additional Rental. The City shall also pay, as rental under the Lease in addition to the Base Rental Payments, to the Authority or the Trustee, as provided below, such amounts in each year as shall be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease or the assignment thereof pursuant to the Assignment Agreement, the Indenture or the respective interests in the Leased Property and the lease of the Leased Property by the Authority to the City under the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the 2002B Bonds or any Additional Bonds), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the 2002B Bonds, any Additional Bonds or the Indenture.

The foregoing Additional Rental shall be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the Trustee or the Trustee on behalf of the Authority for one or more of the items

above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the City not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the City for such amounts.

The Authority may issue bonds and may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Authority shall be allocated among said facilities and the Leased Property, as provided below in this paragraph. Any taxes levied against the Authority with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property shall be included in the Additional Rental payable under the Lease. Any taxes levied against the Authority with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing bonds of the Authority or any trust agreement or indenture other than the Indenture, and any other expenses directly attributable to any facilities other than the Leased Property shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Rental payable under the Lease. Any expenses of the Authority not directly attributable to any particular project of the Authority shall be equitably allocated among all such projects, including the Project, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Authority in making any determination that costs are payable as Additional Rental under the Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Consideration. Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Lease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the City for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. On the Closing Date, the City shall deliver a Certificate to the Authority and the Trustee which shall set forth the annual fair rental value of the Leased Property. The City and Authority have agreed and determined that the annual fair rental value of the Leased Property is not less than the maximum Base Rental Payments payable under the Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Leased Property, other obligations of the parties under the Lease, the uses and purposes which may be served by the improvements on the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Under the Lease, the City and the Authority acknowledge that they may amend the Lease from time to time to increase the Base Rental Payments payable under the Lease so that Additional Bonds may be executed and delivered pursuant to the Indenture. The proceeds of such Additional Bonds shall be used as provided in the Indenture. Notwithstanding anything to the contrary contained in the Lease, the Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, and Additional Rental with respect to Outstanding Bonds and Additional Bonds in any year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the City under the Lease after giving effect to the application of proceeds of any Additional Bonds executed and delivered in connection therewith.

Lease of the Leased Property

Under the Lease, the Authority leases to the City, and the City rents and hires from the Authority, the Leased Property on the conditions and terms set forth in the Lease. The City agrees and

covenants that during the term of the Lease, except as otherwise provided for in the Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated by the Lease and so as to permit the Authority to carry out its agreements and covenants contained in the Lease and in the Indenture, and the City further agrees and covenants that during the term of the Lease that it will not abandon or vacate the Leased Property.

Additional Bonds

In addition to the 2002B Bonds to be executed and delivered under the Indenture the Authority may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Bonds set forth in the Indenture, enter into a Supplemental Indenture to execute and deliver Additional Bonds on a parity with the 2002B Bonds and any previously executed and delivered Additional Bonds (unless otherwise provided in the related Supplemental Indenture), the proceeds of which may be used as provided in the Indenture and as provided in the Supplemental Indenture; provided that prior to or concurrently with the execution and delivery of the Additional Bonds, the City and the Authority shall have entered into an amendment to the Lease providing for an increase in the Base Rental Payments to be made under the Lease subject to the limitations set forth in the Lease.

Maintenance; Taxes; Insurance and Other Charges

The City agrees that, at all times during the term of the Lease, it will, at its own cost and expense, maintain, preserve and keep the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority shall have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

The parties to the Lease contemplate that the Leased Property will be used for public purposes by the City and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the City or the Authority of the Leased Property is found to be subject to taxation in any form, the City will pay during the term of the Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; provided, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as the Lease is in effect.

Insurance

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

(1) Insurance against loss or damage to the Leased Property caused by fire, lightning or earthquake, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss; provided that earthquake coverage shall be required only if: (i) available from reputable insurers at commercially reasonable rates; and (ii) the Leased Property cannot satisfy any earthquake standards which may be imposed by

any Rating Agency then rating the 2002B Bonds or any Additional Bonds. In the event the City is unable to obtain earthquake coverage on any Leased Property which it previously has maintained, it will promptly so notify all Rating Agencies then rating the 2002B Bonds or any Additional Bonds. The insurance described in this paragraph (1) shall be in an amount equal to the lesser of (i) replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property or, if lower, $50,000,000 in the case of earthquake insurance; or (ii) the remaining unpaid principal amount of Bonds Outstanding plus the amount of use and occupancy coverage described in paragraph (2) below, except that such insurance may be subject to deductible clauses of not to exceed the first one hundred thousand dollars ($100,000) of the amount of any one loss (or ten percent (10%) of the amount insured, in the case of earthquake). Insurance described in this paragraph (1) and in paragraph (2) below may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property insured by the City; provided that the amount of coverage available thereunder shall be at least equal to the cumulative replacement values of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("Financed Property") for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") plus the amount of use and occupancy coverage required by paragraph (2) below; in the event the City elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds shall be used first to rebuild or repair the Leased Property and all Financed Properties or to repay all Obligations, the 2002B Bonds and any Additional Bonds.

(2) Use and occupancy insurance against loss, total or partial, of the use and occupancy of the Leased Property as a result of any of the hazards covered by the insurance required by paragraph (1) above, in an amount sufficient to pay the Base Rental Payments attributable to the Leased Property for a twenty-four month period; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments attributable to the Leased Property; provided further, that such insurance may be part of a policy permitted under paragraph (1) above, which policy may provide that insurance proceeds paid for coverages contemplated by paragraph (1) above may reduce amounts payable under coverage required by this paragraph (2), and vice-versa; the City may obtain use and occupancy insurance covering the Leased Property as well as other parcels of property owned by the City, provided that the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by this paragraph (2) and any agreements relating to Financed Property in respect of which Obligations are outstanding.

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

(4) A standard, commercial general liability insurance policy or policies in protection of the Authority and the City and their directors, officers and employees, indemnifying and defending such parties against direct or contingent loss or liability for damages for personal injury, death or property damage related to the possession, operation or use of the Leased Property, with a minimum combined single limit of ten million dollars ($10,000,000) for personal injury or death of one or more persons, and for property damage, in each accident or event (subject to a self-insured retention clause of not to exceed one million dollars ($1,000,000) or

such greater amount as may be covered by any self-insurance or self-funding method or plan permitted by the Lease).

The City shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, may compromise any and all claims thereunder and, subject to the provisions of the section of the Lease entitled "Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds," shall transfer such Net Proceeds to the Trustee for application as provided in the Lease or in the Indenture. The Trustee shall not be responsible for the sufficiency of any insurance required in the Lease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City.

The insurance required by paragraph (1), (3) or (4) above may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained through a joint exercise of powers authority created for the purpose or in the form of self-insurance by the City. Any such self-insurance or self-funding maintained by the City pursuant to section (1), shall comply with the following terms:

(i) The self insurance program shall be approved by an Insurance Consultant;

(ii) The self insurance program shall be maintained on an actuarially sound basis and the Insurer will annually receive a certified actuarial statement attesting to the sufficiency of the program's assets;

(iii) The self insurance fund shall be held in a separate trust fund by an independent trustee; and

(iv) In the event the self insurance program is discontinued, the actuarial soundness of the claim reserve fund shall be maintained.

The self-insurance provisions described above may be waived with the consent of the Insurer.

Any insurance policy issued pursuant to paragraph (1) above shall be so written or endorsed as to make losses, if any, payable to the City, the Authority and the Trustee as their respective interests may appear and the Net Proceeds of the insurance required by paragraph (1) above shall be applied as provided in the section of the Lease entitled "Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds." The net proceeds, if any, of the insurance policy described in paragraph (1) above shall, to the extent that such proceeds are paid on account of loss or damage to the Leased Property, be payable to the Trustee and deposited in the Insurance Proceeds and Condemnation Awards Fund and applied as described in the Indenture. The net proceeds, if any, of the insurance policy described in paragraph (2) above shall, to the extent that such proceeds relate to the use and occupancy of the Leased Property, be payable to the Trustee and deposited in the Bond Fund. Each insurance policy provided for in the Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority and the Trustee without first giving written notice thereof to the Authority and the Trustee at least 60 days in advance of such intended cancellation or modification.

The City shall file a certificate with the Authority and the Trustee not later than April 1 of each year commencing April 1, 2003, certifying that the insurance required by the Lease is in full force

and effect and that the Trustee and the Authority are named as loss payees on each insurance policy which the Lease requires to be so endorsed.

In the event the City shall fail to maintain the full insurance coverage required by the Lease or shall fail to keep the Leased Property in good repair and operating condition, the Authority may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority shall become Additional Rental, which amounts the City agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

The City covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal amount represented by the Bonds. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the estate of the Authority in the Leased Property subject only to such exceptions as do not materially affect the City's right to the use and occupancy of the Leased Property.

Liens

In the event the City shall at any time during the term of the Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the City shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens against the Leased Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City shall forthwith pay and discharge or cause to be paid and discharged such judgment.

Use of the Leased Property

The City will not use, operate or maintain the Leased Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease. The City shall provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; provided, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the City adversely affect the estate of the Authority in and to the Leased Property or its interest or rights under the Lease.

Tax Covenants

The City will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the 2002B

Bonds and any Additional Bonds pursuant to Section 103 of the Code and specifically the City will not directly or indirectly use or make any use of the proceeds of the 2002B Bonds and any Additional Bonds or any other funds of the City or take or omit to take any action that would cause the 2002B Bonds or any Additional Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code, as applicable. To that end the City, with respect to the proceeds of the 2002B Bonds and any Additional Bonds and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; provided, that if the City shall obtain an Opinion of Counsel to the effect that any action required under the section in the Lease entitled "Tax Covenants" is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the 2002B Bonds and any Additional Bonds pursuant to Section 103 of the Code, as applicable. The City may rely conclusively on such opinion in complying with the provisions of the Lease. In the event that at any time the City is of the opinion that for purposes of the Lease it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise the City shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

To the ends covenanted in the Lease, the City specifically agrees to ensure that the following requirements are met:

(1) No more than 5% of the Leased Property or the Project (determined both on the basis of space and cost) shall be used in the trade or business of one or more nongovernmental persons (not including the portion of the proceeds properly allocable to facilities expected to be used by an organization described in Section 501(c)(3) of the Code).

(2) The City will not invest or allow to be invested proceeds of the Lease, the 2002B Bonds or any Additional Bonds at a yield in excess of the yield on the 2002B Bonds and such Additional Bonds, except to the extent allowed under the Tax Certificate.

The City will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

Continuing Disclosure

The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Lease, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Lease. However, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or Owners of at least 25% aggregate principal amount in Outstanding Bonds, shall, after providing the Trustee security and indemnification satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations under the section of the Lease entitled "Continuing Disclosure."

Rental Abatement

Except to the extent of (i) amounts held by the Trustee in the Bond Fund or the Reserve Account of the Bond Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during

any period in which, by reason of material damage, destruction, title defect or condemnation there is substantial interference with the use and possession by the City of any portion of the Leased Property, rental payments due under the Lease with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the City shall assign, transfer or sublease any or all of the Leased Property or other rights under the Lease, as permitted by the Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Leased Property shall first be allocated to the Lease as provided in the Lease. Any abatement of rental payments pursuant to the Lease shall not be considered an event of default under the Lease. The City waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Lease by virtue of any such interference and the Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the Net Proceeds, if any, the City agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds

If prior to the termination of the term of the Lease (i) the Leased Property or any other improvements in or on the Leased Property are damaged (each of which is hereinafter called "Damaged Improvements") by a peril covered by a policy of insurance described in the Lease (an "Insured Peril"); or (ii) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the City or the Authority in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority will cause the Net Proceeds of any insurance claim (other than rental interruption insurance pursuant to the Lease which shall be directly transferred to the Trustee for deposit in the Bond Fund pursuant to the Lease) or condemnation award to be transferred to the Trustee for deposit in the Insurance Proceeds and Condemnation Awards Fund established pursuant to the Indenture and applied as follows:

(1) Net Proceeds Exceeding Costs. Within 120 days of the date of said Insured Peril, the City shall obtain a written estimate(s) of the (i) cost of the repair, replacement and reconstruction of the Damaged Improvements (collectively referred to herein as the "Reconstruction"); and (ii) Net Proceeds available to pay such costs. If the 120 day period is insufficient to obtain said estimates, the period shall be reasonably extended by the City Manager. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the estimated costs of Reconstruction, the Damaged Improvements shall be repaired, replaced and reconstructed to the same or better quality as existed before the damage occurred. The City shall commence and manage the Reconstruction and shall complete the Reconstruction as soon as reasonably possible after the occurrence of such damage. Any balance of Net Proceeds remaining after the Reconstruction has been completed shall be transferred to the Trustee with directions to apply the

proceeds to the Redemption Account established under the Indenture to redeem Outstanding Bonds in the manner provided by the Lease.

(2) Costs Exceeding Proceeds. If the estimated costs of Reconstruction exceed the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property), the City, in its sole discretion, may elect to budget and appropriate to the Reconstruction the amount of such excess, whether the same is greater or less than the estimated excess, and to manage the Reconstruction as set forth in the Lease.

(3) Net Proceeds Sufficient to Redeem All Bonds. If the City does not exercise the election to reconstruct pursuant to the Lease and Net Proceeds are at least sufficient to redeem all Outstanding Bonds pursuant to the Indenture, such Net Proceeds shall be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem all Outstanding Bonds in the manner provided by the Indenture. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the amount necessary to redeem all Outstanding Bonds, the City shall be entitled to the amount of proceeds remaining after redemption of all Outstanding Bonds ("Excess Proceeds") and shall have the option (i) to distribute the Excess Proceeds to the Reconstruction and to manage the Reconstruction pursuant to the Lease; or (ii) if required by law or if the City so elects, to demolish any remaining improvements on the Leased Property site and remove all debris from the site.

(4) Net Proceeds Insufficient to Redeem All Bonds. If the City does not exercise the election to reconstruct pursuant to the Lease and Net Proceeds are insufficient to redeem all Outstanding Bonds pursuant to the Indenture, the City, in its sole discretion, may elect to (x) budget and appropriate funds to cause the redemption of the remaining Outstanding Bonds and the Net Proceeds, together with such funds, shall be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem all Outstanding Bonds in the manner provided by the Indenture, or (y) redeem a portion of the Outstanding Bonds provided that the fair rental value of the portions of the Leased Property not damaged, destroyed, incomplete or otherwise available for use and occupancy by the City as determined by the City is equal to or greater than the debt service on the Bonds that will remain Outstanding following the redemption of the Bonds in part from such Net Proceeds.

(5) Management of Reconstruction. If the Leased Property or any part thereof becomes Damaged Improvements, the City shall promptly cause, manage and supervise the Reconstruction. Nothing in the Lease shall be construed to preclude the City from agreeing to issue a joint construct for, or otherwise cooperating in, the Reconstruction of any of the Damaged Improvements.

The proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property shall be applied in accordance with the Indenture.

Disclaimer of Warranties

THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY

PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE CITY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event shall the Authority or its assigns be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the City's use of the Leased Property as provided by the Lease.

Assignment and Subleasing

Certain of the rights of the Authority under the Lease will be assigned to the Trustee pursuant to the Assignment Agreement and accordingly the City agrees to make all payments due under the Lease to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Lease or otherwise) that the City may from time to time have against the Authority. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Authority or the Trustee to protect their interests in the Leased Property during the term of the Lease.

The Lease and the interest of the City in the Leased Property may not be assigned or encumbered by the City except as permitted by the Lease.

Notwithstanding anything to the contrary contained in the Lease, the City may assign, transfer or sublease any and all of the Leased Property or its other rights under the Lease, provided that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Authority under the Lease; (b) no such assignment, transfer or sublease shall relieve the City of any of its obligations under the Lease; (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the City contained in the Lease; (d) any such assignment, transfer or sublease shall by its terms expressly provide that the fair rental value of the Leased Property for all purposes shall be first allocated to the Lease, as the same may be amended from time to time before or after any such assignment, transfer or sublease; and (e) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows reentry upon the Leased Property unless concurrently with granting such remedy the same shall be also granted under the Lease by an amendment to the Lease which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Amendment

The Lease may be amended in writing as may be mutually agreed by the Authority and the City, subject to the written approval of the Trustee; provided, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in value of the 2002B Bonds and Additional Bonds Outstanding, and provided further, that no such amendment shall:

(1) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each 2002B Bond and Additional Bond so affected; or

(2) reduce the percentage of the value of the 2002B Bonds and Additional Bonds Outstanding the consent of the Owners of which is required for the execution of any amendment of the Lease.

The Lease and the rights and obligations of the Authority and the City under the Lease may also be amended or supplemented at any time by an amendment of the Lease or supplement to the

Lease which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed in the Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved in the Lease to or conferred in the Lease on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Owners;

(2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease or in regard to questions arising under the Lease which the Authority or the City may deem desirable or necessary and not inconsistent with the Lease, and which shall not materially adversely affect the interests of the Owners;

(3) to effect a Substitution or Removal in accordance with the Lease;

(4) to effect a substitution of the Project in accordance with the Lease;

(5) to facilitate the issuance of Additional Bonds as provided in the Lease; or

(6) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Unless otherwise provided in the Lease, the Insurer's consent shall be required in addition to Owner consent, when required, for the execution and delivery of any amendment, supplement or change to or modification of the Lease.

Default

The following events shall be "events of default" under the Lease and the terms "event of default" and "default" shall mean, whenever they are used in the Lease, any one or more of the following events:

(1) the City shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Lease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Lease shall not constitute an event of default;

(2) subject to the provisions of the section, the City shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Lease; or

(3) the City shall breach any other terms, covenants or conditions contained in the Lease or in the Indenture, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Authority to the City; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Authority shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within such period and is diligently pursued until the default is corrected.

Remedies

Upon the happening of any of the events specified above (in either case an "Event of Default"), it shall be lawful for the Authority or its assignee, subject to the terms of the Lease, to exercise any and all remedies available or granted to it pursuant to law or under the Lease.

The Authority or its assignee, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the Lease in the manner provided below on account of default by the City, notwithstanding any retaking of possession or re-letting of the Leased Property as provided for in subparagraph (2) below, and to retake possession of the Leased Property. In the event of such termination, the City agrees to surrender immediately possession of the Leased Property, without let or hindrance, and to pay the Authority or its assignee all damages recoverable at law that the Authority or its assignee may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Leased Property. Neither notice to pay rent nor to deliver up possession of the Leased Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of obtaining possession of the Leased Property nor the appointment of a receiver upon initiative of the Authority or its assignee to protect the Authority's or its assignee's interest under the Lease shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law or acts of the parties to the Lease, unless and until the Authority or its assignee shall have given written notice to the City of the election on the part of the Authority or its assignee to terminate the Lease.

(2) Without terminating the Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the Lease to be kept or performed by the City; and/or (ii) to exercise any and all rights to retake possession of the Leased Property. In the event the Authority or its assignee does not elect to terminate the Lease in the manner provided for in subparagraph (1) above, the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the City and, to pay the rent to the end of the term of the Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided above for the payment of rent under the Lease (without acceleration), notwithstanding the fact that the Authority or its assignee may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental in the Lease specified and notwithstanding any retaking of possession of the Leased Property by the Authority or its assignee or suit in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of obtaining possession of the Leased Property. Should the Authority or its assignee elect to retake possession of the Leased Property as provided in the Lease, the City irrevocably appoints the Authority or its assignee as the agent and attorney-in-fact of the City to re-let the Leased Property, or any items thereof, from time to time, either in the Authority's or its assignee's name or otherwise, upon such terms and conditions and for such use and period as the Authority or its assignee may deem advisable and the City indemnifies and agrees to save harmless the Authority or its assignee from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any retaking of possession of and re-letting of the Leased Property by the Authority or its assignee or its duly authorized agents in accordance with the provisions contained in the Lease. The City agrees that the terms of the Lease constitute full and sufficient notice of the right of the Authority or its assignee to re-let the Leased Property in the event of such reentry without effecting a surrender of the Lease,

and further agrees that no acts of the Authority or its assignee in effecting such re-letting shall constitute a surrender of termination of the Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the City the right to terminate the Lease shall vest in the Authority or its assignee to be effected in the sole and exclusive manner provided for in subparagraph (1) above. The City further waives the right to rental obtained by the Authority or its assignee in excess of the rental specified in the Lease and conveys and releases such excess to the Authority or its assignee as compensation to the Authority or its assignee for its services in re-letting the Leased Property or any items thereof. The City further agrees to pay the Authority or its assignee the cost of any alterations or repairs to the Leased Property or any items thereof necessary to place the Leased Property or any items thereof in condition for re-letting immediately upon notice to the City of the completion and installation of such alterations or repairs.

The City waives any and all claims for damages caused or which may be caused by the Authority or its assignee in taking possession of the Leased Property as provided in the Lease and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be on or about the Leased Property.

The Authority expressly waives the right to receive any amount from the City pursuant to Section 1951.2(a)(3) of the California Civil Code.

In addition to any default resulting from breach by the City of any agreement, condition, covenant or term of the Lease, if:

(1) the City's interest in the Lease or any part thereof be assigned, sublet or transferred without the written consent of the Authority (except as otherwise permitted by the Lease), either voluntarily or by operation of law; or

(2) the City or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the City shall make a general or any assignment for the benefit of its creditors; or

(3) the City shall abandon or vacate the Leased Property or any portion thereof (except as permitted by the Lease); then in each and every such case the City shall be deemed to be in default under the Lease.

The City and Authority and its successors and assigns shall honor the exclusive rights of the City to use the Leased Facility.

THE INDENTURE

Revenues

All Revenues and amounts on deposit in the funds, accounts and subaccounts established under the Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal of the Bonds as provided in the Indenture, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture.

The Trustee shall be entitled to and shall receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Bond Fund. In order to carry out and effectuate the pledge contained in the Indenture, the Trustee agrees and covenants that all Revenues when and as received shall be received in trust under the Indenture for the benefit of the Owners and shall be deposited when and as received in the Bond Fund. All Revenues shall be accounted for through and held in trust in the Bond Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as in the Indenture provided. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses in the Indenture, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Establishment and Maintenance of Accounts for Use of Money in the Bond Fund. Subject to the Indenture, all money in the Bond Fund shall be set aside by the Trustee in the following respective special accounts within the Bond Fund (each of which is created and each of which the Trustee covenants and agrees to maintain) in the following order of priority:

(i) Interest Account,

(ii) Principal Account,

(iii) Reserve Account, and

(iv) Redemption Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Indenture

Interest Account. On or before each Interest Payment Date, the Trustee shall set aside from the Bond Fund and deposit in the Interest Account that amount of money which, together with any money contained in the Interest Account, is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

(i) No deposit need be made in the Interest Account if the amount contained in the Interest Account is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such interest payment date.

(ii) All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(iii) The Capitalized Interest Subaccount shall be created within the Interest Account. Amounts in the Capitalized Interest Subaccount and earnings on such amounts shall be applied to the interest due on the Bonds.

Principal Account. (i) On or before April 1 of each year, beginning on April 1, 2003, the Trustee shall set aside from the Bond Fund and deposit in the Principal Account an amount of money equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on such April 1, plus the aggregate amount of all sinking fund payments required to be made with respect to the Term Bonds on such April 1. No deposit need be made in the Principal Account if the amount contained tin the Indenture is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such April 1, plus the aggregate amount of all sinking fund payments required to be made on such April 1, for all Outstanding Term Bonds.

(ii) The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "2002B Bonds Sinking Account" (the "Sinking Account"), inserting tin the Indenture the series and maturity (if more than one such subaccount is established for such series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture or in the Supplemental Indenture pursuant to which such series of Bonds were issued; provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in such Sinking Account at the written direction of the City to the purchase of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be determined by the City, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

(iii) All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, except that any money in any Sinking Account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking account was created.

Reserve Account. All amounts deposited into the Reserve Account shall be used only for the purposes set forth in the Indenture while any of the Bonds remain Outstanding and are irrevocably pledged to the payment of the interest, principal and redemption premiums, if any, with respect to the Bonds.

(i) On or before April 1 of each year, beginning on April 1, 2003, the Trustee will set aside from the Bond Fund and deposit in the Reserve Account that amount of

money which shall be required to maintain the Reserve Account in the full amount of the Reserve Requirement or such larger amount as shall be required to be maintained in the Reserve Account by any Supplemental Indenture. No deposit need be made in the Reserve Account so long as there shall be on deposit tin the Indenture a sum equal to at least the amount required by the paragraph to be on deposit tin the Indenture.

(ii) All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account or the Principal Account in such order, in the event of any deficiency at any time in either of such accounts, or for the purposes of paying the interest, principal or redemption premiums, if any, with respect to the Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all the Bonds then Outstanding, except that so long as the Authority is not in default under the Indenture. All interest income received by the Trustee on investment of moneys in the Reserve Account shall be transferred first to the Rebate Fund to the extent required pursuant to the Indenture, as set forth in a Written Request of the Authority or the City to the Trustee, and thereafter to the Interest Account; provided, however, that such interest income shall be retained in the Reserve Account to the extent that amounts tin the Indenture have been transferred in accordance with the paragraph (ii) to make up a deficiency in the Interest Account or the Principal Account; and provided further, the amounts in the Reserve Account in excess of the then current Reserve Requirement shall be transferred to the Construction Fund until such time as the Certificate of Completion is delivered to the Trustee, and thereafter to the Interest Account.

(iii) At any time that amounts in the Reserve Account are to be withdrawn pursuant to the Indenture, the Trustee shall withdraw such amounts from any subaccounts tin the Indenture as specified in a Written Request of the City. In the absence of such Written Request of the City, the Trustee shall withdraw amounts in each such subaccount on a pro rata basis.

(iv) Notwithstanding anything in the Indenture to the contrary, at the option of the Authority or the City, amounts required to be held in the Reserve Account may be withdrawn, in whole or in part, upon the deposit of a Credit Facility with the Trustee, in a stated amount equal to the amounts so withdrawn; provided that at the time of such deposit the unsecured obligations of the Credit Facility are rated not lower than "Aa/AA" by the Rating Agencies and that prior to the deposit of such Credit Facility, the Rating Agencies shall be notified of such proposed withdrawal and the deposit of such Credit Facility shall not result in a withdrawal or downgrading of any rating of the Bonds then in effect by the Rating Agencies. Any such withdrawn moneys shall be transferred to the Interest Account or Principal Account or to a special account to be established for the payment of any fees in connection with obtaining such Credit Facility or to the Construction Fund to pay the costs of the Project or to the City for any other purpose, all at the option of the City.

Redemption Account. In addition to the above accounts, the Trustee shall establish and maintain within the Bond Fund, when required, a special account designated the "Redemption Account." All money in the Redemption Account shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the section. Any Net Proceeds which, in accordance with a Written Request of the City or the Authority delivered to the Trustee pursuant to the Indenture and all other amounts received by the Trustee in connection with the redemption of the Bonds pursuant to the Indenture (except for any amounts for sinking fund redemptions pursuant to the Indenture are to be used to redeem Bonds shall be deposited by the Trustee in the Redemption Account. The Trustee shall, on the scheduled redemption date, withdraw from the Redemption Account and pay to the Owners entitled thereto an amount equal to the redemption price of the Bonds to be redeemed on such date.

Any delinquent Base Rental Payments and any proceeds of rental interruption insurance with respect to the real property encumbered by the Lease shall be applied first to the Interest Account for the immediate payment of interest payments past due and then to the Principal Account for immediate payment of principal payments past due according to the tenor of any Bond, and then to the Reserve Account to the extent necessary to make the amount on deposit tin the Indenture equal to the Reserve Requirement. Any remaining money representing delinquent Base Rental Payments and any proceeds of rental interruption insurance shall be deposited in the Bond Fund to be applied in the manner provided in the Indenture.

Construction Fund

The City shall establish within the City Auditor and Comptroller's books a separate fund called the "Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project) Construction Fund" (the "Construction Fund") which the Auditor and Comptroller's Office agrees to maintain and keep separate and apart from all other funds and moneys held by the City so long as the Bonds are Outstanding. The Office of the City Treasurer shall hold the moneys in the Construction Fund and shall use such moneys therefrom to pay the costs of the Project or, at the election of the City as set forth in a Written Request of the City, transfer such moneys therefrom to the Interest Account to pay interest on the Bonds when and as the same shall become due and payable. Such payments shall be made from time to time upon receipt of a Written Request of the City on behalf of the Authority which: (i) states with respect to each payment to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due; (C) the amount to be paid; and (D) that each obligation therein has been properly incurred, and is a proper charge against the Construction Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation.

Insurance Proceeds and Condemnation Awards; Title Insurance

The Trustee shall receive all moneys which may become due and payable under any insurance policies obtained pursuant to the Lease and pursuant to any condemnation awards in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund," and shall apply the proceeds of such insurance as provided in the Lease. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the City, stating that the City or the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred, in such reasonable detail as the Trustee may in its discretion require.

The Trustee shall not be responsible for the sufficiency of any insurance required by the Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. Delivery to the Trustee of the schedule of insurance policies under the Lease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. The Trustee may request, in writing, that the City deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in the schedule required to be delivered by the City to the Trustee pursuant to the Lease.

Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property shall be applied and disbursed by the Trustee as follows:

(i) If the City determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Base Rental Payments payable by the City under the Lease, such proceeds shall at the election of the City as set forth in a Written Request of the City, be deposited in the Redemption Account and such proceeds shall be applied to cause the redemption of Outstanding Bonds in the manner provided in the Indenture or in the Construction Fund and utilized to improve or enhance the remaining Leased Property; or

(ii) If any portion of the Leased Property has been affected by such title defect, and if the City determines that such title defect will result in an abatement of Base Rental Payments payable by the City under the Lease, then the Trustee shall immediately deposit such proceeds in the Redemption Account and such proceeds shall be applied to cause the redemption of Outstanding Bonds in the manner provided in the Lease.

Investment of Moneys in Funds and Accounts

Moneys in the Construction Fund and any accounts and subaccounts therein shall be invested by the Office of the City Treasurer in Permitted Investments. Moneys in the Bond Fund, the Costs of Issuance Fund and any accounts and subaccounts therein shall, upon the Written Request of the City or the Authority on the same or next Business Day of the investment, be invested by the Trustee in Permitted Investments. In the absence of a Written Request of the City or the Authority, the Trustee may invest moneys in such funds and accounts in Permitted Investments described in subparagraph (9) of the definition of Permitted Investments. The obligations in which moneys in the said funds, accounts and subaccounts are invested shall mature on or prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. The obligations in which moneys in the Reserve Account are so invested shall be invested in obligations maturing no later than seven years in the case of the Outstanding Bonds and any Additional Bonds (unless a different maturity is specified in the related Supplemental Indenture) after the date of investment; provided however; that obligations in the Reserve Account may mature at a date which is more than the specified maximum if the Authority or the Authority and the City shall have entered into an agreement with a corporation, partnership or other business enterprise, having unsecured long-term credit ratings provided by the Rating Agencies, which at the time are "Aa" or higher as provided by Moody's, if then rating the Bonds, and "AA" as provided by S&P, if then rating the Bonds, under which the provider of the agreement will agree to purchase, at the amortized cost thereof to the Authority, such obligations in the event that obligations in the Reserve Account must be sold to pay principal of or interest on Bonds including Bonds that are redeemed in accordance with the Indenture or in the case of Additional Bonds in accordance with any mandatory sinking fund redemption or redemption from Net Proceeds. Any interest, income or profits from the deposits or investments of all funds, accounts and subaccounts under the Indenture (except the Rebate Fund and the Reserve Account to the extent required to be maintained therein or transferred pursuant to the Indenture shall be deposited (i) prior to the delivery to the Trustee of the Certificate of Completion, to the Construction Fund or, at the election of the City as set forth in a Written Request of the City, to the Interest Account, to pay interest on the Bonds when and as the same shall become due and payable; and (ii) thereafter, first to the Reserve Account to the extent required to maintain the Reserve Requirement, and thereafter to the Interest Account. For purposes of determining the amount of deposit in any fund, account or subaccount held under the Indenture, all Permitted Investments credited to such fund or account shall be valued, on or about December 1 during each year that Bonds are Outstanding, at the cost thereof (adjusting for any amortized premium or discount to maturity).

Except as otherwise provided in the Indenture, Permitted Investments representing an investment of moneys attributable to any fund, account or subaccount and all investment profits or losses

thereon shall be deemed at all times to be a part of said fund, account or subaccount. The Trustee shall maintain records with respect to each investment, including: (i) purchase date, (ii) purchase price, (iii) any accrued interest paid, (iv) face amount, (v) coupon rate, (vi) periodicity of interest payments, (vii) disposition price, (viii) any accrued interest received, and (ix) disposition date. The Authority (and the City by its execution of the Lease) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the City the right to receive brokerage confirmations of security transactions as they occur, the Authority and the City specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The Trustee may act as principal or agent in the acquisition or disposition of investments, and to the extent permitted under the Tax Certificate may commingle the funds, accounts and subaccounts established under the Indenture for investment purposes. The Trustee shall have no liability or responsibility for any loss resulting from any investment made in accordance with the provisions of the Indenture.

The Trustee

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

So long as no Event of Default has occurred and is continuing, the Authority may remove the Trustee at any time and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may resign by giving written notice of such resignation to the Authority and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the bond register. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the Authority, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its

predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Authority or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the subsection, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts under the Indenture by first class mail, postage prepaid, to the Owners at their addresses listed in the bond register.

Any Trustee appointed under the provisions of the Indenture shall be a trust company corporation or bank having the powers of a trust company, having a corporate trust office in California, having a combined capital and surplus of at least fifty million dollars ($50,000,000), and subject to supervision or examination by federal or state authority. If such bank corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

For such time as the Municipal Bond Insurance Policy shall be in full force and effect and so long as the Insurer is not in default under its Municipal Bond Insurance Policy (i) the Trustee may be removed at any time, at the request of the Insurer, for any breach of the Trust set forth in the Indenture; (ii) the Insurer shall receive prior written notice of any Trustee resignation; (iii) every successor Trustee appointed pursuant to the Indenture shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than $75,000,000 and acceptable to the Insurer; and (iv) no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, shall be appointed.

No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

The Trustee shall not be responsible for the sufficiency, timeliness or enforceability of the Revenues.

The Trustee shall not be accountable for the use or application by the Authority, the City or any other party of any funds which the Trustee has released under the Indenture.

The Trustee may employ attorneys, agents or receivers in the performance of any of its duties under the Indenture and shall not be answerable for the misconduct of any such attorney, agent or receiver selected by it with reasonable care.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Indenture shall succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

The Authority shall pay the Trustee, or cause the Trustee to be paid, reasonable compensation for its services rendered under the Indenture and shall reimburse the Trustee for reasonable expenses, including attorney's fees, incurred by the Trustee in the performance of its obligations under the Indenture.

The Authority agrees, to the extent permitted by law, to indemnify the Trustee and its respective officers, directors, members, employees, attorneys and agents for, and to hold them harmless against, any loss, liability or expense incurred without negligence or willful misconduct on their part arising out of or in connection with the acceptance or administration of the trusts imposed by the Indenture, including performance of their duties under the Indenture, including the costs and expenses of defending themselves against any claims or liability in connection with the exercise or performance of any of their powers or duties under the Indenture. Such compensation and indemnity shall survive the termination or discharge of the Indenture and resignation or removal of the Trustee.

The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel but need not of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Amendment of the Indenture

The Indenture and the rights and obligations of the Authority and of the Owners may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Authority to pay the interest on or principal of or redemption premium, if any, on any

Bond at the time and place and at the rate and in the currency provided in the Indenture without the express written consent of the Owner of such Bond, (2) permit the creation by the Authority of any pledge of the Revenues as provided in the Indenture superior to or on a parity with the pledge created for the benefit of the Bonds, (3) modify any rights or obligations of the Trustee without its prior written assent thereto, or (4) modify any provision of the Indenture expressly recognizing or granting rights in or to the Insurer in any manner which affects the rights of the Insurer under the Indenture without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which shall become binding upon adoption without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the Authority may deem desirable or necessary and not inconsistent with the Indenture and which shall not materially adversely affect the interests of the Owners; or

(b) to make any other change or addition to the Indenture which shall not materially adversely affect the interests of the Owners or the Insurer, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the Authority; or

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Indenture.

Bonds owned or held by or for the account of the Authority or the City shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and shall not be entitled to consent to or take any other action provided in the Indenture, provided, however, that the Trustee shall not be deemed to have knowledge that any Bond is owned or held by or for the account of the Authority or the City unless the Authority or the City is the registered Owner or the Trustee has received written notice that any other registered Owner is the Owner or is holding for the account of the Authority or City.

After the effective date of any action taken as provided above, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of his Bond for such purpose at the Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Bond. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond such new Bonds shall be exchanged at the Corporate Trust Office of the Trustee without cost to each Owner for Bonds then Outstanding upon surrender of such Outstanding Bonds.

The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bonds owned by him, provided that due notation thereof is made on such Bonds.

Covenants; Notices

The City covenants and agrees with the Owners to perform all obligations and duties imposed on it, under the Indenture and under the Lease. The Authority covenants and agrees with the Owners to perform all obligations and duties imposed under the Lease.

The Trustee covenants and agrees with the Owners from time to time of the Certificates that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision in the Indenture, failure of the City or the Trustee to perform in accordance with the Continuing Disclosure Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of an Event of Default shall not apply to any such failure, but the Continuing Disclosure Agreement may be enforced only as provided therein.

Whenever and so often as requested to do so by the Trustee, the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture.

Limited Liability of the Authority

Notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any money derived from any source of income other than the Revenues as provided in the Indenture for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants contained in the Indenture. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The Bonds shall be limited obligations of the Authority and shall be payable solely from the Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The Bonds do not constitute a debt or liability of the City or of the State of California and neither the faith and credit of the City nor of the State are pledged to the payment of the principal of or interest on the Bonds.

Limited Liability of Trustee

The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Authority, and the Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the validity or sufficiency of the Indenture, the Lease or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee or and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless the Trustee shall have been negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated under the Indenture shall not be construed as a mandatory duty.

The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture or under the Lease unless and until it shall have actual knowledge thereof, or shall have received written notice thereof at the Corporate Trust Office of the Trustee. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be responsible for reviewing the contents of any financial statements furnished to the Trustee pursuant to the Indenture and may rely conclusively on the certificates provided under the Indenture to establish the compliance with its financial covenants under the Indenture.

All indemnifications and releases from liability granted in the Indenture to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

Before taking any action under the Indenture at the request of the Owners, the Trustee may require that a satisfactory indemnity bond be furnished by the Owners for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken.

Limitation of Rights to Parties and Owners

Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Owners as if there were no Municipal Bond Insurance Policy.

Events of Default and Remedies of Owners

Pursuant to the Assignment Agreement, the Authority has transferred, assigned and set over to the Trustee for the benefit of the Owners (1) all of the Authority's rights to receive Base Rental Payments and prepayments without recourse to be paid by the City under and pursuant to the Lease and (2) effective immediately upon the occurrence of an Event of Default under the Lease and without further action on the part of the Authority, such rights and remedies of the Authority under the Lease as may be necessary or convenient (i) to enforce payment of the Base Rental Payments, prepayments and any other amounts required to be deposited in the Bond Fund, the Construction Fund, the Insurance Proceeds and Condemnation Awards Fund, or (ii) otherwise to protect the interests of the Owners or the Trustee upon the occurrence of an Event of Default.

The following shall be "Events of Default" under the Indenture:

(a) default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) default shall be made by the Authority in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Authority, and such default shall have continued for a period of 60 days after the Authority shall have been given notice in writing of such default by the Trustee; or

(d) the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Subject to the Indenture, upon the happening and continuance of any Event of Default the Trustee in its discretion may, and at the written request of the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding shall, do the following:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of Bonds, including the right to require the Authority to receive and collect Revenues and to enforce its rights under the Lease and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture;

(b) bring suit upon the Bonds;

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(d) as a matter of right, have a receiver or receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Notwithstanding the foregoing, neither the Indenture nor the Bonds provide for the remedy of acceleration of principal or interest due with respect to the Bonds prior to their stated due dates.

In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Owners shall be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners in the Indenture, upon the happening and continuance of any Event of Default, the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have the right upon providing the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as provided above and unless the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner

in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds; subject, however, to the provisions of the Indenture.

All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceedings instituted by the Trustee shall be brought in its own name, as Trustee, for the equal and ratable benefit of the Owners of the Bonds subject to the provisions of the Indenture.

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

The Trustee shall waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration, upon the written request of the Owners of at least a majority in aggregate principal amount of all Outstanding Bonds. If any Event of Default shall have been waived as provided in the Indenture, the Trustee shall promptly give written notice of such waiver to the Authority and shall give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee and to the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Any moneys received by the Trustee pursuant to the Indenture, together with any moneys which upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) shall, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

(a) unless the principal of all of the Outstanding Bonds shall be due and payable,

FIRST: To the payment of the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND: To the payment of the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal of and premium, if any, on such Bonds due on any particular date, then to the payment ratably,

according to the amount due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD To be held for the payment to the persons entitled thereto as the same shall become due of the principal of, interest, and premium, if any, on the Bonds, which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment shall be made in accordance with the FIRST and SECOND paragraphs of the Indenture.

(b) if the principal of all of the Outstanding Bonds shall be due and payable, to the payment of the principal, and premium, if any, and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, premium or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal, premium, and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give, by mailing by first class mail as it may deem appropriate, such notice of the deposit with it of any such moneys.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Indenture and during such time as the Municipal Bond Insurance Policy shall be in full force and effect and so long as the Insurer is not in default under its Municipal Bond Insurance Policy, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

Defeasance

If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Indenture and therein, then the Owners of such Bonds shall cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of the Indenture, when any of the Bonds shall have been paid and if, at the time of such payment, the Authority shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to

the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture contained in the Indenture relating to the tax-exempt status of interest on the Bonds and the Indenture relating to the compensation and indemnification of the Trustee shall remain in effect and shall be binding upon the Trustee and the Authority.

Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (2) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clause (1) of such definition which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or tax-exempt securities which are not subject to redemption prior to maturity except by the holder thereof rated "AAA" or its equivalent by the Rating Agencies then rating the Bonds, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall, as verified by an independent Certified Public Accountant, be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, with respect to such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the 2002B Bonds shall be paid by the Insurer pursuant to the Municipal Bond Insurance Policy, the 2002B Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the registered owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered owners.

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remains unclaimed for two

years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of such Bonds.

Benefits of the Indenture Limited to Parties

Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Authority, the Trustee, the Insurer and the Owners any right, remedy or claim under or by reason under the Indenture. Any agreement or covenant required in the Indenture to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Authority, the Trustee, the Insurer and the Owners of the Bonds.

The Insurer as Third Party Beneficiary

To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is explicitly recognized as being a third-party beneficiary under the Indenture and may enforce any such right remedy or claim conferred, given or granted under the Indenture.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

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

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

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

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

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

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

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

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

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

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository, if any.

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

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state information depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

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

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

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

(d) The Dissemination Agent shall:

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

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

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

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

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

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

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

SECTION 5. Reporting of Significant Events.

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

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) modifications to rights of Bondholders;

(iv) optional, contingent or unscheduled Bond calls;

(v) defeasances;

(vi) rating changes;

(vii) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

(viii) unscheduled draws on credit enhancements reflecting financial difficulties;

(ix) unscheduled draws on debt service reserves reflecting financial difficulties;

(x) substitution of credit or liquidity providers or their failure to perform; and

(xi) release, substitution or sale of property securing repayment of the Bonds.

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

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

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

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

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories with a copy to the City. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If the City's obligations under the Lease are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the City, and the original City shall have no further responsibility hereunder. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

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

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

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

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

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

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

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

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

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

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

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

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

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

Dated: June 28, 2002

CITY OF SAN DIEGO

By: _____
City Manager or designee

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party:	City of San Diego (the "City")
Name of Issue:	Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002B (Fire and Life Safety Facilities Project)
Date of Issuance:	June 28, 2002

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

Dated: _____

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

By: _____
Authorized Officer

cc: City of San Diego

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APPENDIX E

BOOK-ENTRY SYSTEM

General. The Depository Trust Company (DTC"), New York, New York will act as securities depository for the Bonds. The Bonds will be issued as fully-registered certificates, without coupons, registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, and disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee, or the Authority may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

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

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

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

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

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

APPENDIX F

PROPOSED OPINION OF BOND COUNSEL

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

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

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

Ladies and Gentlemen:

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

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

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

We are of the opinion that:

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

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

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

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

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

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

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with 0respect to matters affecting the status of the interest on the Bonds, and continuing compliance with and enforcement by the City of the procedures and covenants set forth in the Tax Certificate as to such tax matters.

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

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

Very truly yours,

APPENDIX G

FORM OF MUNICIPAL BOND INSURANCE POLICY OF MBIA INSURANCE CORPORATION

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MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

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

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Assistant Secretary

STD-R-CA-6
4/95

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DO NOT STAPLE THIS FORM

140225

MSRB

FORM G-36(OS) – FOR OFFICIAL STATEMENTS

SECTION I – MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. ☒ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 6/24/02 (b) DATE SENT TO MSRB: 6/24/02

2. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: _____ (b) DATE SENT TO MSRB: _____

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: ☐

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original Form G-36(OS)): ☐

SECTION II – IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here: ☐

A. NAME OF ISSUER: San Diego Ca Public Facilities Financing Authority STATE: California

DESCRIPTION OF ISSUE: Lease Revenue Bonds, Series 2002B DATED DATE: 6/15/02

B. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE _____ DATED DATE: _____

C. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE _____ DATED DATE: _____

SECTION III – TRANSACTION INFORMATION

A LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING 4/1/32

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale) 6/12/02

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 6/28/02

D IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV – UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER Morgan Stanley DW Inc. SEC REG. NUMBER: 8-14172

B TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING: $ 25,070,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): $ _____

D CHECK ALL THAT APPLY.

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

3. ☐ This offering is exempt from SEC Rule 15c2-12 under section (d)(1)(i) of that rule. Section (d)(1)(i) of SEC Rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

CONTINUED ON OTHER SIDE

SECTION V – CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
4-1-04	797299BV5	4-1-13	797299CE2	4-1-22	797299CP7
4-1-05	797299BW3	4-1-14	797299CF9	4-1-23	797299CQ5
4-1-06	797299BX1	4-1-15	797299CG7	4-1-24	797299CR3
4-1-07	797299BY9	4-1-16	797299CH5	4-1-27	797299CU6
4-1-08	797299BZ6	4-1-17	797299CJ1	4-1-32	797299CZ5
4-1-09	797299CA0	4-1-18	797299CK8		
4-1-10	797299CB8	4-1-19	797299CL6		
4-1-11	797299CC6	4-1-20	797299CM4		
4-1-12	797299CD4	4-1-21	797299CN2		

B IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: ☐
(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED _____

State the reason why such securities have not been assigned a "CUSIP-9" _____

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE. ☐

State the reason why such securities are ineligible for CUSIP number assignment: _____

SECTION VI – MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

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