WILLKIE FARR & GALLAGHER LLP **MEMORANDUM**

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Michael Zucchet on April 26, 2006

DATED: May 7, 2006

On Wednesday, April 26, 2006, Benito Romano and Sharon Blaskey, in Willkie Farr & Gallagher LLP's ("Willkie") capacity as counsel to the Audit Committee, interviewed former Councilmember Michael Zucchet. Councilmember Zucchet was represented by counsel, Jerry Coughlan of Coughlan, Semmer & Lipman LLP. Also in attendance were Donielle Evans and Ryan Merryman of KPMG. The interview took place at the law offices of Coughlan, Semmer & Lipman in downtown San Diego and lasted approximately two and one-half hours.

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

Warnings

Mr. Romano began the interview by explaining the circumstances and purpose of the City of San Diego's (the "City") creation of the Audit Committee, noting that information obtained during the course of the interview would be used, if relevant, in our analysis of the issues and would be reflected in an Audit Committee report. Mr. Romano explained that Willkie does not represent Councilmember Zucchet and, thus, statements made during the interview are not covered by the Councilmember's attorney-client privilege. Nonetheless, we would be treating the information obtained during the interview as confidential, covered by the work-product privilege during the investigation, but any such privilege would likely be lost with the release of the Audit Committee's report. Mr. Romano asked that Councilmember Zucchet keep the interview confidential. Mr. Romano further explained that, if requested, we would provide information from the interview to the SEC, the U.S. Attorney's Office or the City's outside auditor, KPMG, so it is important that Councilmember Zucchet be truthful and accurate. Mr. Romano emphasized that Councilmember Zucchet should feel free to seek clarification of any question at any time.

Background

Mr. Romano started the interview by informing Councilmember Zucchet that he would be referring to Councilmember Zucchet's July 9, 2004 interview with Vinson & Elkins ("V&E"), summarized into a memorandum dated July 11, 2004 (Exhibit 1), and would be asking

some questions based on that account. Councilmember Zucchet stated that he understood, though pointed out that the V&E interview summary was not completely accurate.

Prior to being elected to City Council in November 2002, Councilmember Zucchet worked for Councilmember Valerie Stallings from August 1996 to November 1997. In his capacity as a Council Representative for Stallings, Councilmember Zucchet served as her community liaison to Pacific Beach and advised her on several policy areas, which included public safety and land use. He also managed docket items for Tuesday Council meetings, deciding how best to prepare the Councilwoman for the issues slated for that meeting each week. He did not recall advising Councilmember Stallings on pension or water rate (or, presumably, sewer rate) issues. He believed that staff member Lisa Gonzales most likely dealt with water and sewer rate issues. He could not remember who on Councilmember Stallings' staff handled pension issues, though he remarked it "could have been me."

After Councilmember Zucchet was elected to City Council in November 2002 and began service in December 2002, he was not given any formal training about how to discharge his duties as a member of Council. He only received guidance through an ethics training course. This course, which only lasted one-to-two hours, consisted of basic ethics issues such as bribery and other provisions found in the Ethics Code in the San Diego Municipal Code. While in office, Councilmember Zucchet's staff consisted of between eight and nine people. Michael Coleman served as Councilmember Zucchet's Chief of Staff. There was no formal hierarchy among the other staff members below the Chief of Staff position.

Mr. Romano asked Councilmember Zucchet whether MP-2 was a campaign issue leading up to the November 2002 election. Councilmember Zucchet said it was not. Mr. Romano inquired as to Councilmember Zucchet's general sense of the most pressing issues when he took office in December 2002 and, in particular, whether he recalled the pension and sewer rate issues being prominent. Councilmember Zucchet stated that he did remember these issues being important at that time, though he clarified that he just meant these were noteworthy as general issues and not necessarily as bond offering issues. He explained that Lora Folsom was his advisor on water/sewer issues, representing him in his capacity on the Natural Resources and Culture Committee. This committee would approve water-related projects. He recalled that Coleman and Katie Keach advised him on pension issues. Since Councilmember Zucchet was not on the Rules Committee, he did not have staff members advising him on pension issues unless those issues came before the full City Council.

Bond Issuances

Mr. Romano asked Councilmember Zucchet if he had any experience or training with regard to approving bond issuances. Councilmember Zucchet answered that he did not and Mr. Romano inquired about how he dealt with the review of bond offering disclosure statements. Councilmember Zucchet explained that, prior to any Monday or Tuesday City Council meeting, there was a "document dump" on the preceding Wednesday. This document dump consisted of binders relating to every issue that would be on the docket for approval during the upcoming meetings. Councilmember Zucchet's staff would review these binders and, when an issue was rather complex, would prepare written briefs to give to Councilmember Zucchet for his review. Councilmember Zucchet understood that the document dump came from the City Attorney's

Office and represented the City Attorney and City staff's view on what the Council members needed to know for Council meetings. If any Council members had questions regarding a particular issue, they would voice those concerns at the meeting; if no one had any questions, they would vote without prior debate.

Councilmember Zucchet was asked whether he recalled ever seeing a bond offering statement in a document dump. He did not recall seeing one, though he noted that everything that was in the document dump binders was reviewed by his staff and him, so it is likely that someone reviewed them. Mr. Romano showed Councilmember Zucchet the Balboa Park Refunding Bond Issuance, dated May 29, 2003 (Exhibit 2), as an example of a bond offering statement and asked Councilmember Zucchet if he recalled seeing a document that looked like it. Councilmember Zucchet responded that, "I'm sure there were documents provided in connection with the issuances, and I reviewed them." However, he did not recall seeing this specific offering statement nor could he speak in more detail about its contents.

Despite his lack of recollection as to this offering statement, he did remember that this particular issuance received extensive debate among Council members. However, he clarified that for this, and most other bond issuances, there were often many general *policy* concerns which did not necessarily include disclosure matters. Councilmember Zucchet discussed the policy issues underlying this particular bond issuance as an example. Since it was a refunding of a previous bond issuance, "debt for debt," the main issue was how to use the savings that would be derived from the refinancing. Councilmember Zucchet recalled that the Balboa Park land fell within his, Councilwoman Toni Atkins and Councilwoman Donna Frye's districts, and thus they wanted to use the savings to improve the park. Councilmember Zucchet specifically recalled that "there was no discussion about disclosure issues either among Council or with his staff about this bond offering." He could not recall voting on the disclosure aspect of this issuance and noted that this issue may have been a "sub-item" among the overall item, the refunding of Balboa Park.

Blue Ribbon Committee and Pension Reform Committee

Since Councilmember Zucchet began serving on Council in December 2002, after the initial presentation of the Blue Ribbon Committee (the "BRC") to the Rules Committee in February 2002 and City Council in April 2002, Mr. Romano provided Councilmember Zucchet with a brief time line of the BRC's investigation and Report. Mr. Romano asked Councilmember Zucchet if he had any recollection of the San Diego City Employees' Retirement System ("SDCERS") Board's response to the BRC in early 2003. Councilmember Zucchet explained he could not recall this response at the time because he was not on the Rules Committee (the SDCERS Board presented its findings to the Rules Committee on February 12, 2003) and did not think that the SDCERS Board presented its findings to the full City Council.

Councilmember Zucchet could not recall why Mayor Dick Murphy created the Pension Reform Committee (the "PRC") in 2003. Councilmember Zucchet explained that he voted to approve the creation of the PRC because the pension problem was a very complicated issue and there was a lot of "rhetoric floating around and not a lot of hard facts." He could not recall whether the City Manager was supposed to respond to the SDCERS Board's presentation. In particular, Councilmember Zucchet could not recall that the City Manager's response was not

filed because of the creation of the PRC. He could not remember any concerns being expressed to him that, at the time the PRC was created, the study of the pension system had already been going on for years. During the approval process for the creation of the PRC, he recalled the central discussion was whether Council wanted an outside committee to study the problem, not necessarily whether this was a more preferable way of approaching the problem than referring it to the City Manager's Office. He remembered that the PRC ultimately issued a report with a number of recommendations, and that Council voted on most of them, approving some but not others.

Mr. Romano showed Councilmember Zucchet two draft reports from City Manager Michael Uberuaga, each dated "June __, 2003" and apparently each of which was not released (Exhibits 3 and 4). Councilmember Zucchet explained that he did not recall ever seeing either of these reports. Councilmember Zucchet became somewhat frustrated after Mr. Romano asked him if he recalled the Mayor explaining his decision to use the PRC instead of the City Manager's Office to study the pension problem. Mr. Romano explained to Councilmember Zucchet the notion that the City Manager stopped his inquiry after the Mayor created the PRC, again laying out the protracted chronology of the City's response to the funding issue and clarifying our interest in whether City Council was involved in this decision. Mr. Romano refocused his inquiry, asking Councilmember Zucchet about his general impression of the seriousness of the pension problem upon taking office and into the spring of 2003. Councilmember Zucchet explained that he had a two-fold impression: the problem was very serious, but "there were solutions out there to address the problems that if implemented could help make the problems much less serious."

Mr. Romano showed Councilmember Zucchet a copy of the PRC Report, dated September 15, 2004 (Exhibit 5). Councilmember Zucchet again explained that the recommendations in the Report became Council agenda items and were voted up or down over a period of time. Councilmember Zucchet recalled Richard Vortmann's Minority Report and noted that he read this report. He believed Vortmann to be very smart, credible and knowledgeable about pension issues. Asked whether he agreed with Vortmann's conclusion that the pension funding problem had long been understated, Councilmember Zucchet explained that he did not really have an opinion at the time, reiterating that he believed that there was a long-term solution to the problem. Councilmember Zucchet recalled that he understood that other cities were also having pension problems. However, he remarked that he understood that San Diego was the only city with such a low funded ratio. Overall, Councilmember Zucchet explained that, once he came to office, he believed that the pension problem had become somewhat of a "political and rhetorical debate" rather than a pure policy issue. Councilmember Zucchet clarified that he meant that people were taking an issue of otherwise serious substance and making it a political matter. Because he did not perceive Vortmann as political in this regard, he appreciated his position and took his concerns more seriously.

Mr. Romano asked Councilmember Zucchet if he believed there were any potential conflict of interest issues relating to City employees sitting on the SDCERS Board. Councilmember Zucchet recalled that one of the recommendations in the PRC Report called for a restructuring of the SDCERS Board such that the Board would consist entirely of outside professionals. He remembers that this issue received a lot of debate in Council at the time. Councilmember Zucchet was aware of the Charter provision which required that certain

employee representatives be members of the Board. He believed that, while this provision made sense because employees should have some say about how the Retirement System is run, there was also some value in having a degree of impartiality in Board decisions. Thus, he supported a compromise such that the Board would have some employee representatives but a majority of non-City employees.

Disclosure Issues

Mr. Romano directed Councilmember Zucchet's attention to the summary memorandum of his interview with V&E, in which Councilmember Zucchet made a remark about "cooking the books" in connection with a meeting with City Auditor & Comptroller Ed Ryan, Assistant City Manager Lamont Ewell, and Uberuaga. Councilmember Zucchet explained that he had been misquoted by V&E, as the "cooking the books" language derived from a document that V&E had shown him and *not* his own words. Councilmember Zucchet further explained that the players listed at this meeting were incorrect. The meeting was a closed-session meeting involving most of City Council. Assistant City Attorney Les Girard and Ryan led the discussion. Uberuaga and several other City officials and staff were present. He believed that this meeting likely occurred in late 2003 or early 2004, and he recalled that this was the first time he was informed about potential disclosure issues with regard to bond issuances that had been approved. He did not believe that SDCERS Board member Diann Shipione had raised disclosure issues before this meeting; rather, her prior focus had been on MP-1, MP-2, under-funding and conflicts of interest.

Before discussing this meeting further, Councilmember Zucchet asked Mr. Romano whether the City had waived the privilege attached to closed-session meetings, as he was not at liberty to discuss the substance of these meetings. Mr. Romano did not have documentation of the City's waiver, but he explained that the Audit Committee was representing that the waiver exists at its own risk, and that Councilmember Zucchet's remarks would not be disclosed if such waiver was not still in effect. Councilmember Zucchet acknowledged his acceptance of this position.

Councilmember Zucchet clarified that there were two separate meetings at which bond disclosure issues were addressed. He believed that outside bond counsel was only present at the second meeting. At the first meeting, he explained that Girard and Ryan stood up at the very end of the session and informally remarked that the Council members should be aware that there were potentially some issues with respect to some disclosure documents, in particular the City's Comprehensive Annual Financial Reports ("CAFR"). Ryan and Girard did not present these issues as particularly urgent. After some Council members – in particular, Councilmember Frye – pressed Ryan and Girard about the errors, they characterized them as "typographical" errors regarding "dates and decimal points" and that the City was working to correct them. Councilmember Zucchet recalled that conversation about this issue did not proceed further at the meeting and that he had not asked any questions. However, he remembered that Councilmember Frye approached him after the meeting, expressing concern about what had transpired and that she believed the issue was more pressing than Ryan and Girard had let on. Councilmember Zucchet recalled that he did not respond to Councilmember Frye's concerns with any great urgency at that point. He was not aware of any other informal discussion among Council members about this meeting.

Councilmember Zucchet explained that, at the second closed-session meeting about these disclosure issues, Girard explained the problems in a more comprehensive manner and in a much less casual tone. He believed that Girard explained the types of errors, in which documents they arose, and the significance of such errors in each type of document. Councilmember Zucchet recalled that he and most other members of Council had many serious questions and that they all had a very clear picture of what had occurred at that point.

After a short break, Councilmember Zucchet listed the major players at this second meeting: City Council members; Uberuaga; Ewell; Deputy City Manager Pat Frazier; City Attorney Casey Gwinn; Girard; Ryan; and one outside bond counsel. Councilmember Zucchet did not recall what Council members specifically said, but he remembered that they were generally angry that they had been misled as to the seriousness of the problem at the first closed-session meeting. Mr. Romano asked Councilmember Zucchet if he could recall the specific mistakes that were discussed. Councilmember Zucchet responded that he did recall discussion of mistakes as to the pension fund, but that the City officials at the meeting still tried to convey these mistakes as mostly numerical and not as serious as other errors. Councilmember Zucchet recalled that Council members asked the City officials for examples of specific errors, at which point the officials discussed examples but did not give the Council members a list. He could not recall if he ever received a comprehensive list of the errors at issue.

Mr. Romano asked Councilmember Zucchet if any of the Council members present at the second meeting asked whether they could be liable for approving erroneous disclosure documents. Councilmember Zucchet could not recall whether this question was asked, but generally remembered that the discussion at the meeting focused on how the errors could affect the City, not specifically Council members. Councilmember Zucchet recalled that he was not apprised of the potential consequences for City Council members until the SEC and Paul Maco of V&E became involved in these matters at a later date. Councilmember Zucchet was familiar with the Bryan Cave memorandum, which had been presented to City Council prior to his election to Council, but only in the context of Maco presenting it for Councilmember Zucchet's review prior to his interview with V&E.

Councilmember Zucchet recalled that, around the time of these two meetings, the sewer bond offering was pulled and that he understood that decision to be related to the errors discussed at these meetings. Councilmember Zucchet did not recall whether the second ballpark offering, which was also pulled around this time period, was affected by the revelations at these meetings.

MP-2 and Shipione's Allegations

Councilmember Zucchet surmised that he probably became aware of the MP-1/MP-2 debate after he was elected, as the pension funding problem was not an issue in his 2002 campaign. He recalled receiving several of Shipione's letters regarding her concerns with the pension system, but he could not recall whether these letters were directly tied to MP-2. Councilmember Zucchet said that he believed her concerns to be "valid," though he did not necessarily agree with her.

Mr. Romano asked whether Councilmember Zucchet recalled Ewell's response to Shipione's concerns at the end of 2002, in particular inquiring whether he remembered Ewell

characterizing her views as "slanted." Councilmember Zucchet explained that he followed the debate between Shipione and Ewell but did not actively engage in it. He could not recall who directed Ewell to prepare a response to Shipione, but he presumed it would have been the Mayor or City Council. Mr. Romano briefly referenced Ewell's December 31, 2002 memo in response to Shipione's concerns, but did not show it to Councilmember Zucchet (Exhibit 6). Councilmember Zucchet could not specifically recall reading the memo.

Mr. Romano asked Councilmember Zucchet whether he believed the matter between Shipione and Ewell was ever resolved. Councilmember Zucchet explained that, from his perspective, the debate concerning the under-funding of the pension system was more of a "policy issue" rather than purely a factual matter. Councilmember Zucchet clarified that while a factual matter may have a right or wrong answer, a policy debate may have several potentially valid perspectives. Applying this logic to MP-2, Councilmember Zucchet explained that he understood that the under-funding policy had been enacted under MP-1, that around the time of MP-2 a decision needed to be made whether to continue or discontinue the under-funding, and that City Council chose to continue it. Shipione disagreed with this position. Councilmember Zucchet stated that he did not believe that one of these positions was necessarily wrong.

Mr. Romano inquired as to whether Councilmember Zucchet had a sense at the time of MP-2's approval – or when he later came to learn of the proposal – that the actual financial hit would come at a later time and whether this would have factored into his understanding of the issue as a policy debate. Mr. Coughlan asked Mr. Romano to clarify at this point what he meant by "MP-2," as the proposal contained many different elements and side agreements. Mr. Romano explained that he meant the two primary aspects of the proposal, in particular the contribution relief for the City and the enhanced benefits package to SDCERS members. Councilmember Zucchet explained that he separated two aspects of MP-2 in terms of his understanding of it as a policy issue: the increased benefits which were not necessarily being funded at the time they were granted, which he noted he understood to be granted in other cities at the time; and the intentional under-funding element, which he understood to be unique to the City's Retirement System. While he did not perceive the contribution relief component of MP-2 to be the biggest problem with the proposal, he did understand at the time that the pension system would not likely be bailed out by the stock market. Mr. Romano asked him how he foresaw the funding gap being solved when he took office. Councilmember Zucchet reiterated that he viewed the issue as a long-term problem that would have to be solved with long-term solutions, such as periodic cash infusions into the pension fund and concessions by the labor unions.

Presidential Leave

Mr. Romano briefly explained to Councilmember Zucchet his understanding of the evolution of the Presidential Leave benefit and asked Councilmember Zucchet whether he recalled becoming aware that the benefit was specially conferred to SDCERS Board member and Firefighter Union President Ron Saathoff. Councilmember Zucchet recalled this "generic" issue before he was in office, but he did not become aware of the specifics of the October 2002 Resolution through which the benefit was granted until later on. He recalled only generally becoming aware of the disparity between what union presidents in San Diego received in terms of retirement benefits as compared to other cities' union heads.

Wastewater

Mr. Romano asked Councilmember Zucchet if he sat on any committees that would have discussed issues concerning the sewer rate structure. Councilmember Zucchet explained that he did not sit on the Rules Committee until 2005, so he did not hear about any of these issues at the time. Councilmember Zucchet noted that he was on the Natural Resources and Culture Committee in 2003 and 2004, but that this committee only discussed whether certain water and sewer projects should proceed, not how money would be raised to fund such projects.

Mr. Romano showed Councilmember Zucchet a June 2, 2004 Manager's Report prepared for the June 8, 2004 City Council meeting (Exhibit 7). Mr. Romano asked Councilmember Zucchet whether he recalled discussion at this time about the notion of full compliance with sewer rate structure requirements. Councilmember Zucchet recalled learning at an earlier time about the differentiation in the rate structure between large and small users, and that the small users were subsidizing the larger users' payments to some degree. He remembered being in the minority at first in his opposition to this inequitable state of affairs. However, he recalled that he first voted against the continuation of this system because it "was not fair," not necessarily because the City was out of compliance with certain requirements. When he later learned, possibly at this meeting, that the City was also out of compliance in its sewer rate structure, he was not at all surprised.

Mr. Romano asked Councilmember Zucchet if he recalled a particular commercial enterprise that would have been affected if the rate structure was altered to take into account the organics parameter. Councilmember Zucchet responded that he was aware of Kelco's protests, and that they were one among many large groups that lobbied to keep the prevailing rate structure in place. Councilmember Zucchet recalled an earlier meeting at which Kelco had voiced its concerns, which was followed by a rather contentious debate and a Council vote of five-to-four ratifying the system in place. Councilmember Zucchet could not recall the specific activities of the Public Utilities Advisory Committee ("PUAC") or PUAC's involvement in reviewing Cost of Service studies. Councilmember Zucchet did not recall understanding the purpose of Cost of Service studies beyond the fact that they were used to determine how much a particular charge should be. He did not recall any Council votes approving these studies, but he noted that actions that cost under $250,000 did not need to be approved by Council

Mr. Romano showed Councilmember Zucchet Girard's March 26, 2004 memo to the Mayor and City Council regarding continuing disclosure requirements (Exhibit 8). Councilmember Zucchet did not recall reading this specific memo, but generally remembered ongoing discussions about continuing disclosure corrections. However, he did not recall specific discussion about corrections to water or sewer disclosures. Mr. Romano asked Councilmember Zucchet to read the second-to-last paragraph of the memo, which discusses the potential risk the City faced of repaying the loans it received from the State. Councilmember Zucchet recalled that there was some discussion about this risk but could not recall by whom this issue was raised.

Mr. Romano asked Councilmember Zucchet why he did not remember discussion of this issue in more detail. Councilmember Zucchet explained that he largely viewed this issue as continuing fallout from the other disclosure issues. Moreover, Councilmember Zucchet viewed this matter as a policy issue: he was generally aware of the allegation of non-compliance

but he was not very involved or knowledgeable about whether such was the case. Once he became aware that the City was required to come into compliance and voted to do so, he took that as an acknowledgement that the City had in fact been out of compliance.

Mr. Romano showed Councilmember Zucchet the Minutes of the June 8, 2004 City Council meeting at which Council voted to change the sewer rate structure (Exhibit 9). Mr. Romano asked Councilmember Zucchet if he remembered a presentation by Dennis Kahlie at this meeting. Councilmember Zucchet did not recall such a presentation nor did he remember who Dennis Kahlie was. Ms. Blaskey clarified that he was an official in the Financing Services Department, but this did not refresh Councilmember Zucchet's memory.

Ms. Blaskey asked Councilmember Zucchet if he recalled having conversations with Councilmember Frye about the sewer rate structure and compliance issues. Councilmember Zucchet responded that he was generally confused by most of these issues and remembered only the big votes on water and sewer rate matters. Councilmember Zucchet recalled meeting Doug Sain (a communications consultant), but could not recall Sain lobbying him about anything in particular. It should be noted that Councilmember Zucchet discussed all of these issues in terms of his recollection of "water" issues, not "sewer" issues.

Mr. Romano asked Councilmember Zucchet if he recalled any discussion about closed-session meetings being overused or used improperly, in particular whether he recalled such concerns being raised by Councilmember Frye. Councilmember Zucchet could not recall her specific concerns about closed-session being used for this particular issue, but noted that he believed that she had this type of view for most issues in general. Nonetheless, Councilmember Zucchet explained that he believed closed-session was being abused and that he believed other Council members felt the same way.

Mr. Romano inquired about whether there was a concern among Council members about the political ramifications of raising sewer rates for larger users. Councilmember Zucchet explained that he was not opposed to raising taxes, but that some of his colleagues were and may have been more concerned about raising costs in general. Councilmember Zucchet stated that, in addition to Mayor Murphy, he believed these Council members to be: James Madaffer; Brian Maienschein; Scott Peters; and occasionally Ralph Inzunza and Charles Lewis.

Remediation

Mr. Romano asked Councilmember Zucchet if he had any suggestions as to potential remedial measures that could help improve the City's Retirement System or financial disclosure review process. Councilmember Zucchet felt particularly strong about necessary improvements to the disclosure process, stressing that there needed to be more formal training for Council members about the elements of financial disclosures and the gravity of the consequences if such duties were not taken seriously. Councilmember Zucchet explained that he received thousands-upon-thousands of documents during his time on Council and that, unless the most important documents were highlighted, it would not have been uncommon for him to not dedicate the sufficient time to any given issue. He believed that if Council members were alerted to their potential personal liability in connection with the approval of bond offerings, they would be more vigilant as to their duties in reviewing disclosure documents. Asked whether he believed that Council members who received the Bryan Cave disclosure due diligence memo

may not have understood the duties outlined therein, Councilmember Zucchet refused to speculate on this as he was not in office when the memo was presented.

Mr. Romano explained to Councilmember Zucchet that, through adoption of a draft ordinance contained within V&E's first investigative report, the City had created the position of Deputy City Attorney for Finance and Disclosure within the City Attorney's Office. Mr. Romano asked Councilmember Zucchet whether he believed this position could be valuable. Councilmember Zucchet responded that he believed this position could have been helpful three or four years ago. However, he believed that now Council members would be more likely to rely on the advice of their own personal counsel in approving disclosure documents because of the seriousness of the consequences. While he believed that a position dedicated to financial disclosures in the City Attorney's Office could still be beneficial, it would not be a panacea.

Ms. Evans asked Councilmember Zucchet if he had ever sat down with anyone in the City Attorney's Office before he took office to inquire about legal issues pertaining to City Council members. Councilmember Zucchet responded that he had not. Councilmember Zucchet noted that if were to have contacted anyone in the City Attorney's Office at that time to discuss legal concerns, it would have been Girard because he was the official in the City Attorney's Office with the most involvement with City Council.

At this point, Councilmember Zucchet reiterated the overwhelming nature of being a City Council member. He explained that the position necessitated that one rely on his staff to filter information on up. Unless someone raised a red flag or the Council member took a particular interest in an issue, Councilmember Zucchet believed that more often than not a Council member would have to rely on his staff to deal effectively with an issue. This state of affairs applied particularly to technical issues. Councilmember Zucchet noted that he did not think this was a perfect process, as some issues simply did not make it to the forefront of Council's attention.

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EXHIBIT 1

FINAL

M E M O R A N D U M

July 11, 2004

Privileged and Confidential
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Attorney Work Product
Do Not Disclose

TO: Paul S. Maco
Richard C. Sauer

FROM: Benjamin S. Lippard

RE: *City of San Diego*; Interview of Councilman Michael Zucchet

This memorandum summarizes the interview of Councilman Michael Zucchet. This memorandum does not contain a verbatim or a near-verbatim transcription of this interview, but rather is a general summary of my thoughts and mental impressions regarding our discussion. Significantly, it is organized to summarize issues thematically and does not reproduce the order in which the interview actually occurred. There was no stenographer present at this interview, and given the nature of summarizing this type of discussion after the fact, this memorandum does not attempt to describe every statement or exchange and it is possible that there are errors in this account. It also assumes familiarity with the facts of this case, and does not provide context or explanation of every factual reference. Nor does it address issues of credibility or attempt to reconcile any differences between this interview and the accounts of other individuals.

This memorandum is subject to the attorney client and the attorney work product privileges, as it was prepared in connection with our providing legal advice to the City of San Diego (the "City") in connection with a potential SEC investigation regarding some of the matters discussed in this memorandum.

Overview of interview. This memorandum summarizes the interview of Councilman Zucchet. Paul Maco and I spoke to Councilman Zucchet for about an hour and a half on the afternoon of July 9, 2004. (I participated via telephone.) Mr. Maco began the interview by explaining that we represent the City in connection with an internal inquiry regarding disclosure practices; that we represent the City of San Diego and not any individual City official or Council member; and noted that Councilman Zucchet was represented by his attorney, Jerry Coughlin. Mr. Maco also explained that we will be preparing a draft memorandum summarizing the interview and will provide his attorney a copy for review and comment, and that the interview memorandum may be provided to the SEC and the U.S. Attorney if they ask, and the U.S. Attorney may provide it to other law enforcement agencies.

Councilman Zucchet began by addressing Ms. Shipione's allegations, then provided his experiences with bond disclosure practices.

Diann Shipione allegations. Councilman Zucchet explained that he was elected to the City Council in November of 2002 and took office in the first week of December, 2002. Councilman Zucchet explained that he has been in office for about a year and a half and has received about a dozen communications from Ms. Shipione, including letters, email, testimony, etc. He recalls reviewing these communications, but does not recall specific ones. He did not specifically recall Diann Shipione's December 31, 2002 letter.

Councilman Zucchet explained that his general recollection of Ms. Shipione is that she spends her time condemning the policies of her fellow Board members and the City Council regarding retirement issues. Her main theme is pension underfunding. Councilman Zucchet stated that he has never met Ms. Shipione, although he may have seen her in an elevator once. All he knows of her comes from her communications, and her inflammatory rhetoric and accusations and personal attacks have made him take her issues less seriously.

Councilman Zucchet stated that he has not asked the City Manager or staff about Ms. Shipione's allegations. He views pension underfunding as a policy issue, and noted that Ms. Shipione obviously disagrees with that policy. Many City Council members disagree with it as well, and Councilman Zucchet believes that it is necessary for the City to phase out the underfunding in a way that is palatable to the General Fund, which cannot cure the cumulative underfunding in one fell swoop. He stated this is an issue he faced when he was elected.

While Ms. Shipione is opposed to this approach, Councilman Zucchet believes it is better to phase out the underfunding over time. Because he believes Ms. Shipione's allegations just reflect a policy disagreement, Councilman Zucchet did not feel it necessary to obtain more information regarding those allegations. Councilman Zucchet stated that his first awareness of Ms. Shipione's allegations that the City was "cooking the books" was when he was informed in closed session by Ed Ryan, ,Lamont Ewell, and Michael Uberagua about an issue with disclosure documents.

Conflict of interest issues. Councilman Zucchet also noted that there was an allegation in closed session regarding a conflict of interest that the City Council had in dealing with retirement issues, since the Council members are also beneficiaries of the retirement system. This came up because of the allegations regarding the alleged conflicts of interest the CERS Board members have, because according to that logic, the Council has the same conflict. Les Girard of the City Attorney's office responded to this and advised the Council that the "rule of necessity" means there is no conflict.

Rules Committee Report. Councilman Zucchet stated that he is not a member of the Rules Committee and had not seen the Rules Committee Report, not was he briefed on it. Councilman Zucchet does recall a presentation from the City Auditor regarding pension disclosure, and stated that was periodically briefed on the *Gleason* litigation. Both of these topics were addressed in closed session.

Causes of UAAL increases. Councilman Zucchet did not recall being briefed on the reasons for the growth in the UAAL as a City Council member. The vote on MP II was before Councilman Zucchet was elected, and this is when those briefings occurred. Councilman Zucchet stated that he did learn about this issue from public discussions, but he did not recall being briefed by the City staff or the CERS actuary regarding the causes of the UAAL.

Views of City Staff. Councilman Zucchet stated that he does not have a strong impression of Ed Ryan and does not know him well. He appeared to be a conservative, tight-lipped person. Councilman Zucchet stated that he is predisposed to question the credibility of many people high up in the City bureaucracy because of his experiences at the fire union in dealing with labor issues. Councilman Zucchet stated that he never had any reason to question Mr. Ryan's credibility, although he knows that some people have concerns. Councilman Zucchet did not have an opinion on whether Mr. Ryan was "clever" or "crafty," but noted that Mr. Ryan tended to oppose any spending of money by any elected official for any reason whatsoever. As an example, Councilman Zucchet cited Mr. Ryan's opposition to spending a $10,000 city fund that the Council wanted to spend. Councilman Zucchet stated that his view was that Mr. Ryan was competent, and Councilman Zucchet was surprised at the Voluntary Disclosure. The disclosure did not raise concerns regarding Mr. Ryan's competence right away, but due to the volume of immaterial errors that were found, Councilman Zucchet began to take a different view.

Councilman Zucchet stated that Mr. Uberagua was the opposite of a "hands on" manager and that he seemed in over his head in trying to control the deputy City Manager and the department heads; and noted that the deputies and department heads seemed to be running things. Councilman Zucchet also stated that he observed problems with information being shared among City departments. While this did not affect the quality of the information being presented to the council, it did effect efficiency and coordination. Councilman Zucchet thought that there was a lack of accountability for incompetent managers in some divisions.

Councilman Zucchet stated that Les Girard is a prominent person in the City Attorney's office and that he had no reason to doubt Mr. Girard's credibility. While Councilman Zucchet listens to the City Attorney's Office, he exercises his own judgment regarding that advice and is advised by his own attorney as well. He noted, however, that the City Attorney's office's opinion matters and is worth listening to. Everyone has a bias and he takes their advice with a grain of salt, however.

Bond disclosure issues. Councilman Zucchet stated that he had not seen the Bryan Cave letter before. Because it is privileged, it would only have been distributed at a closed session meeting, and not attached to the 1472, which is public. Councilman Zucchet stated that he had never been briefed on the Council's responsibility for disclosure documents.

Councilman Zucchet explained that the way his office handles bond documents is that once the offering is put on the docket, the backup information is included in binders sent to his office, which happens the Wednesday before the next Tuesday's meeting. His Chief of Staff

allocates items to staff responsible for particular issues. For example, the staffer responsible for fire issues or park issues would receive the bond documents relevant to that area. That person is responsible for researching the issue and talking to other people, and may provide a written or oral briefing to Councilman Zucchet.

The day before the council meeting, Councilman Zucchet reviews the work of the staff member, but probably not to a great degree of detail. Then he attends the Council meeting. For bond issues, the key issue is whether or not a Council member is in favor of the project. For refunding issues, another important issue is where the savings from the refunding are to be allocated. For instance, Councilman Zucchet represents Mission Bay; for a refunding on an issue related to Mission Bay, he wanted the savings to be used to benefit that area.

Regarding disclosure issues specifically, Councilman Zucchet did not recall what specific sub-items were included in a given issue or what would have been voted on. Councilman Zucchet stated that he reviews every document, and if something catches his eye he may raise a question. If not, he is unlikely to recall it. Councilman Zucchet stated that he has not read any document resembling the OS cover to cover. If it was included in a bond offering, he probably thumbed through it, but did not read it in its entirety. He stated that no one on his staff looks at the financial aspects of the disclosure and whether it provides a fair picture of the City's fiscal health.

Councilman Zucchet explained that while there are many sub-items for a given item, there is only one vote, even though all sub-items are reviewed. In the context of a bond offering, the important issue is whether one favors the project or not. For projects that Councilman Zucchet supports, he reviews the bond documents in a general manner and if nothing raises a red flag, he assumes that the staff and disclosure counsel are competent. He does not take their advise blindly, but if there is no reason to doubt them, he puts trust in the City Manager, Auditor, and City Attorney's recommendations on issues that he not trained to completely understand.

Councilman Zucchet stated that even after the footnote errors he has confidence in the City's staff, although he might be more inclined to ask questions and put people on the record regarding specific issues in the future. But even knowing everything he does today, Councilman Zucchet stated that there is no way he can independently assess the contents of specific footnotes and he would still have to rely on the staff.

Recommendations. Councilman Zucchet stated that he found the Bryan Cave letter very interesting, particularly as it relates to the personal exposure of Council Members ; he thought it would have been good for the Council to have been briefed on this. Councilman Zucchet learned of these issues only due to the problems that occurred. Councilman Zucchet also noted that there were obviously some internal controls problems, but thought that other people would have better recommendations than he could provide. He thought this effort needed to be done, though.

Miscellaneous statements. Councilman Zucchet clarified that he had not made public presentations regarding the pension system in June or July of 2003, and stated that he had made public statements defending the Council after this period. (He had been originally asked if he had made such statements during that period.) He stated that he has been the only Council member to speak out on these issues, and that much of his efforts had been part of the Mayor's reelection campaign in January and February of 2004.

Councilman Zucchet stated that he was never told by the City staff tat the UAAL did not have to do with market performance, but stated that the staff had only addressed this issue in a few closed sessions.

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EXHIBIT 2

NEW ISSUE - BOOK-ENTRY-ONLY

INSURED RATINGS/UNDERLYING RATINGS:
Fitch: AAA/AA+
Moody's: Aaa/Aa3
Standard & Poor's: AAA/AA-
(See "RATINGS" herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount) due with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the interest (and original issue discount) due with respect to the Certificates is exempt from State of California personal income tax. See "TAX EXEMPTION" herein.

$17,425,000

CITY OF SAN DIEGO
2003 Certificates of Participation
(1993 Balboa Park/Mission Bay Park Refunding)
Evidencing Undivided Proportionate Interests in Lease Payments to be Made by the
CITY OF SAN DIEGO
Pursuant to a Lease with the
SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

Dated: Date of Delivery — Due: November, as shown on the inside cover

The City of San Diego (the "City") 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding) (the "Certificates") are being executed and delivered to (i) refund the City's outstanding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program), Series 1993, (ii) acquire a debt service reserve fund surety bond and a financial guaranty insurance policy for the Certificates, and (iii) pay the costs of issuance incurred in connection with the execution and delivery of the Certificates. See "THE REFUNDING PLAN" herein. The Certificates represent undivided proportionate interests of the Owners in the lease payments (the "Lease Payments") to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"), under the Facilities Lease Agreement, dated as of June 1, 2003, by and between the City and the Corporation (the "Lease Agreement") pursuant to which the City will lease the North Torrey Pines Golf Course and the Balboa Park House of Charm (collectively, the "Site") from the Corporation. See "DESCRIPTION OF THE SITE" herein.

Interest represented by the Certificates is payable semiannually on May 1 and November 1 of each year, commencing on November 1, 2003. The Certificates will be executed and delivered in the principal amount of $5,000 and any integral multiple thereof. See "THE CERTIFICATES – General" herein. The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal, premium, if any, and interest payments due with respect to the Certificates are payable directly to DTC by Wells Fargo Bank, National Association, as Trustee. Upon receipt of payments of principal, premium, if any, and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See APPENDIX G — "DTC BOOK-ENTRY SYSTEM" herein.

The Certificates are subject to extraordinary and optional prepayment prior to maturity, as described herein. See "THE CERTIFICATES – Prepayment" herein.

THE CERTIFICATES DO NOT CONSTITUTE AN OBLIGATION OF THE CORPORATION OR THE CITY FOR WHICH THE CORPORATION OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CORPORATION OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE 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 CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CORPORATION, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Payment of the principal of and interest represented by the Certificates when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation, simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" herein.

Ambac

The purchase of the Certificates involves certain risks which should be considered by investors. See "RISK FACTORS" for a discussion of certain risk factors that should be considered in addition to the other matters set forth herein.

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

MATURITY SCHEDULE
(See Inside Cover Page)

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriter, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and for the Corporation by Foley & Lardner, San Diego, California. It is anticipated that the Certificates will be available in book-entry form for delivery to DTC in New York, New York, on or about June 17, 2003.

CITIGROUP

Dated: May 29, 2003

$17,425,000
CITY OF SAN DIEGO
2003 Certificates of Participation
(1993 Balboa Park/Mission Bay Park Refunding)
Evidencing Undivided Proportionate Interests in Lease Payments to be Made by the
CITY OF SAN DIEGO
Pursuant to a Lease with the
SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

Maturity Schedule
$17,425,000 Serial Certificates

Maturity (November 1)	*Principal Amount*	*Interest Rate*	*Price/Yield*
2003	$ 485,000	1.00%	100%
2004	1,230,000	1.50	1.00
2005	1,710,000	1.60	1.15
2006	1,730,000	1.60	1.35
2007	1,780,000	4.00	1.85
2008	1,835,000	2.00	100
2009	460,000	2.30	100
2010	470,000	2.70	2.75
2011	485,000	3.00	100
2012	495,000	3.00	3.10
2013	510,000	3.20	3.25
2014	530,000	3.30	3.40
2015	545,000	3.40	3.50
2016	565,000	3.60	3.65
2017	585,000	3.60	3.70
2018	605,000	3.70	3.80
2019	630,000	3.875	3.95
2020	655,000	3.875	4.00
2021	680,000	4.00	4.15
2022	705,000	4.00	4.20
2023	735,000	4.00	4.25

CITY OF SAN DIEGO, CALIFORNIA

DICK MURPHY, Mayor

CITY COUNCIL

SCOTT PETERS
District 1

MICHAEL ZUCCHET
District 2

TONI ATKINS
District 3

CHARLES LEWIS,
District 4

BRIAN MAIENSCHEIN
District 5

DONNA FRYE
District 6

JIM MADAFFER
District 7

RALPH INZUNZA Deputy Mayor
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

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth
A Professional Corporation
Newport Beach, California

Financial Advisor

Public Resources Advisory Group
New York, New York

Trustee

Wells Fargo Bank, National Association
Los Angeles, California

Escrow Bank

BNY Western Trust Company
Los Angeles, California

Verification Agent

McGladrey & Pullen, LLP
Minneapolis, Minnesota

No dealer, broker, salesperson or other person has been authorized by the City or the Corporation to give any information or to make any representations in connection with the offer or sale of the Certificates 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 Corporation. 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 Certificates 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 Certificates. 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.

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions "CITY FINANCIAL INFORMATION."

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement. In evaluating such statements, potential investors should specifically consider the various factors which could cause actual events or results to differ materially from those indicated by such forward-looking statements.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES 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 CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS 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 UNDERWRITER.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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$17,425,000
CITY OF SAN DIEGO
2003 Certificates of Participation
(1993 Balboa Park/Mission Bay Park Refunding)

Evidencing Proportionate Interests in Lease Payments to be Made by the
CITY OF SAN DIEGO
Pursuant to a Lease with the
SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates 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. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms in APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the execution and delivery of the City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding) (the "Certificates") in an aggregate principal amount of $17,425,000. The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2003 (the "Trust Agreement"), by and among the City of San Diego (the "City"), the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Certificates represent proportionate undivided interests of the registered owners thereof (the "Owners") in the Lease Payments to be made by the City to the Corporation under that certain Facilities Lease Agreement, dated as of June 1, 2003 (the "Lease Agreement"), by and between the Corporation, as lessor, and the City, as lessee. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES — Lease Payments" herein. The Certificates are being delivered to (i) refund the City's outstanding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program), Series 1993 (the "Prior Certificates"); (ii) acquire a debt service reserve fund surety bond and a financial guaranty insurance policy for the Certificates; and (iii) pay the costs of issuance incurred in connection with the execution and delivery of the Certificates. See "THE REFUNDING PLAN" and "DESCRIPTION OF THE SITE" herein.

Security and Sources of Payment for the Certificates

The Certificates are being executed and delivered pursuant to the Trust Agreement. The City will lease certain real property and improvements thereon at various locations in the City (collectively, the "Site") to the Corporation pursuant to a Site Lease between the City as lessor, and the Corporation, as lessee, dated as of June 1, 2003 (the "Site Lease"). Under the Lease Agreement, the Corporation will lease the Site back to the City. The City is required under the Lease Agreement to pay Lease Payments for the use and possession of the Site, as further described under the caption "DESCRIPTION OF THE SITE" herein. The City is also required to pay any taxes and assessments and the cost of maintenance and repair of the Site.

Pursuant to an Assignment Agreement, dated as of June 1, 2003 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the

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Owners, substantially all of its rights under the Lease Agreement, including its rights to receive and collect Lease Payments and prepayments from the City under the Lease Agreement and rights as may be necessary to enforce payment of Lease Payments and prepayments. All rights assigned by the Corporation pursuant to the Assignment Agreement will be administered by the Trustee in accordance with the provisions of the Trust Agreement for the equal and proportionate benefit of all Owners.

The Certificates evidence proportionate undivided interests in the right to receive Lease Payments and prepayments thereof to be made by the City to the Corporation under the Lease Agreement. The Lease Payments are designed to pay, when due, the principal and interest with respect to the Certificates. The City has covenanted in the Lease Agreement that it will take such action as may be necessary to include the Lease Payments and other payments due under the Lease Agreement in its annual budgets and to make the necessary annual appropriations therefor. The City's obligation to make Lease Payments is subject to complete or partial abatement in the event of the taking of, damage to or loss of use and possession of all or a portion of the Site. See "RISK FACTORS — Abatement" herein.

The obligation of the City to make Lease Payments does not constitute 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 Certificates nor the obligation of the City to make Lease Payments constitutes an indebtedness of the Corporation, the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Certificate Insurance

Payment of the principal of and interest represented by the Certificates when due will be insured by a financial guaranty insurance policy (the "Policy") to be issued by Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation (the "Insurer") simultaneously with the delivery of the Certificates. See "CERTIFICATE INSURANCE" herein.

The Certificates

Interest represented by the Certificates is payable semiannually on May 1 and November 1 of each year, commencing on November 1, 2003 (each an "Interest Payment Date"). See "THE CERTIFICATES — General" herein. The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be executed and delivered in the principal amount of $5,000 and integral multiples thereof. Principal, premium, if any, and interest payments due with respect to the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal, premium, if any, and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See "THE CERTIFICATES — General" and APPENDIX G — "DTC BOOK-ENTRY SYSTEM" herein.

Prepayment

The Certificates are subject to extraordinary and optional prepayment prior to maturity, as described herein. See "THE CERTIFICATES — Prepayment" herein.

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the

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interest (and original issue discount) due with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the interest (and original issue discount) due with respect to the Certificates is exempt from State of California personal income tax. See "TAX EXEMPTION" herein.

Continuing Disclosure

The City has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with the Rule. See "CONTINUING DISCLOSURE" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made. The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule.

Professionals Involved in the Offering

Wells Fargo Bank, National Association, Los Angeles, California, will act as Trustee with respect to the Certificates. Public Resources Advisory Group, New York, New York will act as financial advisor to the City. The Certificates will be delivered subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney and for the Corporation by Foley & Lardner, San Diego, California. The City's financial statements for the fiscal year ended June 30, 2002 included as Appendix B hereto have been audited by Calderon, Jahum & Osborn, An Accountancy Corporation, San Diego, California (the "Auditor"). See APPENDIX B — "THE CITY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2002" herein. The City's financial statements are public documents and are included within this Official Statement with the prior approval of the Auditor. However, the Auditor has not performed any post-audit of the financial condition of the City.

Certificate Owners' Risks

Certain events could affect the ability of the City to make the Lease Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Certificates.

Miscellaneous

It is anticipated that the Certificates in book-entry form will be available for delivery to DTC on or about June 17, 2003 (the "Delivery Date").

The description herein of the Trust Agreement, the Lease Agreement, the Site Lease, the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. Copies of the documents are on file and available for inspection at the offices of the Trustee at 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017, Attention: Corporate Trust Services.

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All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given such terms in APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

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

The presentation of information in APPENDIX A — "THE CITY OF SAN DIEGO," including tables of receipt of revenues, is intended to show recent historical information and, except for the budget for fiscal years 2002-03 and 2003-04, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

THE REFUNDING PLAN

The Certificates are being executed and delivered to provide for the refunding of the City's lease payment obligations relating to the Prior Certificates. The proceeds of the Prior Certificates financed improvements to the City's Balboa Park and Mission Bay Park pursuant to the capital improvements program contained in the City's Master Plans for such parks. These improvements included: Balboa Park Safety Lighting and improvements to Balboa Park facilities, including at the Federal Building, House of Charm & Arcades, municipal gym, Japanese Garden, Natural History Museum, Starlight Bowl, Shoreline Reclamation at Mission Bay Park, and other miscellaneous improvements. A portion of the proceeds of the Certificates will be used to establish an irrevocable escrow (the "Escrow Fund") to be held by BNY Western Trust Company, as escrow bank (the "Escrow Bank") pursuant to an Escrow Agreement dated as of June 1, 2003 by and among the Escrow Bank, the City and the Corporation. Moneys in the Escrow Fund will be invested pursuant to instructions of the City. Moneys on deposit in the Escrow Fund will be held as cash or invested solely in non-callable, direct general obligations of 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) (the "Escrowed Federal Securities"). The cash and Escrowed Federal Securities, and the interest accrued with respect thereto, will be held by the Escrow Bank on behalf of the City and for the benefit of the Owners and applied to redeem the outstanding Prior Certificates in full on November 1, 2003, at a redemption price of one hundred one percent (101%) of the principal amount thereof, plus accrued interest. The amounts on deposit in the Escrow Fund shall secure and provide funds to pay or prepay all rental payments to become due under the Lease Agreement dated as of November 1, 1993 (the "1993 Lease") by and between the City and the Corporation. The Escrow Bank, as agent of the City, is irrevocably committed to pay base rental payments under the 1993 Lease as due on and prior to November 1, 2003, and to cause prepayment of the remaining rental payments, including the prepayment premium applicable thereto on November 1, 2003. Upon the establishment of the Escrow Fund and deposit of the cash and Escrowed Federal Securities as described above, the lien of the trust agreement pursuant to which the Prior Certificates were executed and delivered and the proceedings pursuant to which the Prior Certificates were authorized, executed and delivered will cease, terminate and become void with respect to the Prior Certificates, except for the rights of the owners of the Prior Certificates to payments from the Escrow Fund. Upon the delivery of the Certificates, McGladrey & Pullen, LLP, Minneapolis, Minnesota, will deliver a report verifying the sufficiency of the moneys deposited in the Escrow Fund. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

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DESCRIPTION OF THE SITE

The Site

The Site consists of the North Course of the Torrey Pines Municipal Golf Course (the "Golf Course Portion") and the House of Charm (the "House of Charm Portion") in Balboa Park.

Torrey Pines - North Course. Torrey Pines Municipal Golf Course facility consists of two regulation championship eighteen hole golf courses, is owned by the City and is operated by the Park and Recreation Department. It is regarded as one of the premiere courses in Southern California and is the site of an annual Professional Golf Association tournament. Torrey Pines consists of the North Course and the South Course, both of which are situated on a bluff overlooking the Pacific Ocean.

Only the North Course of Torrey Pines is subject to the Lease Agreement. The North Course is a par 72 and plays at approximately 6,647 yards at its championship tees. The Lease Agreement does not include other facilities related to the golf course, including the bar/restaurant, pro shop or driving range. The City reports that, in 2002, 175,000 rounds were played on the North Course and South Course combined.

Lease Payments attributable to the North Course are scheduled over a six year period. This portion of the Lease Payments has a principal component of $6,680,000. **Pursuant to the terms of the Lease Agreement, the Golf Course Portion of the Site is released from the Lease Agreement after November 1, 2008.**

House of Charm. The other property that is the subject of the Lease Agreement is the House of Charm. This facility is located adjacent to one of the two main entrances to Balboa Park and consists of approximately 75,000 square feet of building area. The facility was substantially reconstructed with the proceeds of the 1993 Certificates. This portion of the Lease Payments has a principal component of $10,745,000. The lease term is 21 years. The House of Charm is occupied by three nonprofit corporations pursuant to long-term leases with the City for certain charitable purposes. The tenants are responsible for operation and maintenance of the House of Charm, but do not pay rent. They are The San Diego Art Institute, Mingei International, Inc. and Old Globe Theatre, Inc. The leases are subordinate to the Lease Agreement.

Release/Substitution

The Site is subject to change in whole or in part from time to time under the circumstances permitted in the Lease Agreement. As described above, pursuant to the terms of the Lease Agreement, the Golf Course Portion is released from the Lease Agreement after November 1, 2008. See "RISK FACTORS — Release or Substitution of Site."

ESTIMATED SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of Certificate proceeds:

Sources of Funds	
Par Amount of Certificates	$ 17,425,000.00
Net Original Issue Premium	93,232.45
Prior Certificates Proceeds	2,053,862.75
Total Sources	$ 19,572,095.20
Uses of Funds	
Escrow Fund	$ 19,089,418.23
Underwriter's Discount	94,645.46
Costs of Issuance[1]	388,031.51
Total Uses	$ 19,572,095.20

[1] Includes fees of Special Counsel, Trustee, Financial Advisor, rating agency and other legal fees, costs of printing, and the premium for the Policy and Surety Bond.

THE CERTIFICATES

General

The Certificates will be executed and delivered in the form of fully registered Certificates in principal amounts of $5,000 each or any integral multiple thereof. The Certificates will be dated their date of delivery and mature on May 1 in the years set forth on the inside cover page hereof. Each Certificate will be payable with respect to interest on May 1 and November 1 of each year, commencing on November 1, 2003 at the respective rates of interest set forth on the inside front cover page hereof.

The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal, premium, if any, and interest payments due with respect to the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal, premium, if any, and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See APPENDIX G — "DTC BOOK-ENTRY SYSTEM" herein.

Prepayment

Extraordinary Prepayment. The Certificates are subject to prepayment, without premium, prior to their respective maturity dates on any date, in whole or in part, from Net Proceeds which the Trustee transfers to the Prepayment Fund as provided in the Lease Agreement at least 45 days prior to the date fixed for prepayment, at a prepayment price equal to the principal amount thereof together with the accrued interest to the date fixed for prepayment.

Optional Prepayment. The Certificates maturing on or after November 1, 2014 are subject to prepayment prior to maturity in whole or in part on any date on or after November 1, 2013 at the option of the City, in the event the City exercises its option under the Lease Agreement to prepay all or a portion of the principal component of the Lease Payments (in integral multiples of $5,000), at the prepayment price equal to the principal component to be prepaid, plus accrued interest to the date fixed for prepayment, without premium.

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Prepayment Procedures

Whenever provision is made for the optional prepayment of Certificates and less than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for optional prepayment from among maturities selected by the City and by lot within any maturity. For extraordinary prepayment of Certificates, the Trustee will select Certificates for prepayment pro rata among maturities and by lot within any maturity.

Notice of prepayment will be mailed by first-class mail, postage prepaid, not less than 30 nor more than 60 days prior to the prepayment date to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, and will be sent by first class mail or delivery service, postage prepaid, to the Municipal Securities Depositories (as defined in the Trust Agreement) and to the Information Services (as defined in the Trust Agreement) which the City will designate to the Trustee. Neither failure to receive such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the prepayment of such Certificates. Such notice will specify: (a) the prepayment date, (b) the prepayment price, (c) if less than all of the Outstanding Certificates are to be prepaid, the Certificate numbers (and in the case of partial prepayment, the respective principal amounts), (d) the CUSIP numbers of the Certificates to be prepaid, (e) the place or places where the prepayment will be made, (f) the original date of execution and delivery of the Certificates, (g) any other descriptive information regarding the Certificates needed to identify accurately the Certificates being prepaid. Such notice will further state that on the specified date there will become due and payable upon each Certificate to be prepaid, the portion of the principal amount of such Certificate to be prepaid, together with interest accrued to said date and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto will cease to accrue and be payable.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

So long as DTC is the registered Owner of the Certificates, all such notices will be provided to DTC as the Owner, and not to any beneficial owner of the Certificates. None of the City, the Corporation or the Trustee is responsible for providing notice to the beneficial owners of the Certificates, which is the responsibility of the DTC Participants. See APPENDIX G — "DTC BOOK-ENTRY SYSTEM" herein.

Notice having been given to the Owners of any Certificates being prepaid, and the moneys for the prepayment (including the interest to the applicable date of prepayment), having been set aside in the Prepayment Fund, the Certificates will become due and payable on the date of prepayment, and upon presentation and surrender thereof at the Principal Office of the Trustee such Certificates will be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to the date of prepayment.

If, on the date of prepayment moneys for the prepayment of all the Certificates to be prepaid, together with interest to the date of prepayment, are held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof has been given as described above, then, from and after the date of prepayment, interest with respect to the Certificates to be prepaid will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates will be held in trust for the account of the Owners of the Certificates so to be prepaid, without liability for interest thereon.

Partial Prepayment

Upon surrender by the Owner of a Certificate for partial prepayment at the Principal Office of the Trustee, payment of such partial prepayment of the principal amount of a Certificate will be paid to such Owner. Upon surrender of any Certificate prepaid in part only, the Trustee will execute and deliver to the registered Owner thereof, at the expense of the City, a new Certificate or Certificates which shall be of authorized denominations equal to the unprepaid portion of the Certificate surrendered and of the same tenor and maturity. Such partial prepayment will be valid upon payment of the amount thereby required to be paid to such Owner, and the City, the Corporation and the Trustee will be released and discharged from all liability to the extent of such payment.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Neither the Certificates nor the obligation of the City to make Lease Payments constitutes an obligation of the City for which the City is obligated to levy or pledge, or for which the City has levied or pledged, any form of taxation. Neither the Certificates nor the obligation of the City to make Lease Payments constitutes an indebtedness of the Corporation, the City, the State of California or any of its political subdivisions within the meaning of any constitutional limitation or violates any statutory debt limitation or restriction.

General

Each Certificate represents a proportionate undivided interest in the Lease Payments and prepayments to be made by the City to the Trustee under the Lease Agreement. The City is obligated to pay Lease Payments from any source of legally available funds, and has covenanted in the Lease Agreement to include all Lease Payments coming due in its annual budgets and to make the necessary annual appropriations therefor. The Corporation, pursuant to the Assignment Agreement, has assigned all of its rights under the Lease Agreement (excepting certain rights as specified therein), including the right to receive Lease Payments and prepayments, to the Trustee for the benefit of the Owners. By the twenty-third (23rd) day of each April and October (or, if such day is not a Business Day, the next succeeding Business Day), the City must pay to the Trustee a Lease Payment (to the extent required under the Lease Agreement) which is expected to equal the amount necessary to pay the principal and interest with respect to the Certificates on the next succeeding Interest Payment Date.

The City's obligation to make Lease Payments will be abated in whole or in part to the extent of substantial interference with the use and possession of the Site arising from damage, destruction, title defect or taking by eminent domain or condemnation of the Site. Following November 1, 2008, the Site will not include the North Torrey Pines Golf Course. The nonpayment of Lease Payments following an abatement would not constitute a default under the Lease Agreement and the Trustee is not entitled in such event to pursue remedies against the City. See "RISK FACTORS — Abatement" herein.

Under the Lease Agreement, the City agrees to pay certain taxes, assessments, utility charges, and insurance premiums charged with respect to the Site and the Certificates and fees and expenses of the Trustee. The City is responsible for repair and maintenance of the Site during the term of the Lease Agreement. The City may at its own expense in good faith contest such taxes, assessments and utility and other charges if certain requirements set forth in the Lease Agreement are satisfied, including obtaining an opinion of counsel that the Site will not be subjected to loss or forfeiture.

Should the City default under the Lease Agreement, the Trustee, as assignee of the Corporation, may terminate the Lease Agreement and re-lease the Site or may retain the Lease Agreement and hold the City liable for all Lease Payments thereunder on an annual basis. Under no circumstances will the Trustee have the right to accelerate Lease Payments. The exercise of the remedies provided to the Trustee is subject to various

practical constraints and limitations on the enforcement of remedies against public agencies. See "RISK FACTORS — Default" herein.

Lease Payments

Subject to the provisions of the Lease Agreement regarding prepayment of Lease Payments (see the provisions relating to prepayment under the caption "THE CERTIFICATES" above), the City agrees to pay to the Corporation, its successors and assigns, the Lease Payments as annual rental for the use and possession of the Site. The Lease Payments are due and payable on April 23 and October 23 of each year (or, if such day is not a Business Day, the next succeeding Business Day) (each, a "Lease Payment Date").

Any monies held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease Agreement and other amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) shall be credited to the payment of Lease Payments due and payable on such Lease Payment Date.

The Trust Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on May 1 and November 1 of each year, commencing November 1, 2003, the Trustee will apply such amounts in the Lease Payment Fund as are necessary to make interest and principal payments, respectively, with respect to the Certificates as the same shall become due and payable, in the amounts specified in the Lease Agreement.

Reserve Fund

A Reserve Fund is established by the Trust Agreement which is to be maintained in an amount equal to the least of (i) maximum aggregate annual Lease Payments payable under the Lease Agreement in any Certificate Year (exclusive of Lease Payments attributable to Certificates that have been defeased), (ii) 125% of the average annual aggregate Lease Payments (in any Certificate Year) then payable under the Lease Agreement (exclusive of Lease Payments attributable to Certificates that have been defeased), or (iii) 10% of the face amount of the Certificates and/or the Additional Certificates, as applicable (less original issue discount if in excess of two percent of the stated payment amount at maturity) (the "Reserve Requirement"). The full amount available in the Reserve Fund may be used by the Trustee in the event of abatement or a failure by the City to make Lease Payments when due. The Reserve Fund will initially be funded with a debt service reserve fund surety bond (the "Surety Bond") issued by the Insurer in an amount equal to the Reserve Requirement. See "CERTIFICATE INSURANCE — The Surety Bond" herein.

Additional Payments

Under the Lease Agreement, the City is to pay such amounts ("Additional Payments") as are required for the payment of all administrative costs of the Corporation relating to the Site or the Certificates, including, without limitation, all expenses, compensation and indemnification of the Trustee payable by the City under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its leasehold interest in the Site or undertaking of the transactions contemplated in the Lease Agreement or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, any and all amounts due to the Insurer (pursuant to the reserve fund surety bond or otherwise) and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to comply with the terms of the Certificates or of the Trust Agreement, including premiums on insurance required to be maintained by the Lease Agreement or to indemnify the Corporation and its officers and directors.

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Insurance

Pursuant to the Lease Agreement, the City will obtain a CLTA leasehold title insurance policy (with Western Regional Exceptions) on the Site in an amount equal to the aggregate principal component of unpaid Lease Payments. The Lease Agreement also requires that the City maintain casualty insurance on the Site in amount equal to replacement value and, upon delivery of the Site to it, rental interruption insurance to insure against loss of Lease Payments caused by loss or damage to the Site covered under the City's casualty insurance. The rental interruption insurance is to be in an amount not less than the maximum remaining scheduled Lease Payments in any future 24 month period. The City also is obligated under the Lease Agreement to obtain a standard comprehensive general public liability and property damage insurance policy or policies and workers' compensation insurance. See "CITY FINANCIAL INFORMATION — Insurance" and APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — INSURANCE" herein.

The proceeds of any rental interruption insurance will be deposited to (i) the Reserve Fund to make up any deficiency therein and (ii) in the Lease Payment Fund to be credited towards the payment of the Lease Payments in the order in which such Lease Payments become due and payable. The Lease Agreement requires the City to apply the Net Proceeds of any casualty insurance award either to replace or repair the Site or to prepay Certificates if certain certifications with respect to the adequacy of the Net Proceeds to make repairs, and the timing thereof, cannot be made. See APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS." The amount of Lease Payments will be abated and Lease Payments due under the Lease Agreement may be reduced during any period in which by reason of damage, destruction, title defect or taking by eminent domain or condemnation there is substantial interference with the City's use and possession of all or part of the Site. See "RISK FACTORS — Abatement" herein.

LEASE PAYMENT SCHEDULE

Lease Payments are required to be made by the City under the Lease Agreement on or before April 23 and October 23 of each year (or, if such day is not a Business Day, the next succeeding Business Day) for the use and possession of the Site for the period commencing as of the date of delivery of the Certificates and terminating on November 1, 2023, or a later date if such date is extended as provided in the Lease Agreement. The Interest Payment Dates with respect to the Certificates are May 1 and November 1, commencing November 1, 2003. The schedule below sets forth the semiannual Lease Payments.

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Lease Payment Date	*Principal*	*Interest*	*Annual Total*
10/23/03	$ 485,000.00	$ 182,250.70	$ 667,250.70
04/23/04		242,389.38	
10/23/04	1,230,000.00	242,389.38	1,714,778.76
04/23/05		233,164.38	
10/23/05	1,710,000.00	233,164.38	2,176,328.76
04/23/06		219,484.38	
10/23/06	1,730,000.00	219,484.38	2,168,968.76
04/23/07		205,644.38	
10/23/07	1,780,000.00	205,644.38	2,191,288.76
04/23/08		170,044.38	
10/23/08†	1,835,000.00	170,044.38	2,175,088.76
04/23/09		151,694.38	
10/23/09	460,000.00	151,694.38	763,388.76
04/23/10		146,404.38	
10/23/10	470,000.00	146,404.38	762,118.76
04/23/11		140,059.38	
10/23/11	485,000.00	140,059.38	765,118.76
04/23/12		132,784.38	
10/23/12	495,000.00	132,784.38	760,568.76
04/23/13		125,359.38	
10/23/13	510,000.00	125,359.38	760,718.76
04/23/14		117,199.38	
10/23/14	530,000.00	117,199.38	764,398.76
04/23/15		108,454.38	
10/23/15	545,000.00	108,454.38	761,908.76
04/23/16		99,189.38	
10/23/16	565,000.00	99,189.38	763,378.76
04/23/17		89,019.38	
10/23/17	585,000.00	89,019.38	763,038.76
04/23/18		78,489.38	
10/23/18	605,000.00	78,489.38	761,978.76
04/23/19		67,296.88	
10/23/19	630,000.00	67,296.88	764,593.76
04/23/20		55,090.63	
10/23/20	655,000.00	55,090.63	765,181.26
04/23/21		42,400.00	
10/23/21	680,000.00	42,400.00	764,800.00
04/23/22		28,800.00	
10/23/22	705,000.00	28,800.00	762,600.00
04/23/23		14,700.00	
10/23/23	735,000.00	14,700.00	764,400.00
Total	$ 17,425,00.00	$ 5,117,587.12	$ 22,542,587.12

† Lease Agreement terminates with respect to the North Torrey Pines Golf Course.

CERTIFICATE INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City. No representation is made herein by the City as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix E for a specimen of the Insurer's Financial Guaranty Insurance Policy.

Payment Pursuant to Financial Guaranty Insurance Policy

The Insurer, Ambac Assurance Corporation, has made a commitment to issue the Financial Guaranty Insurance Policy relating to the Certificates effective as of the date of issuance of the Certificates. Under the terms of the Financial Guaranty Insurance Policy, the Insurer will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest with respect to the Certificates 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 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 Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be cancelled by the Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory prepayment and insufficient funds are available for prepayment of all outstanding Certificates, the Insurer will remain obligated to pay principal of and interest with respect to outstanding Certificates on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal with respect to the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest with respect to a Certificate which has become Due for Payment and which is made to a beneficial owner of such Certificate by or on behalf of the City has been deemed preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such beneficial owner will be entitled to payment from the 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 Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund prepayment) or as a result of any other advancement of maturity.

2. payment of any prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee or payment agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of the 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 beneficial owner entitlement to interest payments and an appropriate assignment of the beneficial owner's right to payment to the Insurer.

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Upon payment of the insurance benefits, the Insurer will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Certificate and will be fully subrogated to the surrendering beneficial owner's rights to payment.

In the event that the Insurer were to become insolvent, any claims arising under the 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

The Insurer 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 $6,115,000,000 (unaudited) and statutory capital of approximately $3,703,000,000 (unaudited) as of December 31, 2002. Statutory capital consists of the Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the 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 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 Certificates.

The Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Insurer and presented under the caption "CERTIFICATE INSURANCE."

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

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

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Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Restated Official Statement:

1. The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;

2. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;

3. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;

4. The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;

5. The Company's Current Report on From 8-K dated March 19, 2003 and filed on March 26, 2003;

6. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;

7. The Company Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003; and

8. The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

The Surety Bond

The following information has been furnished by the Insurer for use in this Official Statement.

The Trust Agreement requires the establishment of a Reserve Fund in an amount equal to the Reserve Requirement. The Trust Agreement authorizes the City to obtain a surety bond in the place of fully funding the Reserve Fund. Accordingly, application has been made to the Insurer for the issuance of the Surety Bond for the purpose of funding the Reserve Fund. The Certificates will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Certificates. The Surety Bond provides that upon the later of (i) one (1) day after receipt by the Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest with respect to the Certificates when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to the Insurer, the Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Certificates, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Insurer under the terms of the Surety Bond and the City is required to reimburse the Insurer for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not

exceeding the Surety Bond Coverage. The reimbursement obligation of the City is subordinate to the City's obligations to pay Lease Payments.

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

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

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

None of the City, the Authority nor the Underwriter makes any representation as to the ability of the Insurer to meet its obligations under the Financial Guaranty Insurance Policy or the Surety Bond.

CITY FINANCIAL INFORMATION

General information about the City and the City's financial information is set forth in APPENDIX A — "THE CITY OF SAN DIEGO."

The City's Financial Statements along with accompanying notes and opinions from the Independent Auditor for the Fiscal Year ended June 30, 2002, are set forth in APPENDIX B — "THE CITY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2002" herein. The City's financial statements are public documents and are included within this Official Statement with the prior approval the Auditor, but the Auditor has not performed any post-audit of the financial condition of the City.

LIMITATIONS ON TAXES AND APPROPRIATIONS

There are a number of provisions in the State Constitution that limit the ability of the City to raise and expend tax revenues. For a discussion of such provisions, see APPENDIX A — "THE CITY OF SAN DIEGO — LIMITATIONS ON TAXES AND APPROPRIATIONS."

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

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Abatement

The City's obligation to make Lease Payments is subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest due with respect to the Certificates under certain circumstances related to damage, destruction, condemnation or title defects which cause a substantial interference with the use and occupancy of all or a portion of the Site. See "See APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — AGREEMENT TO LEASE; TERM OF LEASE; LEASE PAYMENTS — Abatement of Lease Payments in the Event of Loss of Use" herein.

Default

Whenever any event of default referred to in the Lease Agreement happens and continues, the Trustee, as the assignee of the Corporation, is authorized under the terms of the Lease Agreement to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything therein or in the Trust Agreement to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN DUE OR PAST DUE TO BE IMMEDIATELY DUE AND PAYABLE. NEITHER THE CORPORATION NOR ITS ASSIGNEE SHALL HAVE ANY RIGHT TO REENTER OR RELET THE SITE EXCEPT FOLLOWING A DEFAULT UNDER THE LEASE AGREEMENT. Following an event of default, at the direction of the Insurer, the Trustee, as the assignee of the Corporation, may elect either to terminate the Lease Agreement and seek to collect damages from the City or to maintain the Lease Agreement in effect and seek to collect the Lease Payments as they become due. The Lease Agreement further provides that so long as an event of default exists under the Lease Agreement, the Corporation, or its assignee, may re-enter the Site for the purpose of taking possession of any portion of the Site and to re-let the Site and, in addition, at its option, with or without such entry to terminate the Lease Agreement as described therein. See APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — LEASE AGREEMENT — Remedies On Default."

No assurance can be given that the Trustee will be able to re-let the Site so as to provide rental income sufficient to pay principal and interest evidenced by the Certificates in a timely manner or that such re-letting will not adversely affect the exclusion of interest with respect thereto from gross income for federal or State income tax purposes. Furthermore, due to the public purposes of the City the Site serves, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect to the Site, or whether due to the respective locations or specialized nature of the Site such repossession and re-letting would be economically or physically feasible. Furthermore, pursuant to the Lease Agreement, the Golf Course Portion of the Site is released from the Lease Agreement after November 1, 2008.

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and the Trustee is not empowered to sell the Site and use the proceeds of such sale to prepay the Certificates or pay debt service with respect thereto. The City will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in California, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Release or Substitution of Site

The City has the right from time to time, with the consent of the Insurer, to add other real property and improvements (subject only to Permitted Encumbrances) or to substitute other real property and improvements (subject only to Permitted Encumbrances) for all or a portion of the Site or to release a portion of the real property and improvements constituting the Site, subject to the conditions precedent to such addition, substitution or release as set forth in the Lease Agreement. Pursuant to the Lease Agreement, the Golf Course

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Portion of the Site is released from the Lease Agreement after November 1, 2008, and after this date the Lease Agreement no longer relates to the Golf Course Portion. The release of the Golf Course Portion of the Site has been pre-approved by the Insurer. See APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — COVENANTS WITH RESPECT TO THE PROPERTY — Substitution or Release of the Site" herein.

In connection with a substitution or release, whether as described above or otherwise, all interests of the Corporation, and the Trustee as its assignee, in the portion of the Site released shall terminate and the Corporation and the Trustee as its assignee shall execute and record with the County Recorder of the County all documents deemed necessary by the City to evidence such termination of interest. Upon satisfaction by the City of the conditions set forth in the Lease Agreement, the Trustee also will execute a Lease Supplement and will not impose on the City any further conditions or prerequisites to the requested addition, substitution or release. The City will cause the Lease Supplement, or another document substantially in the form of the Lease Supplement, to be recorded in the real property records of the County.

All costs and expenses incurred in connection with such addition, substitution or release will be borne by the City. No addition, substitution or release under the Lease Agreement will be, by itself, the basis for any reduction in or abatement of the Lease Payments due from the City thereunder. See APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — COVENANTS WITH RESPECT TO THE PROPERTY — Substitution or Release of the Site" herein.

Not a Pledge of Taxes

The obligation of the City to pay the Lease Payments and Additional Payments does not constitute 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 obligation of the City to pay Lease Payments and Additional Payments does not constitute a debt or indebtedness of the Corporation, the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay Lease Payments and Additional Payments from any source of legally available funds (subject to certain exceptions) and the City has covenanted in the Lease Agreement that, for as long as the Site is available for its use and possession, it will make the necessary annual appropriations within its budget for all Lease Payments and Additional Payments. The City is currently liable on other obligations payable from general revenues, including certificates of participation. See "CITY FINANCIAL INFORMATION — Indebtedness" herein.

Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIIIC and Article XIIID of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIIIC and Article XIIID of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would materially affect its financial condition. However, the City believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Article XIIIC and Article XIIID of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected. Although the City does not currently anticipate that the provisions of Article XIIIC and Article XIIID of the State Constitution would adversely affect its ability to pay the principal of and interest with respect to the Certificates as and when due and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of

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Article XIIIC and Article XIIID of the State Constitution on the City's finances. See "CITY FINANCIAL INFORMATION — Major Revenues" herein.

Additional Obligations of the City

The City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Owners of the Certificates. To the extent that additional obligations are incurred by the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Site, taxes and other governmental charges levied against the Site) are payable from funds lawfully available to the City. In the event that the amounts which the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

Natural and Manmade Disasters

The occurrence of natural disasters, including earthquakes, fires or floods, or manmade disasters such as arson or acts of terrorism, affecting the Site could result in substantial damage to the Site, and could lead to reduced assessed values for such property.

As required by the Alquist-Priolo Earthquake Fault Zoning Act, the State geologist in 1973 initiated a program to delineate the State's earthquake fault zones and to compile and distribute maps of these zones. Earthquake fault zones are delineated along known active faults. Cities and counties affected by the zones must regulate certain development projects with the zones. As of June 1, 1997, 539 official maps of earthquake fault zones have been issued. The City is not among the 97 California cities affected by the earthquake fault zones.

The most dominant source of potential ground motion at the Site is from the Rose Canyon fault. Earthquakes from this source are expected to have a potential for seismic ground shaking with a maximum credible magnitude of 7.0 and a maximum probable magnitude of 6.25. The "maximum credible earthquake" is defined as the maximum earthquake that appears capable of occurring under the presently known tectonic framework, while the "maximum probable earthquake" is the maximum earthquake that is considered likely to occur during a 100-year time interval.

Limitations on Remedies; Bankruptcy

The rights of the owners of the Certificates are subject to the limitations on legal remedies against municipalities 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 Certificates, and enforcement of the City's obligations under the Lease Agreement, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the City, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the

Certificates 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. See "RISK FACTORS — Default" herein.

Economic Conditions in California

Since early 2001, the State has been faced with severe financial challenges, which may continue for several years. The State has experienced an economic recession in 2001 and is currently in a sluggish recovery. The major forces in the State's economic downturn were decline in the high technology, internet and telecommunications sectors, lower demand for exports and large stock market declines. These adverse fiscal and economic factors have resulted in a serious erosion of the State's General Fund tax revenues. The bulk of the revenue declines were from personal income taxes, principally from reduced capital gains realizations and stock option income.

This revenue drop resulted in a shortfall between State revenues and anticipated spending demands for the 2001-02 and 2002-03 fiscal years which at the time that the State's 2002 Budget Act (the "2002-03 Budget") was enacted was an estimated $23.6 billion. The shortfall estimated at the time of the 2002-03 Budget was ultimately closed with a combination of expenditure reductions, revenue enhancements, and one-time budgetary actions, such as fund transfers and loans, expenditure deferrals, bond issuances and other actions. Total revenue receipts reported by the State Controller's Office for the three major revenue sources (personal income tax, sales tax and corporation tax) for the first five months of fiscal year 2002-03 have been below the revenue projections included within the 2002-03 Budget. These reduced revenues have led to the proposed mid-year budget reductions discussed below.

In mid-November 2002, the Legislative Analyst issued a report (the "LAO Report") indicating the State is facing dire fiscal conditions. The LAO Report was prepared to provide the Legislature with a baseline from which budget decisions could be made. The LAO Report updated economic conditions, and revenue and expenditure projections based on more recent actual results since the time of the enactment of the 2002-03 Budget. The LAO Report projected that, absent corrective actions, the State General Fund would have a budget deficit of about $6.1 billion by the end of the 2002-03 fiscal year (compared to the 2002-03 Budget which predicted a reserve balance of $1 billion) and a cumulative budget deficit over $21 billion by the end of the 2003-04 fiscal year. Furthermore, even given accelerating economic growth in 2003 and beyond (which is not assured), unless corrective actions are taken, in the Legislative Analyst's view, there would continue to be a substantial deficit between revenues and expenditures, in a potential range from $12-16 billion annually, for several years after fiscal year 2003-04.

The principal causes of the continuing fiscal difficulty were identified in the LAO Report as (i) the use of so many one-time budget solutions to resolve the shortfall projected at the time of the 2002-03 Budget, without enough emphasis on closing the "structural deficit" between ongoing revenue sources (taxes) and ongoing expenditure commitments, (ii) the likelihood that some of the assumptions in the 2002-03 Budget would not be met, and (iii) a significant downward revision in revenue estimates for the period through June 30, 2004. The LAO Report estimated that items (i) and (ii) above would result in a cumulative $10 billion gap between revenues and expenditures (absent further actions) by the end of the 2003-04 fiscal year, consistent with projections the Legislative Analyst had made in the summer of 2002.

In the summer of 2002, the Governor notified all State agencies to prepare 2003-04 budget proposals for a minimum of 20 percent cut in funding. On November 21, 2002, the Governor announced his call for a special session of the Legislature, which began on December 9, 2002, to address needed budget actions, and he further directed State agencies to take immediate action to reduce any non-critical or non-essential activities by not filling any vacant positions, to cancel, postpone or amend contracts, grants, purchase orders and similar commitments, to eliminate additional non-essential vacant positions, to delay construction or signing of new leases for space, to cancel or postpone non-essential trips, and to generate new proposals for current year program reductions. The Governor stated that he would propose spending reductions, recaptures and other

changes to accomplish savings over the period through June 30, 2004. The Governor also stated that he believed the budget shortfall would be higher than the $21 billion estimated by the LAO Report.

On December 6, 2002, the Governor released his mid-year spending reduction proposals for consideration at the special session of the Legislature with his proposed reductions and adjustments totaling $10.2 billion for fiscal years 2002-03 and 2003-04. On December 18, 2002, the Governor announced that the estimated budget shortfall through June 30, 2004 is $34.8 billion.

On January 10, 2003, the Governor released his proposed budget for fiscal year 2003-04 (the "Governor's Proposed 2003-04 Budget") in which he addressed deficits under the 2002 Budget Act and 2003-04 fiscal year budget shortfalls—a combined $34.6 billion gap between projected revenues and expenditures over the 2002-03 and 2003-04 fiscal years. To close the balance of the $34.6 billion budget gap, the Governor proposed additional measures that are expected to address the estimated $24.4 billion budget shortfall not addressed in the Governor's December 2002 mid-year spending reductions proposals.

The Governor's Proposed 2003-04 Budget proposes restoration of Executive Branch authority to make mid-year adjustments to the budget when revenues fall significantly below budgeted forecasts. The Governor's Proposed 2003-04 Budget contemplates the creation of a special budget reserve for proceeds from extraordinary revenue growth to be used for one-time expenditures.

The LAO, in a report issued on January 15, 2003, contends that the Governor's Proposed 2003-04 Budget overstates both baseline costs and budget program savings in numerous areas of the budget and understates tax revenues. The LAO notes that approximately $8 billion dollars in the difference between the LAO Report November, 2002 projection of a $21.1 billion deficit and the Governor's $34.6 billion deficit prediction is attributable to forecasting differences of revenues and program caseloads that drive expenditures. The balance of the discrepancy between the two agencies projections, according to the LAO, is attributable to definitional differences relating to the baseline used for analyzing expenditure reductions; according to the LAO, the Governor's baseline in some cases reflects additional spending that would be required to achieve the administration's policy goals as well as proposals that have not yet been adopted. The LAO does predict that based on more up-to-date information about revenues and caseload trends and other factors affecting spending, it will update its estimate of the budget shortfall to the $26-plus billion range.

The LAO issued another report on the Governor's Proposed 2003-04 Budget on February 19, 2003 in which it goes into further analysis of the Governor's Proposed 2003-04 Budget and the State's economy. The LAO estimated that the adoption of the Governor's Proposed 2003-04 Budget would result in a positive reserve of about $1.6 billion at the conclusion of 2003-04 and would address the long-term structural imbalance in the State's budget with revenues and expenditures roughly balancing in fiscal year 2004-05. The LAO notes that there are a number of key risk factors that could consume the projected $1.6 billion reserve including a failure to reach agreement on $1.5 billion of revenues from Indian gaming and a reduction in existing federal funding reimbursements. The LAO states that a restoration of California's fiscal health will occur only if the Legislature either (1) adopts the major savings and revenue proposals included in the Governor's Proposed 2003-04 Budget or (2) finds alternative solutions of similar magnitude that are real and largely ongoing in nature. Absent this, the modest positive fiscal balance that the LAO has projected would, in its view, be quickly transformed into a large deficit.

On March 18, 2003, the Governor signed into law legislation passed at the special session of the Legislature regarding mid-year budget costs for fiscal year 2002-03. The legislation approves approximately $3.3 billion of spending reductions and budget adjustments for fiscal year 2002-03 and provides $23 million in savings for fiscal year 2003-04. These reductions and budget adjustments did not have a material impact on the City's General Fund.

On May 14, 2003, the Governor released his May Revision to his proposed budget for fiscal year 2003-04 (the "May Revision to the Proposed 2003-04 Budget") in which he re-addressed deficits under the

2002 Budget Act and 2003-04 fiscal year budget shortfalls. The Governor revised his original estimate of an approximate $34.6 billion budget gap to a $38.2 billion budget gap between projected revenues and expenditures over the 2002-03 and 2003-04 fiscal years. To close the balance of the $38.2 billion budget gap, the Governor proposed new measures to address the additional projected deficit.

The following table compares the measures proposed in the Governor's Proposed 2003-04 Budget and the May Revision to the Proposed 2003-04 Budget which comprises the Governor's overall solution to close the $38.2 billion budget shortfall that he has predicted:

ADDRESSING THE OVERALL $38.2 BILLION GAP
(Dollars in Millions)

	January Budget	*May Revision*	*Percentage of Solution*
Cuts/Savings	$ 20,728.3	$ 18,875.4	49.4%
Realignments	8,154.0	1,732.4	4.5%
Fund Shifts	1,902.7	2,076.3	5.5%
Transfers	2,114.3	1,912.6	5.0%
Loans/Borrowing	1,683.3	2,901.5	7.6%
Deficit Financing	–	10,700.0	28.0%
Total	$ 34,582.7	$ 38,198.2	100.0%

Note: Numbers may not add due to rounding.
Source: Governor's Budget May Revision 2003-04.

The May Revision to the Proposed 2003-04 Budget proposes that the State issue deficit financing bonds based on revenues from a temporary one-half cent sales tax increase to fund the accumulated budget deficit. The sales tax will take effect as of October 1, 2003 and automatically cease as soon as the bonds are paid off. The May Revision to the Proposed 2003-04 Budget reduces the realignment shift to counties from the Governor's original estimates of $8.3 billion to $1.8 billion. The May Revision to the Proposed 2003-04 Budget proposes to fund this reduction with the following tax proposals: (i) increasing personal income tax margins to 10.3% for high-income taxpayers (which according to the Governor is expected to generate approximately $1.56 billion in additional revenues during fiscal year 2003-04), and (ii) increasing the cigarette tax $0.23 per pack in fiscal year 2003-04 and increasing it further in fiscal year 2004-05 to $0.40 per pack (which according to the Governor is expected to generate approximately $267 million in additional revenues during fiscal year 2003-04 and $678 million in additional revenues in 2004-05).

Final action on budget adjustments for fiscal year 2002-03 and enactment of the 2003 Budget Act will occur following negotiations between the Legislature and the Governor over the coming months.

The May Revision to the Proposed 2003-04 Budget eliminates the vehicle license fee backfill to cities and counties in fiscal year 2003-04. As a result of the expected automatic trigger of an increase in the vehicle license fee, the State Controller and the Governor in the May Revision to the Proposed 2003-04 Budget state that Section 10754 of the Revenue and Taxation Code would require the Department of Motor Vehicles and the Department of Housing and Community Development, as appropriate, to reduce the vehicle license fee offsets and increase the vehicle license fees to replace the backfill amount. See APPENDIX A — "THE CITY OF SAN DIEGO — MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION — State Budget Deficit" and "Vehicle License Fee Reduction" for a discussion of the potential impacts of the Governor's Proposed 2003-04 Budget on City revenues and expenditures.

The City cannot predict whether the Legislature will adopt the Governor's Proposed 2003-04 Budget as revised by the May Revision to the Proposed 2003-04 Budget or what actions will be taken in the future by the State Legislature and the Governor to address the State's current or future budget deficits. In particular, the City cannot predict the level of VLF revenues it may expect in future fiscal years, including fiscal year

2003-04. Future State budgets will be affected by national and state economic conditions and other factors over which the City will have no control. To the extent that the State budget process results in reduced revenues or increased expenses for the City, the City will be required to make adjustments to its budget.

THE CORPORATION

The Corporation was organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely for the purpose of rendering assistance to the City by acquiring, constructing, improving, and financing various public facilities for the use, benefit, and enjoyment of the public. The Corporation was formed at the request of the City. Corporate Directors receive no compensation.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest due with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest due with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, interest due with respect to the Certificates 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.

A portion of the proceeds of the Prior Certificates were expended for the purpose of improving certain facilities located on Balboa Park (including the House of Charm) and used by certain nonprofit corporations, including The San Diego Art Institute, Mingei International, Inc., Old Globe Theatre, Inc., House of Hospitality Association, Inc. and San Diego Hall of Champions, Inc. (collectively, the "Nonprofit Corporations"). Bond Counsel has relied on the opinions of counsel to the respective Nonprofit Corporations that each of the Nonprofit Corporations is an organization described in Section 501(c)(3) of the Code and regarding the intended operation of the facilities to be financed by the Certificates as substantially related to the Nonprofit Corporation's charitable purposes under Section 513 of the Code, and other matters. Such opinions are subject to a number of qualifications and limitations. Neither Bond Counsel nor Nonprofit Corporations' counsels can give or has given any opinion or assurance about the future activities of the respective Nonprofit Corporations, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service ("IRS"). Failure of the Nonprofit Corporations to be organized and operated in accordance with IRS's requirements for the maintenance of their respective status as an organization described in Section 501(c)(3) of the Code may result in the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates being included in federal gross income, possibly from the date of the original issuance of the Certificates.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the Certificate before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the owner of a Certificate will increase the owner's basis in the Certificate. In the opinion of Special Counsel original issue discount that accrues to the owner of a Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

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Special Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) due with respect to the Certificates is based upon certain representations of fact and certifications made by the City, the Nonprofit Corporations and others and is subject to the condition that the City and the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of each Lease Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) due with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City and the Corporation have covenanted to comply with all such requirements applicable to each, respectively.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate Owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate Owner realizing a taxable gain when a Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Certificate premium.

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Lease Agreement, and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The Internal Revenue Service (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 Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar securities).

Although Special Counsel has rendered an opinion that the interest (and original issue discount) due with respect to the Certificates is excluded from gross income for federal income tax purposes provided that the City and the Corporation continue to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest (and original issue discount) with respect to the Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Certificates.

The form of Special Counsel's opinion with respect to the Certificates is attached hereto as Appendix D.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, sale, execution and delivery of the Certificates are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. A complete copy of the proposed form of opinion of Special Counsel is contained

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in Appendix D hereto. Special Counsel has not undertaken any responsibility to the Owners for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Certificates and expresses no opinion relating thereto. Certain legal matters will be passed upon for the City by the City Attorney and for the Corporation by Foley & Lardner, San Diego, California. Compensation of Special Counsel and the Financial Advisor is contingent upon the execution and delivery of the Certificates.

LITIGATION

To the City's or the Corporation's knowledge, there is no litigation pending or threatened in any way to restrain or enjoin the execution or delivery of the Certificates, to contest the validity of the Certificates, the Indenture, the Site Lease, the Lease Agreement, or any proceeding of the City or the Corporation with respect thereto. To the knowledge of the Corporation and its counsel, there are no lawsuits or claims pending against the Corporation which will materially affect the Corporation's finances so as to impair its ability to pay the principal of, premium (if any) and interest with respect to the Certificates when due. 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 expected insurance and self-insurance reserves expected to be available to pay liability arising from such actions, the City does not expect any or all such claims to impair its ability to make Lease Payments when due. See APPENDIX A — "THE CITY OF SAN DIEGO – LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUNDS OF THE CITY" for a discussion of pending Litigation against the City.

RATINGS

It is expected that Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Group ("S&P") have assigned ratings of "Aaa," "AAA" and "AAA," respectively, to the Certificates, with the understanding that, upon delivery of the Certificates, a policy insuring the payment when due of principal of and interest with respect to the Certificates will be issued by the Insurer. Fitch, Moody's and S&P have assigned underlying ratings to the Bonds without respect to the issuance of the Financial Guaranty Insurance Policy of "AA+," "Aa3" and "AA-," respectively. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's Corporation, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates were sold to Citigroup Global Markets Inc. (the "Underwriter") on May 29, 2003 following competitive bid. The Certificates are being purchased by the Underwriter for $17,423,586.99 (representing the par amount of the Certificates, plus net original issue premium of $93,232.45, less an underwriter's discount of $94,645.46). The Underwriter intends to offer the Certificates to the public initially at the interest rates and prices set forth on the inside cover page of this Official Statement. Such prices may subsequently change without any requirement of prior notice. The Certificates may be offered and sold to certain dealers at prices lower than the public offering prices.

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FINANCIAL ADVISOR

The City has retained Public Resources Advisory Group, New York, New York, as Financial Advisor for the sale of the Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement"), the City has agreed to provide, or cause to be provided, certain annual financial and operating data, including its audited financial statements and certain of the information of the type set forth under the heading APPENDIX A — "CITY OF SAN DIEGO", by no later than 285 days following the end of each Fiscal Year commencing April 11, 2004, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository").

In addition, the City has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the City to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the 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. These covenants have been made in order to assist the Underwriter in complying with the Rule. 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. For a detailed description of the City's responsibilities under the Disclosure Agreement see APPENDIX F — "FORM OF CONTINUING DISCLOSURE AGREEMENT."

FINANCIAL STATEMENTS OF THE CITY

Included herein as Appendix B are the audited financial statements of the City as of and for the year ended June 30, 2002, together with the report thereon dated November 27, 2002 of Calderon, Jaham & Osborn, An Accountancy Corporation, (the "Auditor"). Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not undertaken to update the audited financial statements of the City or its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 27, 2002.

The Governmental Accounting Standards Board (GASB) published its Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, comptrollers, and financial officers on requirements for financial reporting for all governmental agencies in the United States.

The requirements of Statement No. 34 are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. Governments with total annual revenues (excluding extraordinary items) of $100 million or more (phase 1) were required to apply Statement No. 34 for periods beginning after June 15, 2001. Governments with at least $10 million but less than $100 million in revenues (phase 2) are required to apply Statement No. 34 for periods beginning after June 15, 2002. Governments with less than $10 million in revenues (phase 3) are required to apply Statement No. 34 for

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periods beginning after June 15, 2003. Governments that elect early implementation of Statement No. 34 for periods beginning before June 15, 2000, should also implement GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. If a primary government chooses early implementation of Statement No. 34, all of its component units also should implement this standard early to provide the financial information required for the government-wide financial statements.

Prospective reporting of general infrastructure assets is required at the effective dates of Statement No. 34. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. For phase 1 and phase 2 governments, retroactive reporting is required four years after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980. Phase 3 governments are encouraged to report infrastructure retroactively, but may elect to report general infrastructure prospectively only.

The City has implemented the provisions of Statement No. 34 for the fiscal year ending June 30, 2002.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Certificates, McGladrey & Pullen, LLP, Minneapolis, Minnesota, will deliver a report verifying the mathematical accuracy of certain computations concerning (i) the adequacy of the maturing principal amounts of and interest on the Escrowed Federal Securities to redeem the outstanding Prior Certificates in full on November 1, 2003, as described herein, and (ii) the yield on the Certificates and on such Escrowed Federal Securities considered by Special Counsel in its determination that the portion of Lease Payments designated as and comprising interest and received by owners of the Certificates is excluded from gross income for federal income tax purposes.

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. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the Certificates.

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

CITY OF SAN DIEGO

By: /s/ Patricia T. Frazier
Deputy City Manager

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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 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, with 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 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 during this 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 May 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 shows a moderate overall growth in the five-year period from 1998-1999 to 2002-2003 school years. However, there has been a slight decline in enrollment in the last two school years. The San Diego Unified School District's boundaries include 85% of the City of San Diego's land area.

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

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

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

Source: San Diego Unified School District, Pupil Accounting

Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 2002 averaged 4.4%, up from a rate of 3.3% during calendar year 2001. The City's 2002 unemployment rate was below both the national rate of 5.8% and the State's rate of 6.7%. During 2002, average employment in the City was up by approximately 10,710 from 2001 levels. Preliminary data for April 2003, the latest available data, indicates that the City's unemployment rate was 4.3%. Data for 2001 and 2002 reflect 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 1998 through 2002

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

(1) Subject to future revision.

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

Table 4 provides the California Employment Development Department's estimates of total annual nonagricultural wage and salary employment by major industry in the County from calendar years 1998 through 2002. Annual employment information is not regularly compiled by sector for the City alone. As shown, total nonagricultural wage and salary employment in the County increased by 139,200 new jobs during this period. During calendar year 2002, employment in San Diego County increased by 23,100 new jobs over the prior year.

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

INDUSTRY CATEGORY	1998	1999	2000	2001[1]	2002[1]
Mining	300	300	400	300	300
Construction	61,800	67,000	70,400	73,400	75,500
Manufacturing	127,600	128,100	129,700	130,600	128,300
Nondurable Goods	35,800	36,500	37,800	37,500	37,600
Durable Goods	91,800	91,600	91,900	93,100	90,700
Transportation, Communications, Utilities[2]	47,000	51,300	50,900	52,000	50,500
Trade	249,400	256,500	267,800	271,100	278,000
Wholesale	48,300	50,300	52,300	50,300	50,200
Retail	201,100	206,100	215,500	220,800	227,800
Finance, Insurance, Real Estate	65,300	68,700	69,800	70,800	72,300
Services	359,600	381,700	400,600	409,500	420,500
Government	194,500	199,300	206,800	213,900	219,400
Federal	43,300	42,500	42,600	40,100	40,000
State and Local	151,200	156,800	164,200	173,800	179,400
TOTAL NONAGRICULTURAL[3]	1,105,500	1,152,900	1,196,500	1,221,600	1,244,700

(1) Subject to future revision.
(2) Includes trucking and transit services, telephone and broadcast/cable services, and gas and electric services.
(3) 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 calendar year 2002. The Services sector (+11,000) alone represented approximately half of total employment growth for the County. Within the Services sector, Health Services recorded the largest net gain, up by 2,500 jobs, followed by an increase of 1,400 jobs in Engineering and Management and an increase of 1,200 jobs in Business Services. Other key employment growth sectors during calendar year 2002 included Construction (+2,100), Wholesale and Retail Trade (+6,900), and Government (+5,500). Among the

sectors that showed a decline in jobs in the calendar year 2002 were the Manufacturing sector (-2,300) and the Transportation, Communications, and Utilities Sector (-1,500).

The increase in the Government sector, which accounted for 18% of the total nonagricultural wage and salary employment in the County in 2002, occurred in State and local government agencies. Almost all of the increase in State and local government agencies is due to gains in public education and the Other Local Government category, which includes Special Districts and Indian Tribal Governments.

Taxable Sales

Taxable transactions at retail and other outlets in the City at the end of the First Quarter of 2002, the most recent data available from the California State Board of Equalization, totaled $3.9 billion, up 0.23% from the end of the First Quarter of 2001. Taxable transactions in the City during calendar year 2001 totaled approximately $16.4 billion, up 1.7% from 2000, and up 32.1% from 1997. The slight increase in taxable sales from calendar years 2000 to 2001 can be attributed to the general slow down of the economy. Table 5 provides annual sales information by type of outlet for calendar years 1997 through 2001.

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

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

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

Source: California State Board of Equalization

Tourism

Based on year-end data for 2002 from Smith Travel Research, San Diego outperformed most major markets, ranking third highest among the top 25 hotel markets in terms of average occupancy rate during 2002 and sixth highest in terms of average daily room rate. For January 2003, due to activity related to the San Diego's hosting of Super Bowl XXXVII, the region far outperformed the other top 25 markets, with room revenues up 33.2% from January 2002.

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

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

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

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

Source: San Diego Convention and Visitors Bureau

As shown in Table 7, the City's Transient Occupancy Tax ("TOT") revenues have grown approximately 17% between Fiscal Year 1998 and Fiscal Year 2002, an average annual increase of 4.1%. In the Fiscal Year 2002 TOT revenues decreased by 9.8% from the prior year due in part to the effects of a weak economy and the events of September 11, 2001. The latest available data shows that fiscal year-to-date TOT receipts as of February 2003 totaled approximately $70 million, showing an increase of 10% from the same period in 2002.

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

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

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

Source: City of San Diego Comprehensive Annual Financial Report

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

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

The City also hosted the America's Cup in 1992 and 1995, the Super Bowl and World Series in 1998, and more recently the Super Bowl in 2003. In addition, the City was the site for the Republican National Convention held in August 1996. The Torrey Pines' South Course is scheduled to play host to the United States Open Golf Tournament in 2008.

In September 2001, the San Diego Convention Center expansion was completed, doubling the size of the existing facility to 2.6 million total gross square feet. According to the San Diego Convention Center Corporation, in Fiscal Year 2002 the Convention Center generated approximately $363 million in direct delegate spending and an estimated $880 million in total regional economic impact (direct and indirect spending).

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Military

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

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

International Trade

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

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

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

Source: RAND California, Business and Economic Statistics

Major Employers

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

Table 9
CITY OF SAN DIEGO
MAJOR EMPLOYERS[1]
As of April 2002

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

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

Source: City of San Diego

Effective Buying Income

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

Table 10
PER CAPITA EFFECTIVE BUYING INCOME[1]
Calendar Years 1997 through 2001

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

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

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

Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City, for Fiscal Years 1998 through 2002. The valuation of non-residential permits includes both private, commercial construction and publicly funded, non-tax generating projects.

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

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

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

Business Development Program

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

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

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

Transportation

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

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

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

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

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

In November 1987, voters approved Proposition A which, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City's budget for Fiscal Year 2003 included $25.8 million in Proposition A funds. The one-half cent increase to the local sales tax, authorized by Proposition A, is scheduled to expire in 2008.

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

MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION

Governmental Organization

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

Accounting Practices

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

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

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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.

Five Year Summary of Financial Results

Tables 12 and 13 present the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance of the City's General Fund for Fiscal Years 1998 through 2002 in the format presented in the Comprehensive Annual Financial Report (CAFR). Effective as of the Fiscal Year ending June 30, 2002, there has been a change in the reporting system of CAFR. The City Auditor and Comptroller has implemented accounting and reporting requirements known as GASB Statement No. 34 (GASB 34). GASB 34 requires the preparation of Government-wide statements, which are intended to complement the fund financial statements. The Government-wide statements are prepared on a full-accrual basis, rather than modified accrual basis. GASB 34 requires expense classifications to be presented by major functional activities performed by the government, regardless of the fund in which the activity was accounted for. To satisfy this requirement, the City Auditor and Comptroller re-analyzed the services provided by different departments/divisions and re-grouped them by the function/activity that best describes those services.

Table 12
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1998 through 2002
(in thousands)

	1998	1999	2000	2001	2002
ASSETS					
Cash or Equity in Pooled Cash & Investments	$23,516	$16,005	$24,708	$48,777	$34,245
Receivables:					
Taxes – Net	27,739	27,491	30,182	32,431	44,277
Accounts – Net	26,392	29,856	32,805	38,016	42,129
Claims – Net	41	9	36	16	48
Notes	–	–	–	–	–
Accrued Interest	2,451	1,745	2,744	3,011	1,810
From Other Funds	82,923	94,547	109,686	87,135	76,147
From Other Agencies	613	1,068	1,068	1,635	68
Advances to Other Funds	4,570	6,771	9,920	10,628	12,517
Advances to Other Agencies	350	350	350	350	350
Prepaid and Reimbursable Items & Deposits	357	302	1,161	152	74
Total Assets	$168,952	$178,144	$212,660	$222,151	$211,665
LIABILITIES					
Accounts Payable	2,135	2,461	$2,927	$2,057	$3,739
Accrued Wages and Benefits	14,793	16,598	21,923	27,445	27,547
Due to other Funds	–	–	–	–	–
Deferred Revenue	29,590	30,934	33,904	37,942	37,376
Contracts and Notes Payable	82,000	88,500	99,500	77,000	73,000
Total Liabilities	$128,518	$138,493	$158,254	$144,444	$141,662
FUND EQUITY					
Reserves:					
Reserved for Encumbrances	$9,181	$9,542	$11,628	$11,150	$13,431
Reserved for Advances & Deposits	4,920	7,121	10,270	10,978	12,867
Unreserved:					
Designated for Unrealized	396	–	–	2,287	1,176
Designated for Subsequent Years' Expenditures	1,936	1,818	2,972	2,132	1,768
Undesignated	24,001	21,170	29,536	51,160	40,761
Total Fund Equity	$40,434	$39,651	$54,406	$77,707	$70,003
Total Liabilities & Fund	$168,952	$178,144	$212,660	$222,151	$211,665

Source: City of San Diego Comprehensive Annual Financial Report

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Table 13
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years Ended June 30, 1998 through 2002 (in thousands)

	1998	1999	2000	2001	2002
REVENUES:					
Property Taxes	$123,012	$130,624	$144,288	$158,585	$169,976
Sales Taxes [1]	117,985	128,339	130,240	142,069	139,197
Other Local Taxes	83,796	86,968	94,809	109,151	115,416
Licenses and Permits	19,272	20,630	20,693	22,154	22,062
Fines, Forfeitures and Penalties	16,170	23,613	28,410	29,776	24,250
Revenues from Use of Money and Property	30,789	29,940	34,429	40,841	34,697
Revenues from Federal Agencies	2,081	2,026	1,644	787	1,931
Revenues from Other Agencies	51,522	55,697	83,821	87,262	88,027
Charges for Current Services	67,825	70,244	77,469	84,156	89,936
Other Revenue	2,871	2,526	2,777	2,606	3,291
Total Revenues	$515,323	$550,607	$618,580	$677,387	$688,783
EXPENDITURES:					
Current:					
General Government	$64,725	$67,405	$69,400	$79,800	$132,312 [2]
Community and Economic Development	13,967	14,740	14,661	19,778	– [3]
Neighborhood Services	–	–	–	–	28,626
Public Safety	295,762	315,231	348,869	369,607	382,133
Libraries	20,677	21,824	22,820	26,494	–
Parks, Recreation and Culture	41,561	44,910	49,850	56,748	89,442 [4]
Public Works	66,931	70,413	76,300	80,999	– [5][6]
Employee Relations and Special Projects	633	723	637	548	–
Development Services	–	–	–	–	–
Transportation	–	–	–	–	19,196
Sanitation and Health	–	–	–	–	34,535
Miscellaneous and Unallocated	2,260	2,505	1,881	1,367	–
Debt Service:					
Principal Retirement	–	–	–	–	1,553
Interest	3,683	4,894	5,213	4,616	1,157
Total Expenditures	$510,199	$542,645	$589,631	$639,957	$688,954
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$5,124	$7,962	$28,949	$37,430	($171)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary/ Fiduciary Funds	$1,918	$1,574	$2,117	$4,074	$2,409
Transfers from Other Funds	37,729	28,369	30,511	29,236	27,551
Transfers from Component Unit	554	588	324	86	22
Transfers to Proprietary Funds	(8,352)	(15,816)	(18,976)	(14,274)	(6,699)
Transfers to Other Funds	(25,592)	(24,365)	(27,520)	(32,601)	(32,082)
Transfers to Component Unit	(900)	(900)	(650)	(650)	(650)
Proceeds from Capital Leases					1,916
TOTAL OTHER FINANCING SOURCES (USES)	$5,357	($10,550)	($14,194)	($14,129)	($7,533)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	$10,481	($2,588)	$14,755	$23,301	($7,704)
FUND BALANCE AT JULY 1	$28,514	$40,434	$39,651	$54,406	$77,707
Cumulative Effect of a Change in Accounting Principle	314	–	–	–	–
Residual Equity Transfers from Other Funds	1,125	1,805	–	–	–
FUND BALANCE AT FOLLOWING JUNE 30	$40,434	$39,651	$54,406	$77,707	$70,003

(1) Includes Proposition 172 Safety Sales Tax.
(2) Beginning Fiscal Year 2002, General Government is reclassified as General Government and Other Support Services. Other Support Services include Engineering & Capital Projects, Employee Relations/Special Projects, and Miscellaneous/Unallocated Expenditure categories.
(3) Beginning Fiscal Year 2002, Community and Economic Development expenditures have been reclassified under Neighborhood Services.
(4) Beginning Fiscal Year 2002, Parks, Recreation, Culture and Leisure is reclassified to include Libraries.
(5) Beginning Fiscal Year 2002, Transportation, which was under Public Works in prior years, is classified separately.
(6) Beginning Fiscal Year 2002, Sanitation and Health, which was under Public Works, is classified separately.

Source: City of San Diego Comprehensive Annual Financial Report

The following table presents the operating budget summary for Fiscal Years 2002 through 2004.

Table 14
CITY OF SAN DIEGO
OPERATING BUDGET SUMMARY
Fiscal Years 2002 - 2004[1]

	Actual Results in A Budget Format Fiscal Year 2002	Adopted Budget Fiscal Year 2003	Proposed Budget Fiscal Year 2004
REVENUE SOURCES:			
Property Tax	$169,814,877	$188,600,000	$199,750,958
Sales Tax [2][3]	139,196,712	134,451,875	128,203,737
Transient Occupancy Tax	52,142,966	56,676,190	57,998,226
Property Transfer Tax	7,033,670	6,300,000	8,472,719
Licenses and Permits	22,027,597	21,627,271	24,522,914
Fines, Forfeitures and Penalties	23,935,666	26,887,569	27,295,786
Interest Earnings	8,986,088	5,900,000	1,200,223
Franchises	56,239,380	54,234,644	52,086,577
Other Rents and Concessions	28,156,640	27,814,150	29,047,278
State Motor Vehicle License Fees	69,895,140	72,200,000	74,893,491
Other Revenue from Agencies [4]	22,277,905	7,595,553	10,413,422
Charges for Current Services	90,541,973	68,646,721	71,334,584
Transfers from Other Funds	27,724,113	38,123,581	42,407,502
Other Revenue	1,905,079	872,968	1,337,968
Prior Year Fund Balance	31,700,000	19,400,000	10,881,568
Total General Fund Revenues	$751,577,806	$729,330,522	$739,846,953
EXPENDITURES:			
Public Safety	$382,551,446	$382,585,564	$398,745,726
Parks and Recreation	62,084,484	68,082,120	66,713,917
Sanitation and Health	39,675,102	40,107,961	42,770,700
Transportation [5]	28,417,405	12,440,187	12,500,339
Library	31,301,457	36,650,651	35,627,407
Neighborhood Services	32,736,355	31,514,492	28,504,798
Operations Support	109,958,971	111,228,996	107,476,923
Internal Support/Management	43,294,866	46,720,551	47,507,143
Total General Fund Expenditures	$730,020,086	$729,330,522	$739,846,953

(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 Years 2003 and 2004 General Fund support for the Street Division Operating Fund is funded directly through a sales tax allocation rather than through a General Fund transfer.
(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. The City did not budget for, nor receive any revenues from the State for local fiscal relief in Fiscal Years 2002, 2003, and 2004.
(5) In Fiscal Years 2003 and 2004, General Fund support for the Street Division Operating Fund is funded directly through a sales tax allocation rather than through a General Fund transfer.

Source: City of San Diego, Financial Management Department

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Fiscal Year 2002 (Actuals)

The actual total General Fund revenues, presented in a budget format equivalent to Table 14, for Fiscal Year 2002 equaled $751.6 million, which represents an increase of $25.9 million or 3.6% more than the actual results for Fiscal Year 2001, and $24.2 million or 3.3% more than the adopted budget for Fiscal Year 2002. The following table shows the change in actual major revenue sources for Fiscal Year 2002 over Fiscal Year 2001.

Change in Major Revenue Sources
Actual Results Fiscal Year 2002 over Fiscal Year 2001[1]

• Property Tax	+ 7.3%
• Sales Tax	+ 3.6%
• Transient Occupancy Tax	- 9.8%
• 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

Actual total General Fund expenditures, presented in a budget format equivalent to Table 14, for Fiscal Year 2002 equaled $730 million, an increase of $43.8 million or 6.4% more than the actual results for Fiscal Year 2001, and $2.7 million or 0.4% more than the adopted budget for Fiscal Year 2002.

Fiscal Year 2003 (Adopted Budget)

Under the City's Fiscal Year 2003 adopted budget, General Fund revenues total $729.3 million, up $2.0 million or 0.3%, from the Fiscal Year 2002 adopted budget. The adopted budget assumed that San Diego will experience modest economic growth in Fiscal Year 2003. The Fiscal Year 2003 adopted budget also anticipated 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 adopted budget for Fiscal Year 2003. The City assumes that the State General Fund will continue to offset a fee reduction on motor vehicle license registration originally enacted in 1999, through Fiscal Year 2003 (see "**Vehicle License Fee Reduction**" below). In addition, the City's adopted 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. Presented below are budgeted growth rates for the major revenues.

Fiscal Year 2003 Budget Growth Rates[1]

- Property Tax + 9.0%
- Sales Tax + 4.0%
- Transient Occupancy Tax + 6.0%
- Motor Vehicle License Fees[2] + 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.

(2) See 'Vehicle License Fee Reduction' below for a discussion of the potential impact on revenues from this source based on the Governor's budget proposal for Fiscal Years 2003 and 2004.

Source: City of San Diego, Financial Management Department

To date, Fiscal Year 2003 General Fund revenue receipts reflect slow economic recovery. Economic activity continues to affect revenue growth rates and the receipts received from major revenue categories in Fiscal Year 2003. Since the economy is not recovering at a pace as was expected earlier, revenues are projected to fall short of budget estimates, not including potential impacts from the State budget deficit. Property Tax, Sales Tax, and Transient Occupancy Tax receipts are projected to have deficits in Fiscal Year 2003 at a combined total of approximately $10 million compared to the budgeted levels. In addition to the major General Fund revenues, another revenue source to the General Fund, Franchise Fees, is expected to be approximately $10 million less than the Fiscal Year 2003 adopted budget. The projected reduction is primarily attributable to a decline in the SDG&E franchise fees due to the unexpected drop in natural gas prices. In Fiscal Year 2003, in order to accommodate revenues not meeting budget expectations and to ensure a balanced budget, measures are being taken to reduce expenditures in the General Fund. Most General Fund departments reduced their budgets by two percent over Fiscal Year 2002 levels in developing the Fiscal Year 2003 Budget. In addition, most General Fund departments have identified additional savings amounting to approximately three percent of their Fiscal Year 2003 budget due to the projected revenue shortfall.

Fiscal Year 2004 (Proposed Budget)

Under the City's Fiscal Year 2004 proposed budget, General Fund revenues total $739.8 million, a net increase of $10.5 million or 1.4% from the Fiscal Year 2003 adopted budget. The proposed budget revenue estimates reflect an uncertain economy that continues to experience the effects of declining consumer confidence, higher unemployment trends, a weak national economy and potential impacts from the State's budget crisis. Even though San Diego's economy continues to outperform the State and national economies, the recovery remains slower than anticipated. The potential State impact on the City's finances may be significant, although no conclusive information is available as to these impacts. For this reason, the proposed budget excludes any action the State may take that could impact the City's budget. In Fiscal Year 2003, 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 2004. Presented below are estimated growth rates for the major revenues.

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Projected Change in Major Revenue Sources
Proposed Budget Fiscal Year 2004 over Adopted Budget Fiscal Year 2003[1]

• Property Tax	+	8.0%
• Sales Tax	+	3.0%
• Transient Occupancy Tax	+	5.5%
• Motor Vehicle License Fees	+	3.0%

(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

The General Fund expenditure growth amounted to a total of approximately $46 million, largely a result of annualization of FY 2003 and FY 2004 negotiated salaries and benefits ($20.7 million), retirement contributions ($11.0 million), and workers compensation ($5.8 million). As the General Fund revenues are not projected to grow at the same pace as the expenditure requirements, corresponding reductions to City operations are required. Most General Fund departments reduced their Fiscal Year 2004 budgets, which amounted to approximately $30 million. Further expenditure reductions were made through departmental reorganization and cuts in non-discretionary accounts.

The proposed budget does not include the use of reserves to balance the General Fund. Service levels have been impacted and some City facilities will see reduced hours of operation.

State Budget Deficit

The State of California's projected budget deficit is between $35 and $38 billion throug Fiscal Year 2004. In his budget proposal, Governor Gray Davis included budget savings involving major program reductions and tax increases. The proposal includes discontinuing the State backfill of motor vehicle license fees for an impact of approximately $51 million to the City in the Fiscal Year 2004 General Fund budget, if vehicle license fees are not increased to replace the backfill amount as described below under the caption "Vehicle License Fee Reduction". Other impacts proposed by the Governor in Fiscal Year 2004 would include an estimated reduction for libraries of approximately $1.2 million and the elimination of $5.2 million in booking fees reimbursement. In addition, a property tax increment shift to the Educational Revenue Augmentation Fund (ERAF) could result in a $5.8 million loss for the City of San Diego's Redevelopment Agency (the "Redevelopment Agency"). The State Legislature, however, has not yet approved these proposals.

The City cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current and future budget deficits. Future State Budgets could be affected by national economic conditions and the factors over which the City will have no control. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its budget.

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) ca

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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%.

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.

As noted above, the Governor had proposed to discontinue the vehicle license fee backfill to cities and counties and the Governor's May Revision to the proposed budget for Fiscal Year 2004 (the Governor's May Revision) assumes no backfill is needed because provisions of the state law will trigger an increase in the VLF rate, such that no backfill will be required and local VLF revenues will not be reduced further. VLF is the third largest General Fund revenue source for the City (after property taxes and sales taxes). In Fiscal Year 2002, the City received approximately $69.9 million in VLF revenues, a 4.0% increase over the prior year's actual receipts, representing approximately 9.9% of the total General Fund Revenues. For Fiscal Year 2003, VLF revenues are budgeted at $72.2 million. The State Controller has stated and the Governor's May Revision is based on the assumption that a provision in existing law will trigger an increase in the VLF fees due to the lack of available State revenues to pay the backfill amount. This interpretation may be challenged in court, and no assurance can be given that an increase will be triggered automatically to replace the backfill amount. If the Governor's proposed budget for Fiscal Year 2004 is enacted as proposed and the State Legislature does not continue to backfill the VLF revenues, or does not increase vehicle license fees, or an increase in the VLF fees is not triggered under existing law, the City forecasts that it would lose approximately $51 million in VLF revenues for Fiscal Year 2004 and for each year thereafter. As of the date of this Official Statement, the State has continued to backfill VLF revenues for Fiscal Year 2003. As of April 2003, the City had received approximately $59.4 million in VLF revenues in Fiscal Year 2003.

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.

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Table 15 presents the assessed valuation within the City for each of the last ten Fiscal Years.

Table 15
ASSESSED VALUATION[1] [2]
Fiscal Years Ended June 30, 1994 through 2003
(in thousands except for percentages)

Fiscal Year Ending June 30	Secured Property	Unsecured Property	Gross Total	Less Exemption [3]	Net Assessed Valuations [4][5]	Annual Assessed Valuation %Change
1994	$60,586,129	$4,218,892	$64,805,021	$2,360,741	$62,444,280	1.13 %
1995	$60,939,995	$4,371,923	$65,311,918	$2,420,027	$62,891,891	0.72%
1996	$61,793,760	$4,303,198	$66,096,958	$2,489,507	$63,607,451	1.14%
1997	$61,893,902	$4,353,543	$66,247,445	$2,355,174	$63,892,271	0.45%
1998	$63,562,588	$4,988,950	$68,551,538	$2,910,753	$65,640,785	2.74%
1999	$68,648,609	$5,337,916	$73,986,525	$2,994,814	$70,991,711	8.15%
2000	$75,788,751	$5,852,822	$81,641,573	$2,987,620	$78,653,953	10.79%
2001	$82,195,239	$6,347,101	$88,542,340	$3,249,480	$85,292,860	8.44%
2002	$89,259,317	$6,838,926	$96,098,243	$3,572,188	$92,526,055	8.48%
2003	$96,534,652	$6,959,602	$103,494,254	$3,189,764	$100,304,49	8.41%

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

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

Table 16 shows the City's secured tax collections for each of the ten Fiscal Years.

Table 16
SECURED TAX LEVIES AND COLLECTIONS
Fiscal Years Ended June 30, 1993 through 2002
(in thousands except for percentages)

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

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

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

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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 2002-2003
(in thousands, except for percentages)

Taxpayers	Type of Business	Assessed Valuation [2][3]	Percentage of Net Assessed Valuation [3]	Amount of Tax [4]
Kilroy Realty LP	Real Estate	$566,110	0.57%	$5,976
Fashion Valley Mall LLC	Shopping Center	530,665	0.54	5,485
Qualcomm, Inc.	Electronics	465,566	0.47	5,178
Sea World, Inc.	Entertainment	280,063	0.28	3,111
Pacific Gateway, LTD	Developer	250,319	0.25	2,780
ERP Operating LTD Partnership	Developer/ Property Manager	239,426	0.24	2,709
University Towne Centre LLC	Shopping Center	226,350	0.23	2,514
Irvine Co	Developer	248,194	0.25	2,484
Horton Plaza LLC	Shopping Center	192,079	0.19	2,173
Pardee Construction Co.	Developer	142,520	0.14	2,163
TOTAL		$3,141,292	3.16%	$34,573

(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 $98,917,185,000, 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.

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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 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). In a Minute Order issued on November 2, 2001 in *County of Orange v. Orange County Assessment Appeals Board No. 3,* case no. 00CC03385, the Orange County Superior Court held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIIIA, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California Counties, including San Diego County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On December 12, 2002, the Orange County Superior Court certified the lawsuit as a class action lawsuit and the case has been submitted on appeal to the State's Fourth District Court of Appeal.

The County of San Diego has advised the City that comparable claims by landowners within the County were rejected by the San Diego County Assessment Appeals Board for the Fiscal Year 2000/01 property tax levy and that such landowners have at least three years from the date of such rejection in which to further prosecute their claims. In another matter, a taxpayer initiated a declaratory relief action in Superior Court seeking comparable relief. In that case, *Linda Pintzuk v. Gregory J. Smith,* case no. GIC 790102, the trial court sustained the County's demurrer without leave to amend and dismissed the action on September 25, 2002. The plaintiff did not file an appeal of the trial court's decision.

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The City cannot predict the outcome of the Orange County litigation, nor whether the landowners whose claims were rejected by the San Diego County Assessment Appeals Board, or other landowners, will further prosecute claims against the County of San Diego. Currently, the trial court's ruling in the Orange County litigation applies only to assessments levied in Orange County. The City cannot predict the effect, if any, that the outcome of either the Orange County litigation or the further prosecution of claims against the County of San Diego would have on property tax revenues to be received by the City, although the effect would be adverse.

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 2003 is established at $684,004,095. It is estimated that the City will be under the Gann Limit by approximately $127.8 million. The impact of the appropriations limit on the City's financial needs in the future is unknown.

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.

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 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 **"LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUNDS OF THE CITY- City Voter Initiatives"** below).

The voter approval requirements of Article XIII C 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.

Article XIII D 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 a 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, public rights-of-way, streetlights, parks,

and other enhanced services and improvements. If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City's General Fund. Given the approval requirements imposed by Article XIII D, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. 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. To date, the City has conducted 34 mail ballot assessment elections, of which all but one were approved by the property owners.

In addition, 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, 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

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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.

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.

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

Statutory Spending Limitations

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986, General Election which (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.

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 year statute 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 $309.3 million through June 30, 2002. The City did not increase existing taxes or impose new taxes during Fiscal Year 2002 or to-date in Fiscal Year 2003.

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 received a 2% pay increase and a 1.7% increase in retirement compensation effective July 2002.

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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, 2002 stated the funding ratio (Valuation of Assets available for Benefits to Total Actuarial Accrued Liability), of the CERS fund to be 77.3%. The CERS fund has an Unfunded Actuarial Accrued Liability (UAAL) of $720.7 million as of June 30, 2002, which represents a $436.8 million increase in the UAAL since the previous actuarial calculation dated June 30, 2001. The UAAL is the difference between total actuarial accrued liabilities of $3.169 billion and assets allocated to funding of $2.448 billion. The increase in the UAAL as of June 30, 2002, results primarily from the lower than anticipated investment returns. 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, 2002, there were 19 years remaining in the amortization period. See "**LITIGATION POTENTIALLY AFFECTING THE GENERAL FUNDS OF THE CITY- Other Litigations and Claims**" for a discussion of a pending litigation relating to the funding of the UAAL.

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, 2002, there is a fund equity deficit in the Self Insurance Fund of approximately $29.3 million. 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

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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, 1998 through 2002

Fiscal Year	Liability Claims Expenses And Settlement Costs	Liability Premium Payments
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
2002	$ 8,479,308	$ 1,520,560

(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, 2003, through March 31, 2004, will cost approximately $6 million. This represents an increase of 30% from the prior year, due to several factors including the events of September 11, 2001, a hardening insurance market and a loss of reinsurance capacity.

Earthquake Insurance

Earthquake coverage is provided for designated buildings/structures and certain designated City lease financed locations in the amount of $75 million, including coverage for rental interruption caused by Earthquake at certain designated locations. Earthquake coverage is subject to the greater of a 5% or $50,000 per unit deductible, effective through March 31, 2004. 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,

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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 securities; (ii) questioning or affecting the validity of the securities; or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the securities. 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 securities 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.

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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 the Court needed to defer to the original judge on these matters. This has the effect of leaving in place $65.3 million in inverse condemnation damages, plus approximately $26.0 million in pre-judgment interest. The total judgment, including pre-judgment interest, is currently approximately $91.3 million. Appellate counsel for the City has advised that the City should have no obligation to pay these amounts until the 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 (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 had not included any moneys for the payment of any judgment in this case in its budget for the 2002-2003 Fiscal Year and does not propose to include any moneys in its budget for the 2003-2004 Fiscal Year.

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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 all three suing insurers are obligated to defend the City in the *De La Fuente* matter. In addition, the City seeks to recover damages for breach of contract and bad faith. However, no prediction can be made as to the outcome of this litigation.

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.

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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 City has argued in the litigation described below that, 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. The City has taken a position that 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 trial court consolidated the two cases.

On April 22, 2003, the City received a minute order of the trial court for the consolidated cases. The Court's ruling declines to invalidate Proposition E. The Court leaves open the question whether Proposition E could require a supermajority for an amendment to the City Charter, which would impose or raise a general tax. The Court's minute order has not been reduced to a judgment. The City has not yet decided to appeal or other wise contest the ruling. 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. It is currently anticipated that the City's proposed budget for Fiscal Year 2004 would not include 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 litigations, however, there has not been any new litigation filed regarding the project since the approval of the original Offering Document in 2002. The case *Skane v. City of San Diego*, Court of Appeal case no. D038879 has been finally resolved, the California Supreme Court denying a petition for review on October 2, 2002. On January 30, 2003, the Fourth District Court of Appeal filed an opinion affirming a trial court judgment in favor of the City in the case *Simmons v. City of San Diego*, Court of Appeal case no. D039838. The plaintiffs failed to file a petition for review to the California Supreme Court by the filing deadline of March 11, 2003. The City and Bond Counsel are considering the import of the appellate court's decision on the City's ability to refund the 2002 Bonds (see **"BONDED AND OTHER INDEBTEDNESS- Proposed Additional General Fund Lease Commitments).** The case *City v. All Persons Interested*, Superior Court case no. GIC763487 was the subject of appeals that were consolidated under Court of Appeal case no D038587 and were further consolidated with Skane. The Court of Appeal affirmed the judgment in favor of the City and the Redevelopment Agency. The California Supreme Court

denied the petitions for review on October 2, 2002.

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 that provided BFAP with the exclusive right to negotiate a proposed Development Agreement and Master Lease that would transform Brown Field into a cargo airport with ancillary commercial and industrial uses. BFAP contended that the City breached the MOU by requiring review by the Federal Aviation Administration prior to a City Council hearing. In addition, BFAP claimed the city breached the MOU by failing to present the project for City Council consideration in September 2000, and by failing to continue negotiations after the FAA released a preliminary airspace analysis on September 29, 2000.

On March 4, 2003 the City Council approved a settlement of this case by agreeing to pay BFAP $1.25 million. This sum represents a refund of the money BFAP paid to the City for the right to negotiate the project and for the labor costs incurred by the City staff in reviewing the proposed project. The City's excess liability carrier also agreed to pay $249,000 in settlement of the claim.

On January 16, 2003, a class action complaint (*Gleason v. City of San Diego, et al.*) for declaratory relief was filed in the Superior Court against the City, the City's Employees' Retirement System (SDCERS), and certain named members of the SDCERS board of administration. The plaintiffs, former City employees who receive City retirement benefits, allege that as a result of recent actions taken by the defendants, the SDCERS trust fund has an unfunded accrued liability of $720 million, and that by 2009, the City will owe approximately $2.8 billion to SDCERS, with an annual City budget expense of more than $250 million. In addition to the declaration of their rights, plaintiffs ask for restitution to the SDCERS trust fund, an injunction prohibiting the City from unlawfully underfunding the trust fund in the future, money damages, attorneys' fees, and other relief.

As noted under the heading "PENSION PLAN" above, the City's unfunded accrued actuarial liability as of June 30, 2002 is approximately $720 million. The City is defending the case and believes it has complied with applicable law in the funding of the SDCERS trust fund. The case is still in the early stages, and the City has not completed an assessment of the claim. The City cannot predict the outcome of the litigation at this time, but if the plaintiffs are successful, there potentially may be additional expense to the General Fund in the funding of the SDCERS trust fund and otherwise, over and above the City's expected expense in the funding of its pension obligations.

INVESTMENT OF FUNDS

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego and authority granted by the City Council, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (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.

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of January 31, 2003, approximately 10% of the pool investments mature within 60 days, 21% within 90 days and 35% within 181 days (on a cumulative basis). As of January 31, 2003, the Pool had a weighted average maturity of 1.59 years (580 days) and its weighted yield was 2.90%. 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 0.35 years and the Core portfolio had a duration of 1.42 years as of January 31, 2003. 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 0.35% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.42% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

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Table 19
CITY OF SAN DIEGO POOLED OPERATING INVESTMENT FUND [1]
at January 31, 2003
(Unaudited)

Investment Instrument	Book Value	Market Value	Percent of Total [1]
U.S. Treasury Bills and Notes	$491,710,525	$495,537,305	38.88%
Federal Agency Securities	569,354,218	575,278,317	45.01%
Medium Term Notes (Corporate) [2]	140,059,070	139,036,161	11.07%
Money Market Instruments [3]	43,397,533	43,443,305	3.43%
Local Agency Investment Fund	20,334,871	20,334,871	1.61%
NET ASSETS	$1,264,856,217	$1,273,629,959	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 January 31, 2003, and at least since October 14, 1997, the City Pool has had no assets invested in structured notes or derivatives prohibited in California Government Code 53601. 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 January 31, 2003, 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**

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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, 2002, the City had $58,095,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and $566,505,000 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, 2002.

Table 20
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS
As of June 30, 2002
(in thousands)

Fiscal Year Ending June 30	General Obligation Bonds	General Fund Lease Obligations	Total Principal and Interest Payable
2003	$ 9,395	$ 49,146	$ 58,541
2004	9,525	49,854	59,379
2005	9,645	49,921	59,566
2006	9,777	49,497	59,274
2007	9,923	46,993	56,916
Thereafter	26,337	894,774	921,111
Subtotal	$ 74,602	$ 1,140,185	$ 1,214,787
Less Interest Portion	$ (16,507)	$ (573,680)	$ (590,187)
Total Principal Portion	$ 58,095	$ 566,505	$ 624,600

The following provides a summary list of outstanding general obligation bonds and General Fund lease commitments as of June 30, 2002.

General Obligation Bonds	Principal Outstanding (000's)
1994 – Open Space Park Facility District Refunding	$41,175
1991 – Public Safety Communications	16,920
Total Principal of General Obligation Bonds	$58,095
General Fund Lease Commitments	
Certificates of Participation	
1993 – Balboa Park/Mission Bay Park Capital Improvements [1]	$19,800
1996A – Balboa Park/Mission Bay Park Capital Improvements	25,010
1996B – Balboa Park/Mission Bay Park Capital Improvements Refunding	10,440
Lease Revenue Bonds	
1993 – City/MTDB Authority for Old Town Trolley Extension[2]	16,005
1994 – City/MTDB Authority Refunding - Police CIP and Bayside Extension	34,560
1996 – Stadium Improvements	64,955
1998 – Convention Center Expansion Authority	200,980
2002 – Ballpark and Redevelopment Project	169,685
2002 – Fire and Life Safety Improvements	25,070
Total Principal of General Fund Lease Commitments	$566,505

(1) To be refunded by the 2003 Refunding Certificates of Participation (Balboa Park/Mission Bay Park Capital Improvements).
(2) To be refunded by the 2003 Refunding Lease Revenue Bonds (San Diego Old Town Trolley Extension).

Source: City of San Diego, Auditor and Comptroller

Recent Financings

In June 2002, the Public Facilities Financing Authority of the City of San Diego issued $25.2 million in Lease Revenue Bonds 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. Additionally, in April 2003, the City refunded the 1993 City/MTDB Authority Lease Revenue Bonds (Old Town Trolley Extension).

Proposed Additional General Fund Lease Commitments

From time to time the City issues debt to fund various capital improvements and projects. The City will be refunding the 1993 Certificates of Participation (Balboa Park/Mission Bay Park Capital Improvements) in May 2003.

In 2004, the City intends to issue approximately $87 million in General Fund obligations to implement the Library System Improvements Program adopted by the City Council in November 2002. The overall program consists of renovation, expansion and addition of new library facilities Citywide at an estimated total project cost of $312 million between Fiscal Years 2003 and 2011. The funding sources include grants and private funds, Development Impact Fees and Facilities Benefit Assessment Fees, Other City Funds and bond proceeds. Upon the initial bond issuance projected to occur in 2004, the remainder of the bond funds is expected to come from phased bond issuances in later Fiscal Years.

In February 2002, the Public Facilities Financing Authority of the City of San Diego issued $169.7 million in Lease Revenue Bonds to fund a portion of the City's contribution to the Ballpark and Redevelopment Project (the "Ballpark Project"). Due to litigation matters concerning the Ballpark Project that were pending at the time of issuance, the bonds, although issued on a tax-exempt basis, were sold at a premium above tax-exempt rates. When the bonds were issued, it was contemplated that if litigation is decided favorably to the City, and depending on market conditions, the City would refund the bonds with bonds bearing lower interest rates. It is currently expected that remaining litigation matters will be resolved as early as Fiscal Year 2003 but no later than Fiscal Year 2004. See **"LITIGATION POTENTIALLY AFFECTING THE GENERAL FUNDS OF THE CITY- Other Litigations and Claims"** for the status of such litigation. If such matters are resolved favorably to the City, and depending on market conditions, the City would issue refunding bonds shortly thereafter.

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, 1994 through May 1, 2003

Fiscal Year Ended June 30	Principal Amount
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
2003	$ 93,200,000

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, the San Diego Facilities and Equipment Leasing Corporation, San Diego Open Space Park Facilities District No. 1, City of San Diego/MTDB Authority, and the Public Facilities Financing Authority defeased certain debt 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, 2002, $27,910,000 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 facilities necessary for City operations. The table below is schedule by years of future minimum rental payments required under such leases entered into by the C that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 2002.

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

Fiscal Year Ending June 30	Rent Payable
2003	$5,132,756
2004	2,481,868
2005	2,274,252
2006	2,259,671
2007	2,249,256
Thereafter	14,704,794
Total Minimum Payments	$29,102,597

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 February 1, 2003. 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, 2002, there were four 1915 Act Assessment District and one Reassessment District bond issues with aggregate outstanding principal of $43,692,999 and three Community Facilities District (Mello-Roos) bond issues with outstanding principal of $115,010,000.

The reserve funds for each of the City's outstanding Assessment District and Community Facilities District bond issues were fully funded as of June 30, 2002. Although the City is not in any way obligated to make debt service payments for either Assessment or Community Facilities District bond issues, the City has in the past taken proactive measures to protect bondholders.

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Table 23
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
as of February 1, 2003

2002-03 Assessed Valuation:	$104,940,180,862
Redevelopment Incremental Valuation:	4,629,088,709
Adjusted Assessed Valuation:	$100,311,092,153

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/1/03
San Diego County Water Authority	49.271%	$ 810,508
Metropolitan Water District	8.872	44,587,123
Southwestern Community College District	17.482	6,912,383
San Diego Unified School District	99.911	764,304,390
San Diego Unified School District Lease Tax Obligations	99.911	67,784,618
Sweetwater Union High School District	21.100	7,620,265
San Ysidro School District	92.096	17,636,384
Other High School and School Districts	Various	9,468,043
City of San Diego	100.	15,690,000
San Diego Open Space Park Facilities District No. 1	100.	36,475,000
City of San Diego Community Facilities District No. 1	100.	52,745,000
City of San Diego Community Facilities District No. 2, Improvement Area Nos. 1 and 3	100.	60,250,000
City of San Diego 1915 Act Bonds	100.	40,854,284
North City West School District Community Facilities District	100.	92,327,921
Poway Unified School District Community Facilities District No. 1 and 10	99.609-100.	95,361,344
San Dieguito Union High School District Community Facilities District No. 95-1	81.063	15,048,785
Sweetwater Union High School District Community Facilities Districts	5.014-100.	2,861,346
Other Special District 1915 Act Bonds	Various	1,080,974
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,331,818,368
Less: San Diego Open Space Park Facilities District No. 1 (100% self-supporting)		36,475,000
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,295,343,368
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
San Diego County General Fund Obligations	47.537%	$ 233,049,556
San Diego County Pension Obligations	47.537	391,892,651
San Diego Superintendent of Schools Certificates of Participation	47.537	982,827
San Diego Community College District General Fund Obligations	99.907	41,935,963
San Diego Unified School District Certificates of Participation	99.911	30,253,051
Sweetwater Union High School District Certificates of Participation	21.100	5,112,530
Del Mar Union School District Certificates of Participation	80.659	10,029,947
San Ysidro School District Certificates of Participation	92.096	8,993,174
Chula Vista School District General Fund Obligations	5.663	4,492,741
Other School, High School and Community College District Certificates of Participation	Various	8,185,454
City of San Diego General Fund Obligations and MTDB Authority	100.	555,535,000
Otay Municipal Water District Certificates of Participation	7.800	2,030,340
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,292,493,234
Less: Otay Municipal Water District Certificates of Participation		2,030,340
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		65,836
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,290,397,058
GROSS COMBINED TOTAL DEBT		$2,624,311,602 (1)
NET COMBINED TOTAL DEBT		$2,585,740,426

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

Ratios to 2002-03 Assessed Valuation:

Direct Debt ($15,690,000)	**0.01%**
Total Gross Direct and Overlapping Tax and Assessment Debt	1.27%
Total Net Direct and Overlapping Tax and Assessment Debt	1.23%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt ($607,700,000) (1)	**0.61%**
Net Combined Direct Debt ($571,225,000)	**0.57%**
Gross Combined Total Debt	2.62%
Net Combined Total Debt	2.58%

(1) City	$ 15,690,000
City Authorities and Certificates of Participation	555,535,000
San Diego Open Space Park Facilities District No. 1	36,475,000
	$607,700,000

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: $2,515,864

Source: California Municipal Statistics, Inc.

APPENDIX B

THE CITY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Diego, California ("City"), as of and for the year June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these 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 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 1 to the basic financial statements, the City adopted Statements of the Governmental Accounting Standards Board No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and, No. 38, Certain Financial Statement Note Disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents are not required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

November 27, 2002 Calderon, Graham + Osborn

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of San Diego (City), we offer readers of the City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found beginning on page V of this report.

For the fiscal year ended June 30, 2002, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." The focus of this Standard is to present the government as a single entity (government-wide) and provide information about its current financial resources (fund level). These two perspectives provide readers of the City's financial statements with a broad picture of the results of governmental operations and its ability to provide services in the future.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

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

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Included within the primary government as blended component units:

- Centre City Development Corporation
- City of San Diego Metropolitan Transit Development Board Authority
- 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

The government-wide financial statements can be found beginning on page 15 of this report.

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found beginning on page 18 of this report.

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Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its various business-type activities. Internal service funds, such as Central Garage and Machine Shop, Central Stores, and Print Shop, are used to report activities that provide centralized supplies and services to the City. All internal service funds, except for the Special Engineering Fund, have been included within governmental activities in the government-wide financial statements since they predominately benefit governmental functions. The Special Engineering Fund, which services exclusively water and sewer activities, has been included within business-type activities in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer funds, which are considered to be major funds of the City. Data from other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor business-type funds is provided in the form of combining statements elsewhere in this report. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found beginning on page 22 of this report.

Fiduciary Funds

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

The basic fiduciary fund financial statements can be found beginning on page 25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 27 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 28 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor business type funds, and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found beginning on page 29 of this report.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

Since this is the first year of implementing and presenting government-wide financial reporting, prior year comparisons will begin next fiscal year. For the current fiscal year, amounts will be presented for fiscal year 2002.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $6,844,559,000 at the close of fiscal year 2002.

The largest portion of the City's net assets (81%) reflects its investment in capital assets (e.g., land, structures and improvements, equipment, distribution and collections systems, infrastructure, and construction-in-progress), less any outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Governmental Activities 2002	Business-Type Activities 2002	Total Primary Government 2002
Current and other assets	$ 1,386,733	$ 878,257	$ 2,264,990
Capital Assets	4,118,023	3,754,342	7,872,365
Total Assets	5,504,756	4,632,599	10,137,355
Current and other liabilities	278,145	140,483	418,628
Long-term debt outstanding	1,342,245	1,531,923	2,874,168
Total Liabilities	1,620,390	1,672,406	3,292,796
Net Assets:			
Invested in Capital Assets, Net of Related Debt	3,298,213	2,253,022	5,551,235
Restricted	99,497	3,681	103,178
Unrestricted	486,656	703,490	1,190,146
Total Net Assets	$ 3,884,366	$ 2,960,193	$ 6,844,559

Two percent of the City's total net assets represents resources that are subject to external restrictions on how they may be used.

Governmental Activities

Governmental activities increased the City's net assets by $194,298,000 thereby accounting for 57% of the total growth in the net assets of the City during fiscal year 2002.

Business-Type Activities

Business-type activities increased the City's net assets by $147,079,000 thereby accounting for 43% of the total growth in the net assets of the City during fiscal year 2002.

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

	Governmental Activities 2002	Business-type Activities 2002	Total Primary Government 2002
Revenues:			
Program Revenues			
Charges for Current Services	$ 181,729	$ 645,353	$ 827,082
Operating Grants and Contributions	100,955	5,981	106,936
Capital Grants and Contributions	199,258	124,842	324,100
General Revenues			
Property Taxes	223,100	-	223,100
Sales Taxes	221,383	-	221,383
Franchise Taxes	56,239	-	56,239
Other Local Taxes	146,125	-	146,125
Grants and Contributions not Restricted to Specific Programs	93,639	-	93,639
Revenue from Use of Money and Property	88,133	34,918	123,051
Other	42,619	1,809	44,428
Total Revenues	1,353,180	812,903	2,166,083
Expenses:			
General Government and Support	192,948	-	192,948
Public Safety-Police	292,385	-	292,385
Public Safety-Fire and Life Safety	134,869	-	134,869
Parks, Recreation, Culture and Leisure	191,993	-	191,993
Transportation	155,688	-	155,688
Sanitation and Health	57,111	-	57,111
Neighborhood Services	72,501	-	72,501
Interest on Long-Term Debt	56,493	-	56,493
Airports	-	3,077	3,077
City Store	-	731	731
Development Services	-	46,595	46,595
Environmental Services	-	32,467	32,467
Golf Course	-	5,781	5,781
Recycling	-	16,089	16,089
Sewer Utility	-	255,967	255,967
Water Utility	-	243,283	243,283
San Diego Data Processing Corporation	-	57,893	57,893
Total Expenses	1,153,988	661,883	1,815,871
Increase in Net Assets Before Transfers:	199,192	151,020	350,212
Transfers	3,941	(3,941)	-
Payments to Component Units	(8,835)	-	(8,835)
Change in Net Assets	194,298	147,079	341,377
Net Assets- July 1, 2001	3,690,068	2,813,114	6,503,182
Net Assets- June 30, 2002	$ 3,884,366	$ 2,960,193	$ 6,844,559

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of current fiscal year, the City's governmental funds reported combined ending fund balances of $1,134,618,000 an increase of $256,506,000 from the prior year. This increase is primarily attributed to proceeds from two lease revenue bond issuances by Public Facilities and Financing Authority for construction of a ballpark project and for improvement and construction of fire and lifeguard facilities. Approximately half of the combined fund equity, $533,346,000, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual care of the various programs, or (4) for a variety of other purposes.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2002, undesignated fund balance of the General Fund was $40,761,000 while total fund balance was $70,003,000. This represents a decrease from Fiscal year 2001 undesignated fund balance of $10,399,000. Fiscal year 2001 was the highest undesignated fund balance in the history of the City. Undesignated fund balance represents 6% of total General Fund expenditures, while total fund balance represents 10% of that same amount.

Proprietary Funds

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

As of the end of the current fiscal year unrestricted net assets of the Sewer and Water Utility Funds are $366,686,000 and $273,734,000 respectively, with net assets increases of $108,040,000 and $29,760,000 respectively. These increases are primarily attributed to capital contributions received from developers for the installation of water and sewer mains.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the original budget and the final budget were a $2,666,000 increase in appropriations and is attributed to the following:

- $2,280,000 increase in departmental appropriations for Worker's Compensation rate increases required primarily to escalating medical costs.
- $169,000 increase to expand employee fingerprinting and background investigations in effort to enhance security in the aftermath of September 11, 2001.
- $67,000 increase to fund the Transportation Alternatives Program expenses due to increases in the City's subsidy of employee transportation costs.
- $150,000 increase for repairs of the chiller system at the City Administration Building.

This overall increase in departmental appropriations was funded from revenues above estimates, thus eliminating the need to draw upon existing fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City elected to early implement the infrastructure portion of GASB Statement No. 34, which requires all major infrastructure assets (such as streets, signals, bridges, and drains) acquired or improved subsequent to July 1, 1980 to be capitalized by the City in the new government-wide statements. Historically, only infrastructure assets of proprietary funds have been reported and depreciated in the financial statements. While capital assets of both governmental and proprietary funds are capitalized at the government-wide level, only proprietary assets are reported at the fund level. Governmental funds will continue to be reported on a modified accrual basis at the fund level. Differences between the fund and government-wide statements reporting for these governmental assets will be explained in both the reconciliation and the accompanying notes to the financial statements.

The City's investment in capital assets (including infrastructure) for governmental and business-type activities for the year ended June 30, 2002 amounts to $7,872,365,000 (net of accumulated depreciation). The total increase in the City's investment in Capital Assets for the current fiscal year is 6.6% (a 5% increase for governmental activities and an 8% increase for business-type activities).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001 *	2002	2001 *	2002	2001 *
Land, Easements, Rights of Way	$ 1,560,954	$ 1,529,452	$ 73,395	$ 71,937	$ 1,634,349	$ 1,601,389
Structures and Improvments	543,684	409,841	573,887	579,947	1,117,571	989,788
Equipment	146,322	130,354	71,966	69,636	218,288	199,990
Distribution and Collection Systems	-	-	1,176,576	1,130,801	1,176,576	1,130,801
Infrastructure	1,260,014	1,275,284	-	-	1,260,014	1,275,284
Construction-in-Progress	607,049	576,584	1,858,518	1,608,768	2,465,567	2,185,352
Total	$ 4,118,023	$ 3,921,515	$ 3,754,342	$ 3,461,089	$ 7,872,365	$ 7,382,604

* As Restated

Highlights of Fiscal Year 2002 Capital Improvement Activities

Governmental Activities

- In September 2001, the $212 million expansion of the San Diego Convention Center was opened for business. Convention officials have secured commitments from conventions and trade shows to come to the expanded facility through 2022. With this expansion the Convention Center now ranks as the 20th largest convention center in North America with approximately 2.6 million total gross square feet.

- In October 2001, Fire Station #37 in the Miramar Ranch North and Scripps Miramar Ranch communities was opened for business. This $2.4 million project provides an 8,400 square foot, three bay apparatus, ten-person fire station to replace the temporary station at the same site.

- In May 2002, the Central Animal Shelter was opened for business. This $9 million project replaced the existing animal shelter with a larger, approximately 38,000 square foot, modern, state-of-the-art facility to meet the long-term needs of sheltering San Diego's homeless animals.

- Construction was completed in FY 2002 for $5 million of improvements at Qualcomm Stadium to upgrade seating and access to comply with the American with Disabilities Act (ADA) requirements and Title 24 of the California Code of Regulations.

- Construction concluded, on target and budget, for the Mission Valley Branch Library project. This project provides for a 19,700 square foot branch library on Rio San Diego Drive at Fenton Parkway, on a 2 acre site in the Mission Valley Community Plan area. The City's FY 2002 capital expenditures for the Mission Valley Library were $4.6 million. The Library held its grand opening on July 20, 2002.

- Construction continues, on target and budget, for the Ballpark Project. The Ballpark Project consists of the Ballpark Facility, the acquisition of certain land for the Facility, and other related land acquisitions, improvements and infrastructure. The City's FY 2002 capital expenditures for the Ballpark Project were $32 million. Completion is scheduled for Opening Day 2004.

- Construction continues, ahead of schedule, on the SR-56 Transportation Improvement project. SR-56 will be the only east-west freeway in the 25-mile gap between SR-78 and SR-52 in North San Diego County. The City's FY 2002 capital expenditures for the SR-56 project were $43.4 million. Completion is scheduled for FY 2004.

Business-type Activities

- Water: Construction on the $21.5 million Black Mountain Road Pipeline began during fiscal year 2002. The 5.0-mile pipeline will increase water transmission capacity for the Miramar Water Treatment Plant to the northern part of the City, and provide needed system capacity to satisfy current and future demands. The City's FY 2002 capital expenditures for the Black Mountain Road Pipeline were $6.4 million. Completion is scheduled for FY 2003.

- Metropolitan Wastewater: Construction continued on the restoration and replacement of sewer pipelines and pump stations of the municipal wastewater system with expenditures of $60 million during fiscal year 2002.

Highlights of approved Fiscal Year 2003 Capital Improvement Projects Budget (CIP)

The annual approved Capital Improvements Budget for Fiscal year 2003 is $411.4 million. Water and Metropolitan Wastewater projects comprise over 48.8% of the total CIP Budget. Funding for governmental projects include TransNet funds, Facilities Benefit Assessments, Developer Impact Fees, Developer Contributions, Federal, State, local, and private contributions. Highlights of the key budgets by department are as follows:

Governmental Activities

- Transportation: $91.0 million. Key projects include: highway bridge repair/replacement for the North Torrey Pines Road and West Mission Bay Drive Bridges; construction of and improvements along Camino Ruiz, Judicial Drive, and Miramar Road; and Interstate 5/State Route 56 North freeway connectors.

- Library: $35.0 million. Key projects include: the San Ysidro, Logan Heights, La Jolla/Riford, College Heights/Rolando, Ocean Beach, and Skyline Hills Branch Libraries.

- Park and Recreation: $25.3 million. Key projects include: the Camino Ruiz, Torrey Highlands, Ocean View Hills, Del Mar Mesa, and Dennery Ranch Neighborhood Parks; Winterwood Lane Community Park and Recreation Building and Pool; Mid-City parkland acquisition; and Balboa Park Parking Structure.

- Fire and Life Safety Services: $16.3 million. Key projects include: Fire Station #46 serving Black Mountain Ranch/Torrey Highlands and Fire Station #6 serving the Otay Mesa/Nestor communities.

- Special Projects: $10.6 million. Key projects consist of the Ballpark and New Main Library.

Business-type Activities

- Water: $62.5 million for the FY 2003 Water Department CIP budget plus an additional $26.1 million for projects phase funded in previous years. Projects include the Alvarado Water Treatment Plant, including the Earl Thomas Reservoir, the upgrade and expansion of the Miramar Water Treatment Plant, and replacing water mains citywide. These improvements will allow the Water Department to continue to supply San Diegans with a reliable source of safe, clean water, meeting the requirements of the 1996 Safe Drinking Water Act.

- Metropolitan Wastewater: $137.4 million to continue the $2.5 billion upgrade of the City's metropolitan and municipal wastewater system. This includes the Wet Weather Storage Facility, Pipeline Rehabilitation, Phase 1 of the North City Water Reclamation Plant Permanent Demineralization Facility, the Otay Mesa Trunk Sewer, pump station restorations and the continued replacement of sewer mains and upgrades to the sewer infrastructure.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of $2,874,168,000. Of this amount, $58,095,000 is comprised of debt backed by the full faith and credit of the government and $125,955,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), tax allocation bonds, contracts payable, notes payable, loans, capital lease obligations, net pension obligation, liability claims, accrued annual leave, and a bank line-of-credit.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
General Obligation Bonds	$ 58,095	$ 63,595	$ -	$ -	$ 58,095	$ 63,595
Revenue Bonds/ COP's	609,235	434,365	1,433,465	1,463,290	2,042,700	1,897,655
Special Assessment/ Mello Roos Bonds with Governmental Commitment	125,955	128,545	-	-	125,955	128,545
Tax Allocation Bonds	275,471	222,751	-	-	275,471	222,751
Contracts Payable	3,597	3,848	-	-	3,597	3,848
Notes Payable	15,521	15,547	-	-	15,521	15,547
Loans Payable	3,250	3,250	59,842	60,222	63,092	63,472
Section 108 Loans	25,005	26,865	-	-	25,005	26,865
Capital Lease Obligations	38,345	35,130	7,612	7,043	45,957	42,173
Pension Obligation	33,048	26,211	6,082	4,697	39,130	30,908
Liability Claims	98,061	82,329	5,173	7,045	103,234	89,374
Accrued Annual Leave	56,662	52,126	15,805	14,323	72,467	66,449
Bank Line-of-Credit	-	-	3,944	4,169	3,944	4,169
Total	$ 1,342,245	$ 1,094,562	$ 1,531,923	$ 1,560,789	$ 2,874,168	$ 2,655,351

- In December 2001, the City issued $58,425,000 of tax allocation bonds to finance various redevelopment activities.
- In February 2002, the City issued $169,685,000 of lease revenue bonds to finance a portion of the cost of building a state-of-the-art baseball park as part of a larger urban revitalization project to be located in the East Village neighborhood of downtown San Diego.
- In June 2002, the City issued $25,070,000 of lease revenue bonds for construction and improvement projects for fire and lifeguard facilities throughout the City and to acquire land for the future construction of facilities. This is the first of two series of bond issuances expected to occur as part of the project plan.

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The City has an AAA rating from Fitch IBCA, an Aa1 rating from Moody's Investors Service, and an AA rating from Standard & Poor's on general obligation bond issues.

Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation. The current debt limitations for water and other purposes for the City are $3,759,515 and $2,506,343 respectively, which are significantly in excess of the City's current outstanding general obligation debt.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Annual Fiscal Year 2003 Budget incorporates the vision and priorities expressed by the Mayor and City Council. The Mayor's Ten Goals reaffirmed at the State of the City address held on January 7, 2002 include:

1. Establish an ethics commission (established in fiscal year 2002)
2. Reduce traffic congestion
3. Create neighborhoods we can be proud of
4. Clean up our beaches and bays
5. Restructure regional government/construct an airport
6. Complete the ballpark
7. Build a library system
8. Make San Diego America's safest City
9. Pursue energy independence
10. Complete Multiple Species Conservation Program open space acquisition

In addition, the development of the Annual Fiscal Year 2003 Budget took into consideration the priorities of each Council Member. Additional input for the Annual Fiscal year 2003 Budget was provided by the Mayor and City Council at Budget Workshops. Citizen input is provided through continuous departmental customer surveys and Community Budget Forums where the City manager and Council Members discuss the budget with various community groups. Based on the variety of input received, the following priorities were identified in the fiscal year 2003 budget:

- Public Safety
- Neighborhood Services
- Protection and Enhancement of the Environment

The Annual fiscal year 2003 Budget reflects the City's negotiated outcomes with those of the four collective bargaining units representing City workers. The Police Officer's Association did not reach an agreement, so the Mayor and City Council implemented a one-year compensation package. Labor negotiations resulted in compensation and benefit increases of an average of 3.75% over the next three years. Salaries and Benefits account for approximately 75.6% of the total General Fund budget and 19.5% of the Non-General Funds in fiscal year 2003.

FN0917-0000094

In considering the City Budget for Fiscal year 2003, the Mayor, City Council and Management used the following key assumptions in revenue forecasting:

- Property tax revenue will increase 9% due to an estimated rise in assessed property valuations.
- Sales tax revenue will increase by 4% due to anticipated economic growth in the retail base.
- Transient Occupancy Tax revenue will increase by 6% due to anticipated tourism growth and construction of new hotels.
- Motor Vehicle Licenses Fees will increase by 4% due to increased vehicle registration from auto sales and financing incentives.

The unappropriated General Fund reserve totals $21.4 million at the beginning of fiscal year 2003, an 11% increase over fiscal year 2002. The unappropriated reserve was established to fund major General Fund emergencies. A secondary offset is that it assists in maintaining a favorable bond rating. The Mayor and City Council have adopted a new Council Policy, which includes the goal of increasing this reserve to 5% of total General Fund revenues by Fiscal year 2014.

During fiscal year 2002, undesignated fund balance in the General Fund increased to $40.8 million. The City appropriated $19.4 million of this amount for spending in the 2003 Fiscal year budget.

Super Bowl XXXVII will be held in San Diego in January 2003. The anticipated economic impacts and increase to service levels related to hosting this event have been incorporated in the 2003 fiscal year budget.

In October 2002, the City issued $286,945,000 of lease revenue bonds to finance the upgrade and expansion of its water system, consistent with the Water Strategic Plan. Council adopted a water rate increase of 6% per year for five years, beginning in fiscal year 2003, to finance the bond issuance.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Auditor & Comptroller, 202 C Street, City of San Diego, California 92101 or e-mailed to the City Auditor and Comptroller at auditor@sandiego.gov. This financial report is also available on the City's website at www.sandiego.gov, under the Auditor and Comptroller department.

FN0917-0000095

BASIC FINANCIAL STATEMENTS

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

[redacted]

STATEMENT OF NET ASSETS
June 30, 2002
(In Thousands)

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC
ASSETS						
Cash or Equity in Pooled Cash and Investments	$ 702,313	$ 606,658	$ 1,308,971	$ 3,857	$ 244	$ 640
Cash With Custodian/Fiscal Agent	28,128	76	28,204	-	-	-
Investments at Fair Value	352,611	-	352,611	-	25,288	-
Receivables:						
Taxes - Net	53,003	-	53,003	-	-	-
Accounts - Net	53,703	76,652	130,355	3,172	1,094	4,483
Claims - Net	170	-	170	-	-	-
Contributions	404	-	404	-	-	-
Special Assessments - Net	1,984	-	1,984	-	-	-
Notes	20,195	-	20,195	-	77,974	-
Accrued Interest	5,929	3,713	9,642	-	6,830	-
Grants	32,803	7,376	40,179	-	-	-
From Fiduciary Funds	76,584	-	76,584	-	-	-
From City of San Diego	-	-	-	630	267	-
From Other Agencies	1,670	-	1,670	164	4,030	-
Advances to Fiduciary Funds	1,621	358	1,979	-	-	-
Advances to Other Agencies	5,711	-	5,711	-	-	-
Internal Balances	(43,453)	43,453	-	-	-	-
Inventories of Water in Storage	-	31,047	31,047	-	-	-
Inventories	3,787	603	4,390	-	62	-
Land Held for Resale	81,574	-	81,574	-	-	-
Prepaid and Reimbursable Items and Deposits	2,236	1,249	3,485	745	93	2
Restricted Cash and Cash Equivalents:						
Cash or Equity in Pooled Cash and Investments - Acquisition Funds	-	5,644	5,644	-	-	-
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds	-	72,450	72,450	3,842	791	-
Cash with Custodian/Fiscal Agent	-	47	47	-	-	-
Deferred Charges	-	26,791	26,791	-	-	-
Capital Assets - Depreciable	1,959,020	1,822,429	3,772,449	16,979	34,992	-
Capital Assets - Non-Depreciable	2,168,000	1,831,913	4,009,916	-	59,784	-
TOTAL ASSETS	5,504,755	4,632,500	10,137,355	29,397	203,249	5,344
LIABILITIES						
Accounts Payable	26,449	59,059	85,508	612	2,288	518
Accrued Wages and Benefits	65,900	27,706	93,695	1,347	1,888	-
Other Accrued Liabilities	180	2,813	3,002	1,746	1,580	-
Liability Claims	68,913	5,173	85,086	-	-	-
Matured Bonds, Notes and Interest Payable	3	47	50	-	-	-
Interest Accrued on Long-Term Debt	18,581	15,083	33,864	-	-	-
Long-Term Debt Due Within One Year	82,916	32,435	115,351	1,000	114	-
Due to San Diego Convention Center Corporation	630	-	630	-	-	-
Due to San Diego Housing Commission	267	-	267	-	-	-
Due to Other Agencies	360	3,260	3,620	-	340	2,553
Deferred Revenue	112,757	32,039	144,796	516	29	-
Deposits/Advances from Others	-	5,461	5,461	4,820	781	-
Sundry Trust Liabilities	7,979	-	7,973	-	-	-
Estimated Landfill Closure and Postclosure Care	-	10,821	10,821	-	-	-
Capital Lease Obligations	27,662	6,232	33,894	-	-	-
Net Pension Liabilities	33,948	6,082	30,130	-	-	-
Contracts and Notes Payable	90,846	63,786	154,732	7,500	8,127	-
Loans Payable	26,475	-	26,475	-	-	-
Bonds Payable	1,038,222	1,402,410	2,438,632	-	-	-
TOTAL LIABILITIES	1,620,300	1,672,406	3,292,798	17,851	15,110	3,071
NET ASSETS						
Invested in Capital Assets, net of Related Debt	3,288,213	2,253,022	5,561,235	6,478	77,545	-
Restricted for:						
Capital Projects	-	-	-	3,069	-	-
Debt Service	87,221	3,681	90,902	-	-	-
Permanent Endowments:						
Nonexpendable	12,279	-	12,279	-	-	20
Unrestricted	496,662	703,409	1,190,149	-	110,594	2,253
TOTAL NET ASSETS	$ 3,884,355	$ 2,960,103	$ 6,844,550	$ 11,546	$ 188,139	$ 2,273

The accompanying notes are an integral part of the financial statements

FN0917-0000098

STATEMENT OF ACTIVITIES
Year Ended June 30, 2002
(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government and Support	$ 192,948	$ 75,317	$ 8,388	$ 721
Public Safety - Police	282,365	20,074	24,190	623
Public Safety - Fire and Life Safety	134,899	18,240	1,837	128
Parks, Recreation, Culture and Leisure	101,303	10,357	31,821	87,301
Transportation	155,888	38,787	2,250	86,291
Sanitation and Health	87,111	6,489	1,020	184
Neighborhood Services	72,501	12,465	20,008	3,544
Interest on Long-Term Debt	58,483	-	1,753	11,550
TOTAL GOVERNMENTAL ACTIVITIES	1,153,968	181,729	100,066	190,258
Business-Type Activities:				
Airports	3,077	3,505	93	190
City Store	731	741	-	-
Development Services	48,505	44,638	-	-
Environmental Services	32,467	34,309	818	-
Golf Course	5,791	7,442	-	2,190
Recycling	16,080	17,663	-	-
Sewer Utility	255,987	256,732	4,432	83,741
Water Utility	243,263	231,674	538	38,825
San Diego Data Processing Corporation	57,893	58,399	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	661,883	645,353	5,981	124,942
TOTAL PRIMARY GOVERNMENT	$ 1,815,871	$ 827,082	$ 106,038	$ 324,190
Component Units:				
San Diego Convention Center Corporation	$ 30,994	$ 24,782	$ 823	$ -
San Diego Housing Commission	110,510	11,904	-	106,502
San Diego Medical Services Enterprise, LLC	35,233	35,005	-	-
TOTAL COMPONENT UNITS	$ 176,637	$ 71,771	$ 823	$ 106,502
General Revenues:				
Property Taxes				
Sales Taxes				
Franchise Taxes				
Other Local Taxes				
Developer Contributions and Fees				
Grants and Contributions not Restricted to Specific Programs				
Revenue from Use of Money and Property				
Gain/(Loss) on Sale of Capital Assets				
Miscellaneous				
Permanent Fund Contributions				
Distribution from Partner				
Transfers				
Payment from City of San Diego				
Payment to San Diego Convention Center Corporation				
Payment to San Diego Housing Commission				
Payment to San Diego Medical Services Enterprise, LLC				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET ASSETS				
Net Assets at Beginning of Year, as Restated				
NET ASSETS AT END OF YEAR				

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

FN0917-0000099

[redacted]

Net Revenues (Expenses) and Changes in Net Assets					
Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC
$ (107,524)	$ -	$ (107,524)	$ -	$ -	$ -
(247,808)	-	(247,808)	-	-	-
(114,664)	-	(114,664)	-	-	-
(62,914)	-	(62,914)	-	-	-
(21,350)	-	(21,350)	-	-	-
(47,408)	-	(47,408)	-	-	-
(27,464)	-	(27,464)	-	-	-
(43,184)	-	(43,184)	-	-	-
(672,048)	-	(672,048)	-	-	-
-	779	779	-	-	-
-	10	10	-	-	-
-	(1,957)	(1,957)	-	-	-
-	2,720	2,720	-	-	-
-	3,769	3,769	-	-	-
-	1,474	1,474	-	-	-
-	88,938	88,938	-	-	-
-	16,054	16,054	-	-	-
-	505	505	-	-	-
-	114,293	114,293	-	-	-
$ (672,048)	$ 114,293	$ (557,753)	$ -	$ -	$ -
$ -	$ -	$ -	$ (5,260)	$ -	$ -
-	-	-	-	7,885	-
-	-	-	-	-	(138)
$ -	$ -	$ -	$ (5,260)	$ 7,885	$ (138)
223,100	-	223,100	-	-	-
221,383	-	221,383	-	-	-
56,230	-	56,230	-	-	-
146,125	-	146,125	-	-	-
37,296	-	37,296	-	-	-
93,639	-	93,639	-	-	-
88,133	34,918	123,051	-	2,921	-
(1,826)	(71)	(1,897)	-	-	-
6,537	1,880	8,417	-	-	-
110	-	110	-	-	-
500	-	500	-	-	-
3,941	(3,941)	-	-	-	-
-	-	-	5,982	2,225	828
(5,982)	-	(5,982)	-	-	-
(2,225)	-	(2,225)	-	-	-
(828)	-	(828)	-	-	-
603,344	32,786	636,130	5,982	5,146	828
164,298	147,079	341,377	603	13,032	400
3,690,068	2,813,114	6,503,182	10,053	175,107	1,753
$ 3,864,366	$ 2,960,193	$ 9,844,559	$ 11,649	$ 188,139	$ 2,273

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2002
(In Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash or Equity in Pooled Cash and Investments	$ 34,245	$ 605,232	$ 639,477
Cash With Custodian/Fiscal Agent	-	28,128	28,128
Investments at Fair Value	-	352,611	352,611
Receivables:			
Taxes - Net	44,277	8,726	53,003
Accounts - Net	42,129	8,867	50,996
Claims - Net	48	111	159
Special Assessments - Net	-	1,984	1,984
Notes	-	29,195	29,195
Accrued Interest	1,810	4,085	5,895
Grants	-	32,803	32,803
From Fiduciary Funds	75,564	-	75,564
From Other Funds	583	20,698	21,281
From Other Agencies	68	1,602	1,670
Advances to Other Funds	12,517	14,160	26,677
Advances to Other Agencies	350	5,361	5,711
Land Held for Resale	-	81,574	81,574
Prepaid and Reimbursable Items and Deposits	74	1,541	1,615
TOTAL ASSETS	$ 211,865	$ 1,194,458	$ 1,406,123
LIABILITIES			
Accounts Payable	$ 3,739	$ 18,182	$ 21,921
Accrued Wages and Benefits	27,547	1,661	29,208
Other Accrued Liabilities	-	189	189
Matured Bonds, Notes and Interest Payable	-	3	3
Due to Other Funds	-	22,572	22,572
Due to Component Unit	-	906	906
Due to Other Agencies	-	360	360
Deferred Revenue	37,376	75,381	112,757
Advances from Other Funds	-	2,616	2,616
Sundry Trust Liabilities	-	7,973	7,973
Contracts and Notes Payable	73,000	-	73,000
TOTAL LIABILITIES	141,662	129,843	271,505
FUND EQUITY:			
Fund Balances:			
Reserved for Land Held for Resale	-	81,574	81,574
Reserved for Encumbrances	13,431	261,181	274,612
Reserved for Advances and Deposits	12,867	13,787	26,654
Reserved for Permanent Endowments	-	12,276	12,276
Reserved for Debt Service	-	205,156	205,156
Unreserved:			
Designated for Unrealized Gains	1,176	6,478	7,654
Designated for Subsequent Years' Expenditures	1,788	236,400	238,188
Undesignated	40,781	246,743	287,524
TOTAL FUND EQUITY	70,003	1,064,615	1,134,618
TOTAL LIABILITIES AND FUND EQUITY	$ 211,865	$ 1,194,458	

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

Capital Assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	4,640,855
Internal Service funds are used by management to charge the costs of activities such as Central Garage and Machine Shop, Print Shop, and Central Stores to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the Statement of Net Assets.	(140)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,290,787)
Net Assets of governmental activities	$ 3,884,366

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2002
(In Thousands)

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	$ 169,976	$ 53,124	$ 223,100
Special Assessments	-	22,491	22,491
Sales Taxes	139,197	82,186	221,383
Other Local Taxes	115,416	86,948	202,364
Licenses and Permits	22,062	3,132	25,194
Fines, Forfeitures and Penalties	24,250	1,604	25,854
Revenue from Use of Money and Property	34,697	62,516	97,213
Revenue from Federal Agencies	1,931	40,704	42,636
Revenue from Other Agencies	88,027	83,654	171,681
Revenue from Private Sources	-	140,841	140,841
Charges for Current Services	89,936	20,482	110,418
Other Revenue	3,291	6,283	9,574
Distribution from Partner	-	500	500
TOTAL REVENUES	688,783	604,465	1,293,248
EXPENDITURES			
Current:			
General Government and Support	132,312	56,816	189,128
Public Safety - Police	259,191	29,618	288,809
Public Safety - Fire and Life Safety	122,942	9,032	131,974
Parks, Recreation, Culture and Leisure	89,442	85,043	174,485
Transportation	19,196	72,550	91,746
Sanitation and Health	34,535	2,316	36,851
Neighborhood Services	28,626	43,461	72,087
Capital Projects	-	208,083	208,083
Debt Service:			
Principal Retirement	1,553	38,278	39,831
Interest	1,157	47,983	49,140
TOTAL EXPENDITURES	688,954	593,180	1,282,134
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(171)	11,285	11,114
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	2,409	3,357	5,766
Transfers from Other Funds	27,561	306,735	334,296
Transfers from Component Unit	22	550	572
Transfers to Proprietary Funds	(6,699)	(643)	(7,342)
Transfers to Other Funds	(32,082)	(302,204)	(334,286)
Transfers to Component Unit	(650)	(8,757)	(9,407)
Proceeds from Revenue Bonds	-	194,756	194,756
Proceeds from Tax Allocation Bonds	-	58,425	58,425
Proceeds from Capital Leases	1,916	706	2,622
TOTAL OTHER FINANCING SOURCES (USES)	(7,533)	252,925	245,392
NET CHANGE IN FUND BALANCES	(7,704)	264,210	256,506
Fund Balances at Beginning of Year, as Restated	77,707	800,405	878,112
FUND BALANCES AT END OF YEAR	$ 70,003	$ 1,064,615	$ 1,134,618

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

City of San Diego
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2002
(In Thousands)

Net change in fund balances - total governmental funds (page 19)	$ 256,506
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	129,304
The net effect of various miscellaneous transactions involving capital assets (ie: donations, retirements, and transfers) is to increase net assets.	55,754
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(215,972)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absenses, liability claims, and net pension obligation), and therefore are not accrued as expenses in governmental funds.	(28,061)
Internal Service funds are used by management to charge the costs of activities such as Central Garage and Machine Shop, Print Shop, Central Stores, and others to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(3,233)
Change in net assets of governmental activities (page 16)	$ 194,298

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

GENERAL FUND
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	$ 169,444	$ 169,444	$ 169,976	$ 532
Sales Taxes	141,672	141,672	139,197	(2,475)
Other Local Taxes	113,054	113,054	115,416	2,362
Licenses and Permits	21,397	21,397	22,062	665
Fines, Forfeitures and Penalties	30,434	30,434	24,250	(6,184)
Revenue from Use of Money and Property	34,071	34,071	35,809	1,738
Revenue from Federal Agencies	850	850	1,931	1,081
Revenue from Other Agencies	77,202	77,202	88,027	10,825
Charges for Current Services	83,855	83,855	89,936	6,081
Other Revenue	2,848	2,848	3,291	443
Excess Revenue Appropriated	-	2,666	-	(2,666)
TOTAL REVENUES	674,827	677,493	689,895	12,402
EXPENDITURES				
Current:				
General Government and Support	142,574	142,985	136,394	6,591
Public Safety - Police	268,956	268,370	260,803	7,567
Public Safety - Fire and Life Safety	123,867	124,435	122,299	2,136
Parks, Recreation, Culture and Leisure	95,753	95,881	92,239	3,642
Transportation	20,220	20,301	20,037	264
Sanitation and Health	37,364	37,410	35,849	1,561
Neighborhood Services	31,176	31,194	29,656	1,538
Debt Service:				
Principal	1,553	1,553	1,553	-
Interest	3,530	3,530	3,530	-
TOTAL EXPENDITURES	722,993	725,659	702,360	23,299
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(48,166)	(48,166)	(12,465)	35,701
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	2,435	2,435	2,409	(26)
Transfers from Other Funds	40,157	40,157	27,551	(12,606)
Transfers from Component Unit	22	22	22	-
Transfers to Proprietary Funds	(6,699)	(6,699)	(6,699)	-
Transfers to Other Funds	(32,082)	(32,082)	(32,082)	-
Transfers to Component Unit	(650)	(650)	(650)	-
TOTAL OTHER FINANCING SOURCES (USES)	3,183	3,183	(9,449)	(12,632)
NET CHANGE IN FUND BALANCE	(44,983)	(44,983)	(21,914)	23,069
Fund Balance Undesignated at July 1, 2001	51,160	51,160	51,160	-
Reserved for Encumbrances at July 1, 2001	11,151	11,151	11,151	-
Designated for Subsequent Years' Expenditures at July 1, 2001	2,132	2,132	2,132	-
Designated for Subsequent Years' Expenditures at June 30, 2002	-	-	(1,768)	(1,768)
FUND BALANCE UNDESIGNATED AT JUNE 30, 2002	$ 19,460	$ 19,460	$ 40,761	$ 21,301

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

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2002
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Cash or Equity in Pooled Cash and Investments	$ 325,128	$ 218,724	$ 59,781	$ 603,633	$ 85,861
Cash with Custodian/Fiscal Agent	-	-	76	76	-
Receivables:					
Accounts - Net	32,178	38,046	6,428	76,652	2,767
Claims - Net	-	-	-	-	11
Contributions	-	-	-	-	464
Accrued Interest	2,054	1,305	347	3,706	41
Grants	7,139	52	385	7,576	-
From Other Funds	-	-	1,845	1,845	-
Advances to Other Funds	19,071	15,664	10,335	45,070	464
Inventories of Water in Storage	-	31,047	-	31,047	-
Inventories	-	256	347	603	3,767
Prepaid and Reimbursable Items and Deposits	-	-	1,249	1,249	621
Restricted Assets:					
Cash or Equity in Pooled Cash and Investments - Acquisition Funds	-	5,644	-	5,644	-
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds	20,525	29,053	22,872	72,450	-
Cash with Custodian/Fiscal Agent	47	-	-	47	-
Deferred Charges	20,759	7,972	-	28,731	-
Capital Assets - Depreciable	1,245,122	529,679	46,359	1,821,160	78,637
Capital Assets - Non-Depreciable	1,274,784	551,035	106,114	1,931,913	-
TOTAL ASSETS	2,946,787	1,428,477	255,938	4,631,202	152,473
LIABILITIES					
Accounts Payable	16,932	37,069	4,942	58,963	4,824
Accrued Wages and Benefits	9,789	8,453	9,842	26,084	10,340
Other Accrued Liabilities	-	-	2,813	2,813	-
Liability Claims	3,848	1,325	-	5,173	42,600
Matured Bonds, Notes and Interest Payable	47	-	-	47	-
Interest Accrued on Long-Term Debt	6,631	8,452	-	15,083	322
Long-Term Debt Due Within One Year	24,000	7,055	1,380	32,435	6,877
Due to Other Funds	-	-	354	354	-
Due to Other Agencies	3,237	15	8	3,260	-
Deferred Revenue	17,658	9,895	4,488	32,039	-
Advances from Other Funds	-	-	-	-	67,556
Deposits/Advances from Others	-	5,417	44	5,461	-
Estimated Landfill Closure and Postclosure Care	-	-	10,821	10,821	-
Capital Lease Obligations	-	-	6,232	6,232	19,570
Net Pension Liability	2,117	1,705	1,900	5,722	1,050
Contracts and Notes Payable	59,842	-	3,944	63,786	-
Bonds Payable	1,031,245	371,165	-	1,402,410	-
TOTAL LIABILITIES	1,175,346	448,571	46,766	1,670,683	152,939
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,404,752	702,494	144,507	2,251,753	52,140
Restricted for Debt Service	3	3,678	-	3,681	-
Unrestricted	366,686	273,734	64,665	705,085	(52,606)
TOTAL NET ASSETS	$ 1,771,441	$ 979,906	$ 209,172	2,960,519	$ (466)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(326)	
Net assets of business-type activities				$ 2,960,193	

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

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2002
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Sale of Water	$ -	$ 200,033	$ -	$ 200,033	$ 59,179
Charges for Services	251,647	821	111,169	363,637	45,432
Contributions	-	-	3	3	-
Revenue from Use of Property	-	3,654	-	3,654	-
Usage Fees	-	1,304	50,991	52,295	31,775
Other	5,085	16,162	4,484	25,731	1,354
TOTAL OPERATING REVENUES	256,732	221,974	166,647	645,353	137,740
OPERATING EXPENSES					
Benefit and Claim Payments	-	-	-	-	54,358
Maintenance and Operations	142,303	61,813	92,640	296,756	40,396
Cost of Materials Issued	-	-	309	309	28,543
Cost of Water Purchased	-	97,312	-	97,312	-
Taxes	-	1,181	7,636	8,817	-
Administration	22,229	50,886	52,200	125,315	17,132
Depreciation	35,534	12,624	8,899	57,057	10,641
TOTAL OPERATING EXPENSES	200,066	223,816	161,684	585,566	151,068
OPERATING INCOME (LOSS)	56,666	(1,842)	4,963	59,787	(13,328)
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	18,635	11,883	4,471	34,989	162
Federal Grant Assistance	4,432	23	89	4,544	-
Other Agency Grant Assistance	-	515	922	1,437	-
Gain (Loss) on Sale/Retirement of Capital Assets	(272)	130	(29)	(171)	106
Debt Service Interest Payments	(54,028)	(18,487)	(357)	(72,872)	(1,085)
Cost of Issuance of Long - Term Debt	(897)	(307)	-	(1,204)	-
Other	841	6	1,032	1,879	3,184
TOTAL NONOPERATING REVENUES (EXPENSES)	(31,289)	(6,237)	6,128	(31,398)	2,367
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	25,377	(8,079)	11,091	28,389	(10,961)
Capital Contributions	83,741	38,825	2,278	124,842	-
Transfers In	-	-	-	-	2,184
Transfers from Governmental Funds	-	-	643	643	6,899
Transfers Out	(110)	(45)	(49)	(204)	(1,980)
Transfers to Governmental Funds	(968)	(941)	(2,288)	(4,197)	(1,569)
CHANGE IN NET ASSETS	108,040	29,760	11,673	149,473	(5,627)
Net Assets at Beginning of Year, as Restated	1,663,401	950,146	197,499		5,161
NET ASSETS AT END OF YEAR	$ 1,771,441	$ 979,906	$ 209,172		$ (466)

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. (2,394)

Change in net assets of business-type activities $ 147,079

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2002
(In Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	$ 249,741	$ 223,190	$ 164,944	$ 637,875	$ 142,321
Payments to Suppliers	(102,300)	(167,579)	(57,137)	(327,016)	(62,386)
Payments to Employees	(63,000)	(53,404)	(90,891)	(207,295)	(70,568)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	84,441	2,207	16,916	103,564	9,367
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	-	-	-	-	2,184
Transfers from Governmental Funds	-	-	843	843	6,809
Transfers Out	(110)	(45)	(49)	(204)	(1,980)
Transfers to Governmental Funds	(988)	(941)	(2,268)	(4,197)	(1,500)
Operating Grants Received	8,824	536	679	10,039	-
Proceeds from Advances and Deposits	-	889	6	895	11,727
Payments for Advances and Deposits	(5,199)	(1,850)	(1,391)	(8,440)	(74)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	2,377	(1,211)	(2,000)	(834)	18,087
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Issuance of Long-Term Debt	364	-	4,080	4,464	10,623
Proceeds from Contributed Capital	18,004	25,128	2,278	45,438	-
Acquisition of Capital Assets	(129,331)	(129,827)	(16,296)	(275,454)	(22,832)
Proceeds from the Sale of Capital Assets	3	1,019	-	1,022	945
Principal Payments on Capital Leases	-	(104)	(1,207)	(1,311)	(6,018)
Principal Payments on Long Term Debt	(23,740)	(6,780)	(2,425)	(32,945)	-
Interest Paid on Long-Term Debt	(54,148)	(18,563)	(357)	(73,068)	(1,042)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(187,798)	(128,157)	(13,929)	(330,884)	(18,324)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and Dividends Received on Investments	22,050	15,386	5,094	42,530	198
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	22,050	15,386	5,094	42,530	198
Net Increase (Decrease) in Cash and Cash Equivalents	(78,930)	(112,775)	8,081	(185,624)	8,228
Cash and Cash Equivalents at Beginning of Year	424,630	366,196	76,648	867,474	57,633
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 345,700	$ 253,421	$ 82,729	$ 681,850	$ 65,861
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:					
Operating Income (Loss)	$ 58,686	$ (1,842)	$ 4,063	$ 59,707	$ (13,328)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Depreciation	35,534	12,824	8,699	57,057	10,841
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables:					
Accounts - Net	1,947	(931)	431	1,447	1,307
Claims - Net	-	-	-	-	1
From Other Funds	-	-	245	245	-
(Increase) Decrease in Inventories	-	(18,302)	568	(17,734)	(312)
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits	-	1	306	307	(192)
Increase (Decrease) in Accounts Payable	(1,033)	7,456	2,400	8,823	705
Increase (Decrease) in Accrued Wages and Benefits	1,101	391	594	2,086	(184)
Increase (Decrease) in Other Accrued Liabilities	-	-	(366)	(366)	-
Increase (Decrease) in Liability Claims	(2,136)	264	-	(1,872)	7,119
Increase (Decrease) in Due to Other Funds	-	-	(87)	(87)	-
Increase (Decrease) in Due to Other Agencies	847	2	-	849	-
Increase (Decrease) in Deferred Revenue	(9,779)	2,141	(3,409)	(11,047)	-
Increase (Decrease) in Net Pension Liability	453	397	439	1,289	246
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	-	-	901	901	-
Other Nonoperating Revenue (Expenses)	841	6	1,032	1,879	3,164
Total Adjustments	27,775	4,049	11,953	43,777	22,895
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 84,441	$ 2,207	$ 16,916	$ 103,564	$ 9,367
Noncash Investing, Capital, and Financing Activities:					
Developer Contributed Assets	64,707	13,697	-	78,404	-

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

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STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2002
(In Thousands)

	Pension Trust	Agency Funds
ASSETS		
Cash or Equity in Pooled Cash and Investments	$ 2,777	$ 97,177
Cash with Custodian/Fiscal Agent	601,200	-
Investments at Fair Value	2,457,969	104,059
Receivables:		
Accounts - Net	-	6,537
Contributions	15,036	-
Accrued Interest	11,109	8
Loans	19,966	5,599
Securities Sold	47,378	-
Prepaid and Reimbursable Items and Deposits	1	-
Capital Assets - Net	291	-
TOTAL ASSETS	3,155,727	$ 213,380
LIABILITIES		
Accounts Payable	2,940	$ 2,799
Accrued Wages and Benefits	437	-
Employees' 401(k) Plans	-	110,058
Due to Other Funds	-	75,564
Deferred Revenue	243	-
Advances from Other Funds	-	1,979
Deposits/Advances from Others	-	9,452
Sundry Trust Liabilities	-	13,528
Net Pension Liabilities	99	-
Securities Purchased	241,929	-
Contracts and Notes Payable	-	-
TOTAL LIABILITIES	245,648	$ 213,380
NET ASSETS		
Held in Trust for Pension Benefits and Other Purposes	$ 2,910,079	

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2002
(In Thousands)

	Pension Trust
ADDITIONS	
Employer Contributions	$ 103,126
Employee Contributions	105,255
Charges for Services	451
Earnings on Investments	(100,849)
TOTAL OPERATING ADDITIONS	107,983
DEDUCTIONS	
Benefit and Claim Payments	187,203
Administration	7,591
Depreciation	35
TOTAL OPERATING DEDUCTIONS	194,829
NONOPERATING REVENUES (EXPENSES)	
Gain (Loss) on Sale/Retirement of Capital Assets	8
CHANGE IN NET ASSETS	(86,838)
Net Assets at Beginning of Year, as Restated	2,996,917
NET ASSETS AT END OF YEAR	$ 2,910,079

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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
- 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 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 primary government. The Centre City Development Corporation is reported as a governmental fund.

- City of San Diego Metropolitan Transit Development Board Authority was established in 1988 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 primary government. The San Diego Metropolitan Transit Development Board Authority is reported as a governmental fund.

- The Convention Center Expansion Financing Authority was established in 1996 to acquire and construct the 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 Authority provides services which primarily benefit the primary government. The Convention Center Expansion Financing Authority is reported as a governmental fund.

- The Public Facilities Financing Authority was established in 1991 to acquire, construct, maintain, repair, manage, operate and control facilities for public capital improvements. The Public Facilities Financing Authority provides services exclusively to the primary government. The Public Facilities Financing Authority is reported as a governmental fund. Financing for governmental funds is reported as governmental activity, financing for business-type funds is reported as a business-type activity.

- The Redevelopment Agency of the City of San Diego was established in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the Governing Board and the Redevelopment Agency of the City of San Diego provides services exclusively to the City. The Redevelopment Agency of the City of San Diego is reported as a governmental fund.

- 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 primary government. San Diego Data Processing Corporation is reported as a business-type fund.

1. **SUMMARY OF SIGNIFICANT POLICIES (Continued)**

- The San Diego Facilities and Equipment Leasing Corporation is a not-for-profit public benefit corporation established in 1987 for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. The City Council is the Governing Board and the benefit is exclusively to the primary government. The San Diego Facilities and Equipment Leasing Corporation is reported as a governmental fund. Financing for governmental funds is reported as governmental activity, financing for business-type funds is reported as a business-type activity.

- 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. The San Diego Industrial Development Authority is reported as a governmental fund.

- 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. The San Diego Open Space Park Facilities District #1 is reported as a governmental fund.

- 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. The Southeastern Economic Development Corporation, Inc. is reported as a governmental fund.

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 two criteria for blending are met.

Included within the reporting entity as discretely presented component units:

- San Diego Convention Center Corporation ("SDCCC")

  SDCCC is a non-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. SDCCC is discretely presented because it provides services direct to the citizenry. SDCCC is presented as a governmental fund.

1. **SUMMARY OF SIGNIFICANT POLICIES (Continued)**

- San Diego Housing Commission ("SDHC")

  SDHC, a government agency was formed by the City, under ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC primarily serves low income families by providing rental assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services. SDHC is discretely presented because it provides services directly to the citizenry. SDHC is presented as a business-type fund.

- 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. SDMSE is presented as a business-type fund.

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. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

1. **SUMMARY OF SIGNIFICANT POLICIES (Continued)**

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

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

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

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.

Revenues which are considered susceptible to accrual include real and personal property taxes, other local taxes, franchise fees, fines, forfeitures and penalties, motor vehicle license fees, rents and concessions, interest and state and federal grants and 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.

Fiduciary Funds 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, and include both Pension Trust Funds and Agency Funds. Pension Trust Funds are reported using the same measurement focus and basis of accounting as Proprietary Funds. Agency Funds are reported in the same manner as Proprietary Funds.

The following are the City's Major Governmental Funds:

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.

The following are the City's Major Enterprise Funds:

Sewer Utility Fund - The Sewer Utility Fund is used to account for the operation, maintenance and development of the City's sewer system.

1. **SUMMARY OF SIGNIFICANT POLICIES (Continued)**

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

The following are the City's other fund types:

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

Pension Trust Funds - These funds account for the City Employees' Retirement System, the Supplemental Pension Savings Plan, and the Centre City Development Corporation's Pension Plan.

Agency Funds - These funds account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds; these include federal and state income taxes withheld from employees, 401(k) plan, parking citation revenues and employee benefit plans.

Accounting and financial reporting which are similar to those often found in the private sector are followed in both the government-wide and proprietary fund financial statements. 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.

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

Amounts reported as program revenues include (1) charges to customers or applications for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

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).

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.

1. **SUMMARY OF SIGNIFICANT POLICIES (Continued)**

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

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.

The City budget is prepared net of obligations under reverse repurchase agreement interest expense. For budgetary purposes, obligations under reverse repurchase agreement interest expense are 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.

1. **SUMMARY OF SIGNIFICANT POLICIES (Continued)**

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 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
Net Change in Fund Balances - GAAP Basis	$ (7,704)	$ 46,281	$ 35,038
Add (Deduct) -Net Change in Fund Balances - GAAP Basis for Non-Budgeted Funds	-	(23,278)	(36,031)
Budgeted Funds:			
Deduct:			
Encumbrances Outstanding, June 30, 2002	(13,431)	(10,863)	-
Reserved for Advances and Deposits, June 30, 2002	(12,867)	(13,777)	-
Designated for Unrealized Gains, June 30, 2002	(1,176)	(37)	(12)
Reserved for Advances and Deposits, June 30, 2001	10,976	11,316	-
Designated for Unrealized Gains, June 30, 2001	2,288	408	19
Net Change in Fund Balances - Budgetary Basis	$ (21,914)	$ 9,716	$ (986)

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.

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.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

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, 2002, 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.

Generally, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted reserves as they are needed.

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. Capital Assets

Capital assets, which include property, plant, and infrastructure assets such as roads, bridges, and drainage systems, are reported in the applicable governmental or business-type activities column in the government-wide financial statements net of accumulated depreciation.

To meet the criteria for capitalization, an asset must have a useful life in excess of one year, and in the case of equipment outlay, equal or exceed a capitalization threshold of $3,000. All other capital assets such as land, structures, and infrastructure are capitalized regardless of cost. Subsequent improvements are capitalized to the extent that they extend the initial estimated useful life of the capitalized asset, or improve the efficiency or capacity of that asset. Costs for routine maintenance are expensed as incurred.

1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

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

Assets	Years
Equipment	3-50
Structures and Improvements	20-50
Distribution and collection systems	15-150
Infrastructure	25-75

The City retains title to the animal and horticultural collections, which are housed at the San Diego Zoo and Wild Animal Park, where they are maintained by the Zoological Society of San Diego. These collections and additions are: held for public exhibition, education, and research in furtherance of public service rather than gain; are protected, cared for, and preserved or enhanced over time; and are generally not offered for sale. As such, they meet the GASB 34 definition of a collection and are not capitalized in the financial statements.

l. Interagency Current Receivables, Payables and Long-Term Debt

Interagency current receivables and payables resulting from loans between the City and its blended component units are classified as "due from" and "due to" other funds when they are expected to be repaid within a reasonable time period. Those loans or any portion thereof, not expected to be repaid within a reasonable period of time are classified as "transfers."

m. Long-Term Liabilities

In the government-wide and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statements of net assets.

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.

1. **SUMMARY OF SIGNIFICANT POLICIES (Continued)**

All annual leave is accrued when incurred in the Government-Wide Financial Statements and both Proprietary and Fiduciary Funds.

In Governmental Funds, the costs for annual leave that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it.

o. Claims and Judgments

The costs of claims and judgments are accrued when incurred and measurable in the Government Wide Financial Statements and both Proprietary and Fiduciary Funds. In Governmental Funds, the costs of claims and judgments are recorded as expenditures when payments are made.

p. Fund Equity

In the fund financial statements, portions of fund equity of governmental funds 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.

r. 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.

s. Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between Total Fund Balance - Governmental Funds and Total Net Assets - Governmental Activities as reported in the Government-wide Statement of Net Assets. One element of that reconciliation explains that

"Capital assets used in governmental funds are not financial resources, and therefore, are not reported in the funds." The details of this $4,040,655 difference are as follows (in thousands):

Capital Assets; net, July 1, 2001, as restated	$ 3,855,597
Capital Outlay	220,629
Miscellaneous Capital Outlay Transactions	55,754
Depreciation Expense	(91,325)
Net adjustment to increase Total Fund Balance - Governmental Funds to arrive at Total Net Assets - Governmental Activities	$ 4,040,655

Another element of the reconciliation states that "Long Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this ($1,290,767) difference are as follows (in thousands):

Bonds Payable	$ 1,068,756
Contracts and Notes Payable	19,118
Loans Payable	28,255
Accrued Interest Payable	18,259
Capital Leases Payable	11,897
Liability Claims	55,461
Compensated Absences	56,663
Net Pension Obligation	32,358
Net adjustment to decrease Total Fund Balance - Governmental Funds to arrive at Total Net Assets - Governmental Activities	$ 1,290,767

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

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

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

The details of this $129,304 difference are as follows (in thousands):

Capital outlay	$ 220,629
Depreciation expense	(91,325)
Net adjustment to increase Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	$ 129,304

Another element of the reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., donations, retirements, and transfers) is to increase net assets." The details of this $55,754 are as follows (in thousands):

In the Statement of Activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the Change in Net Assets differs from the change in Fund Balances by the cost of the capital assets sold.	$ (8,881)
Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the Governmental Funds because they are not financial resources.	65,391
The Statement of Activities reports losses arising from the retirement of existing capital assets. Conversely, governmental funds do not report any gain or loss on a retirement of capital assets.	(756)
Net adjustment to increase Net Change in Fund Balances – Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities.	$ 55,754

Another element of the reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, etc. when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities."

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

The details of this ($215,972) difference are as follows (in thousands):

Debt Issued or Incurred:	
Issuance of Revenue Bonds	$ 194,755
Issuance of Tax Allocation Bonds	58,425
Capital Leases Incurred	2,622
Principal Repayments:	
General Obligation Debt	(5,500)
Revenue Bond/COP Debt	(19,885)
Special Assessment Debt	(2,590)
Tax Allocation Debt	(5,705)
Loans Payable	(1,860)
Capital Leases	(4,012)
Contracts and Notes Payable	(278)
Net adjustment to decrease Net Changes in Fund Balances – Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	$ 215,972

Another element of the reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not accrued as expenses in governmental funds." The details of this ($28,061) difference are as follows (in thousands):

Compensated Absences	$ 4,536
Liability Claims	10,498
Net Pension Obligation	6,759
Interest	6,268
Net adjustment to decrease Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	$ 28,061

3. 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.

3. CASH AND INVESTMENTS (Continued)

"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 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, 2002, such investment pool had an average duration of 64 days and an average weighted maturity of 405 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, 2002, 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, 2002 was $163,484,036 and $158,665,593, respectively.

3. CASH AND INVESTMENTS (Continued)

Aggregate cash and investments are as follows at June 30, 2002 (in thousands):

	Total
Governmental Activities:	
Cash or equity in pooled cash and investments	$ 702,313
Cash with custodian/fiscal agent	26,128
Investments at fair value	352,611
Total Governmental Activities	1,081,052
Business-Type Activities:	
Cash or equity in pooled cash and investments	606,658
Cash with custodian/fiscal agent	76
Restricted cash and cash equivalents	78,141
Total Business-Type Activities	684,875
Fiduciary Funds:	
Cash or equity in pooled cash and investments	99,954
Cash with custodian/fiscal agent	
Custodian	601,200
Investments at fair value	2,562,028
Total Fiduciary Funds	3,263,182
Total	$ 5,029,109

Deposits

At June 30, 2002, 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 $256,806,371 and the net balance per various financial institutions was approximately $273,602,667, the difference of which is substantially due to deposits in transit and outstanding checks. Of the

balance in financial institutions, approximately $400,000 was covered by federal depository insurance and approximately $273,209,291 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, 2002, "Cash with Custodian/Fiscal Agent" (approximately $627,404) 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.

Deposits - SDCCC

On June 30, 2002, the carrying amount of SDCCC's cash deposits was $3,856,681 and the bank balance was $4,555,587. 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.

3. CASH AND INVESTMENTS (Continued)

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, 2002, the carrying amount of the SDHC of cash deposits was $244,206 and the bank balances was $7,292,880. 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, 2002, the carrying amount of SDMSE's cash lock box deposits was approximately $848,900 and the bank balance was $1,319,267. 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.

All non-negotiable time certificates of deposit are to be fully collateralized with mortgages or eligible securities in accordance with state law.

3. CASH AND INVESTMENTS (Continued)

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, 2002 by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by diving all LAIF participants total aggregate fair value by total aggregate amortized cost.

Accordingly, as of June 30, 2002, the City's investments in LAIF at fair value amounts to $20,153,875 using a LAIF value factor of 1.002780144.

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.

3. 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 policy permits 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 2002, 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, 2002, 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.

Category2: 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.

3. **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 1	Category 2	Category 3	Fair Value
U.S. government and agency securities	$1,176,836	$ 286,021	$ -	$ 1,462,857
Commercial paper	93,144	-	-	93,144
Equity securities (stocks):				
- Not on securities loan	1,296,572	-	-	1,296,572
- On securities loan for securities collateral	163,484	-	-	163,484
Corporate bonds/notes	150,471	-	-	150,471
Fixed income (bonds)	661,658	-	-	661,658
Repurchase agreements	35,800	-	-	35,800
	$3,577,965	$ 286,021	$ -	$ 3,863,986
Investments not subject to categorization:				
Fixed income (bonds) on securities loan for cash collateral				48,584
Equity securities (stocks) on securities loan for cash collateral				110,082
Investment with California Local Agency Investment Fund				20,098
Mutual funds				2,463,768
Real estate/mineral interest funds				176,074
Mortgage Notes				1,515
Other (Deferred Compensation)				5,180
Total investments				$ 6,689,287

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 1	Category 2	Category 3	Fair Value
U.S. government and agency securities	$ 661,658	$ -	$ -	$ 661,658
Equity securities (stocks):				
- Not on securities loan	1,296,572	-	-	1,296,572
- On securities loan for securities collateral	163,484	-	-	163,484
	$2,121,714	$ -	$ -	$2,121,714

3. CASH AND INVESTMENTS (Continued)

Investments not subject to categorization:	
Fixed income (bonds) on securities loan for cash collateral	48,584
Equity securities (stocks) on securities loan for cash collateral	110,082
Real estate/mineral interest funds	176,074
Mortgage Notes	1,515
Total investments	$ 2,457,969

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 Value
	1	2	3	
U.S. government and agency securities	$ 1,543	-	-	$ 1,543
Investments not subject to categorization:				
Investment with California Local Agency Investment Fund				23,717
Total investments				$ 25,260

Summary of Deposits and Investments

Following is a summary of the carrying amount of cash deposits and investments at June 30, 2002 (in thousands):

Cash or equity in pooled cash investments	$ 1,408,925
Cash with custodian/fiscal agent	627,404
Investments at fair value	2,914,639
Restricted cash and cash equivalents	78,141
Total	$ 5,029,109

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

	Primary Government				
	Beginning Balance, As Restated	Additions	Retirements	Transfers	Ending Balance
Governmental Activities:					
Land, Easements, Right of Ways	$1,529,452	$ 38,929	$ (8,881)	$ 1,454	$1,560,954
Structures & Improvements	626,823	10,234	(1,994)	139,455	774,518
Equipment	314,492	40,853	(25,977)	2,597	331,965
Infrastructure	2,283,070	46,974	-	-	2,330,044
Construction-in-Progress	576,584	171,374	-	(140,909)	607,049
Total at Historical Cost	5,330,421	308,364	(36,852)	2,597	5,604,530
Less Accumulated Depreciation for:					
Structures & Improvements	(216,982)	(15,846)	1,994	-	(230,834)
Equipment	(184,138)	(23,353)	24,364	(2,516)	(185,643)
Infrastructure	(1,007,786)	(62,244)	-	-	(1,070,030)
Total Accumulated Depreciation	(1,408,906)	(101,443)	26,358	(2,516)	(1,486,507)
Governmental Activities Capital Assets, Net	$ 3,921,515	$ 206,921	$ (10,494)	$ 81	$ 4,118,023

4. CAPITAL ASSETS (Continued)

	Primary Government				
	Beginning Balance, As Restated	Additions	Retirements	Transfers	Ending Balance
Business-type Activities:					
Land, Easements, Right of Ways	$ 71,937	$ 255	$ -	$ 1,203	$ 73,395
Structures & Improvements	697,997	7,139	(74)	-	705,062
Equipment	173,276	14,902	(21,462)	(2,466)	164,250
Distribution & Collection Systems	1,489,175	78,185	(1,120)	-	1,566,240
Construction in Progress	1,608,768	252,715	(1,762)	(1,203)	1,858,518
Total at Historical Cost	4,041,153	353,196	(24,418)	(2,466)	4,367,465
Less Accumulated Depreciation For:					
Structures & Improvements	(118,050)	(13,198)	73	-	(131,175)
Equipment	(103,640)	(12,220)	21,191	2,385	(92,284)
Distribution & Collection Systems	(358,374)	(31,410)	120	-	(389,664)
Total Accumulated Depreciation	(580,064)	(56,828)	21,384	2,385	(613,123)
Business-type Activities Capital Assets, Net	$ 3,461,089	$ 296,368	$ (3,034)	$ (81)	$ 3,754,342

Depreciation expense was charged to governmental functions as follows:

General Government and Support	$ 2,840
Public Safety-Police	7,682
Public Safety-Fire and Life Safety	2,030
Parks, Recreation, Culture and Leisure	15,680
Transportation	62,668
Sanitation and Health	57
Neighborhood Services	368
In addition, depreciation on capital assets held by the City's Internal Service funds is charged to the various functions based on their usage of the assets	10,118
Total depreciation expense	$ 101,443

4. CAPITAL ASSETS (Continued)

Governmental Activities capital assets net of accumulated depreciation at June 30, 2002 are comprised of the following:

General Capital Assets, Net	$ 4,040,655
Internal Services Fund Capital Assets, Net	77,368
Total	$ 4,118,023

Business-type Activities capital assets net of accumulated depreciation at June 30, 2002 are comprised of the following:

General Capital Assets, Net	$ 3,753,073
Internal Services Fund Capital Assets, Net	1,269
Total	$ 3,754,342

Discretely Presented Component Unit – San Diego Convention Center Corp.

	Beginning Balance, As Restated	Additions	Retirements	Transfers	Ending Balance
Structures and Improvements	$ 16,453	$ 910	$ -	$ -	$ 17,363
Equipment	8,202	1,503	(395)	-	9,310
Total at Historical Cost	24,655	2,413	(395)	-	26,673
Less Accumulated Depreciation For:					
Structures and Improvements	(3,367)	(1,165)	-	-	(4,532)
Equipment	(4,134)	(1,029)	-	-	(5,163)
Total Accumulated Depreciation	(7,501)	(2,194)	-	-	(9,695)
Capital Assets, Net	$ 17,154	$ 219	$ (395)	$ -	$ 16,978

4. CAPITAL ASSETS (Continued)

	Discretely Presented Component Unit – San Diego Housing Commission				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 38,384	$ -	$ -	$ (11,287)	$ 27,097
Structures and Improvements	72,053	-	-	10,166	82,219
Equipment	3,093	19	-	(2,280)	832
Construction-in-Progress	6,157	1,738	-	-	7,895
Total at Historical Cost	119,687	1,757	-	(3,401)	118,043
Less Accumulated Depreciation For:					
Structures and Improvements	(23,788)	(2,895)	-	(4,792)	(31,475)
Equipment	(2,372)	(39)	-	1,629	(782)
Total Accumulated Depreciation	(26,160)	(2,934)	-	(3,163)	(32,257)
Capital Assets, Net	$ 93,527	$ (1,177)	$ -	$ (6,564)	$ 85,786

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

Governmental activities long-term debt consists of general obligation bonds, revenue bonds, certificates of participation ("COP"), special assessment bonds, Mello-Roos bonds, 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 Government-wide Statement of Net Assets as of June 30, 2002 is as follows (in thousands):

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
General Obligation Bonds:				
Open Space Park Refunding Bonds, Series 1994	5.0-6.0%	2009	$64,260	$ 41,175
Municipal Improvement Bonds, Series 1991	5.1-6.65	2012	25,500	16,920
Total General Obligation Bonds				$ 58,095
Revenue Bonds/COPs:				
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2-7.45	2027	68,425	$ 64,955
Metropolitan Transit Development Board Authority Lease Revenue Refunding Bonds, Series 1994	4.25-5.625	2009	66,570	34,560

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
Metropolitan Transit Development Board Authority Lease Revenue Bonds, Series 1993	4.5-5.375	2023	19,515	16,005
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996B	4.0-5.7	2011	11,720	10,440
San Diego Facilities Equipment Leasing Corp. Certificates of Participation, Series 1996A	4.0-5.6	2010	33,430	25,010
San Diego Facilities Equipment Leasing Corp. Certificates of Participation, Series 1993	3.9-5.6	2023	27,985	19,800
Public Facilities Financing Authority Refunding, 1999A & B	3.75-5.1	2017	38,145	30,860
Convention Center Expansion Authority Lease Revenue Bonds, Series 1998A	3.8-4.875	2018	205,000	200,980
Centre City Parking Revenue Bonds, Series 1999A	4.5-6.4	2025	12,105	11,870
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15-7.7	2032	169,685	169,685
Public Facilities Financing Authority Fire and Life Safety Bonds, Series 2002B	3.55-7.0	2032	25,070	25,070
Total Revenue Bonds/COPs				$ 609,235
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	$ 105
1915 Act De La Fuente Business Park Phase I Improvement Bonds, issued April 1989	7.0-7.7	2014	4,897	2,960
1915 Act International Business Center Project Improvement Bonds, Issued September 1990	6.1-7.4	2015	4,172	2,655
1915 Act Otay Mesa Industrial Park Improvement Bonds, issued May 1992	5.5-7.95	2013	2,235	535
1915 Act De La Fuente Business Park Phase II Improvement Bonds, issued July 1992	4.0-7.1	2017	5,987	4,690
Special Tax Bonds, 1998 Series Miramar Ranch North, issued July 1998	3.75-5.375	2020	59,465	54,640
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				$ 125,955

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
Tax Allocation Bonds:				
Centre City Redevelopment Project Tax Allocation Refunding Bonds Series 1992, issued October 1992	3.0-6.0%	2009	36,935	$ 19,830
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993A & B, issued November 1993	4.875-6.5	2018	54,350	36,710
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	7.8-9.75	2013	1,400	1,045
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995A & B, issued June 1995	4.4-8.2	2020	5,155	4,610
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	4.75-6.5	2020	3,750	2,845
Horton Plaza Tax Allocation Refunding Bonds Series 1996 A & B	3.8-6.625	2017	22,800	19,115
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A, B, C, Issued March 1999	3.0-6.25	2024	50,650	50,045
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A & B, Issued April 1999	4.5-6.4	2028	15,830	15,831
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2001, Issued May 2001	Various	2025	1,860	1,820
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000A & B, Issued April 2000	Various	2024	27,490	27,350
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000, Issued May 2000	Various	2030	3,395	3,350
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000, Issued October 2000	Various	2031	13,000	12,725
North Park Redevelopment Project Tax Allocation Bonds, Series 2000, Issued October 2000	Various	2020	7,000	6,855

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000, Issued November 2000	Various	2022	15,025	14,915
Centre City Redevelopment Tax Allocation Bonds Series 2001A, Issued December 2001	3.0-5.55	2026	58,425	58,425
Total Tax Allocation Bonds				$ 275,471
Total Bonds Payable				$ 1,068,756
Contracts Payable:				
Contract Payable to City of National City, dated March 1987	7.5	2002	2,171	$ 431
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	1,568
Total Contracts Payable				$ 3,597
Notes Payable:				
Note payable to Forest City West, Inc. dated August, 1998	0.0	2004	4,000	$ 4,000
Note payable to Lorren Daro, dated March 1995	8.0	2005	257	94
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	5,319
Total Notes Payable				$ 15,521
Loans Payable:				
JMI Padres.– Centre City	8.0	2009	3,272	$ 3,250
Total Loans Payable				$ 3,250

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
Section 108 Loans				$ 25,005
Capital Lease Obligations				38,345
Pension Obligations				33,048
Liability Claims				98,061
Accrued Annual Leave				56,662
Total Governmental Activities				$ 1,342,245

The following is a summary of changes in governmental activities long-term debt for the year ended June 30, 2002 (in thousands):

	Balance July 1, 2001	Additions	Retirements	Balance June 30,2002	Due Within One Year
General Obligation Bonds	$ 63,595	$ -	$ (5,500)	$ 58,095	$ 5,930
Revenue Bonds/COPs	434,365	194,755	(19,885)	609,235	17,830
Special Assessment/Mello-Roos Bonds With Governmental Commitment	128,545	-	(2,590)	125,955	2,480
Tax Allocation Bonds	222,751	58,425	(5,705)	275,471	6,295
Contracts Payable	3,848	-	(251)	3,597	1,004
Notes Payable	15,547	-	(26)	15,521	167
Loans Payable	3,250	-	-	3,250	-
Section 108 Loans	26,865	-	(1,860)	25,005	1,780
Capital Lease Obligations	35,130	13,245	(10,030)	38,345	10,682
Pension Obligations	26,211	6,837	-	33,048	-
Liability Claims	82,329	15,732	-	98,061	8,148
Accrued Annual Leave	52,126	4,536	-	56,662	28,600
Total	$1,094,562	$ 293,530	$ (45,847)	$ 1,342,245	$ 82,916

Additions to governmental activities long-term debt for Contracts, Notes and Loans Payable may differ from proceeds reported on the Statement of Revenues, Expenditures and Changes in Fund Balances due to funding received in prior fiscal years being converted to long-term debt through contingent contractual terms.

Liability claims and accrued annual leave are primarily liquidated by the Self Insurance Fund and General Fund, respectively.

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

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

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 to the obligation.

The annual requirements to amortize such long-term debt outstanding as of June 30, 2002, including interest payments to maturity, are as follows (in thousands):

Year Ending	General Obligation Bonds		Revenue Bonds/COP's		Special Assessment/ Mello Roos	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 5,930	$ 3,466	$ 17,830	$ 35,527	$ 2,480	$ 7,043
2004	6,390	3,135	19,130	34,939	2,645	6,923
2005	6,885	2,760	20,130	34,002	3,040	6,788
2006	7,440	2,337	20,645	33,069	3,270	6,632
2007	8,045	1,878	19,120	32,057	3,530	6,460
2008-2012	23,405	2,932	96,245	144,652	22,145	29,103
2013-2017	-	-	90,565	119,413	28,410	21,916
2018-2022	-	-	110,820	90,354	27,925	13,803
2023-2027	-	-	133,970	53,643	15,850	7,925
2028-2032	-	-	80,780	16,406	16,660	2,197
Total	$ 58,095	$ 16,508	$ 609,235	$ 594,062	$ 125,955	$ 108,790

Year Ending	Tax Allocation Bonds		Contracts Payable		Notes Payable	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 6,295	14,011	$ 1,004	$ 1,414	$ 167	$ 1,441
2004	7,129	12,532	66	152	2,088	665
2005	7,609	12,763	71	149	4,920	507
2006	8,112	12,370	74	146	2,095	375
2007	8,651	11,955	2,017	143	102	369
2008-2012	54,233	52,501	297	442	606	1,705
2013-2017	67,383	38,791	-	19	428	1,367
2018-2022	61,474	24,977	-	-	-	1,279
2023-2027	47,418	14,406	-	-	-	1,279
2028-2032	7,167	3,934	-	-	5,115	767
Total	$ 275,471	$ 198,240	$ 3,597	$ 2,465	$ 15,521	$ 9,754

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

Year Ending June 30,	Loans		Capital Leases		Section 108 Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ -	$ 871	$ 10,682	$ 1,712	$ 1,780	$ 1,645
2004	-	330	9,111	1,202	1,980	1,514
2005	-	356	7,593	786	1,370	1,400
2006	-	385	6,131	438	1,605	1,304
2007	-	415	3,128	184	1,865	1,191
2008-2012	3,250	933	1,700	721	7,120	4,365
2013-2017	-	-	-	-	7,280	1,966
2018-2022	-	-	-	-	2,005	170
2023-2027	-	-	-	-	-	-
2028-2032	-	-	-	-	-	-
Total	$ 3,250	$ 3,290	$ 38,345	$ 5,043	$ 25,005	$ 13,555

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 Statement of Net Assets. 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, 2002, $27,910,000 of defeased bonds including those defeased in prior years are still outstanding.

6. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Business-type activities long-term debt as of June 30, 2002 is comprised of the following (in thousands);

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
Bonds Payable:				
Sewer Revenue Bonds, Series 1993	2.8-5.25%	2023	$250,000	$ 207,540
Sewer Revenue Bonds, Series 1995	3.9-5.0	2025	350,000	316,735
Sewer Revenue Bonds, Series 1997	3.7-5.61	2027	250,000	228,890
Certificates of Undivided interest, 1998	4.0-5.375	2028	385,000	378,220
Sewer Revenue Bonds, 1999	3.9-5.0	2029	315,410	302,080
Total Bonds Payable				$ 1,433,465

6. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002
Contracts and Notes Payable:				
Notes Payable to County of San Diego	0.0	N/A	100	$ 100
Notes Payable to Water Resources Control Board	0.0	N/A	60,966	59,742
Bank Line of Credit	Various	N/A	N/A	3,944
Total Contracts and Notes Payable				$ 63,786
Capital Lease Obligations for Various Equipment, Various Dates	Various	Various	Various	$ 7,612
Pension Obligations				6,082
Liability Claims				5,173
Accrued Annual Leave				15,805
Total Business-type Activities Debt				$ 1,531,923

The following is a summary of changes in long-term debt for the year ended June 30, 2002 (in thousands):

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002	Due Within One Year
Bonds Payable	$ 1,463,290	$ -	$ (29,825)	$ 1,433,465	$ 31,055
Contracts and Notes Payable	64,391	316	(921)	63,786	-
Capital Lease Obligations	7,043	1,880	(1,311)	7,612	1,380
Pension Obligations	4,697	1,385	-	6,082	-
Liability Claims	7,045	-	(1,872)	5,173	-
Accrued Annual Leave	14,323	1,482	-	15,805	-
Total	$1,560,789	$ 5,063	$ (33,929)	$ 1,531,923	$ 32,435

6. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (Continued)

Annual requirements to amortize such long-term debt as of June 30, 2002, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30,	Bonds Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2003	$ 31,055	$ 71,363	$ 1,380	$ 418
2004	32,375	70,049	1,445	267
2005	33,765	68,664	1,511	199
2006	35,355	67,071	1,462	182
2007	37,065	64,997	989	70
2008-2012	214,445	297,673	825	31
2013-2017	275,150	236,960	-	-
2018-2022	353,435	158,657	-	-
2023-2027	334,265	65,392	-	-
2028-2032	86,555	5,211	-	-
Total	$1,433,465	$ 1,106,037	$ 7,612	$ 1,167

7. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM DEBT

Discretely presented component unit long-term debt as of June 30, 2002 is comprised as follows (in thousands):

San Diego Convention Center Corporation

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002	Due Within One Year
Note payable to San Diego Unified Port District, dated 1999	0.0	2010	$10,000	$ 8,500	$ 1,000

San Diego Convention Center will repay the note at the rate of zero percent per annum with principal payable as follows (in thousands):

Fiscal Year	Amount
2003	$ 1,000
2004	1,000
2005	1,000
2006	1,000
2007	1,000
2008-2010	3,500
Total	$ 8,500

7. DISCRETELY PRESENTED COMPONENT UNIT LONG-TERM DEBT (Continued)

San Diego Housing Commission

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002	Due Within One Year
Note payable to Washington Mutual, dated June 1995	Various	2011	$4,725	$ 4,201	$ 74
Note payable to Bank of America, dated February 1985	5.0-10.2%	2025	3,789	3,344	40
Note payable to Redevelopment Agency, dated March 1992	0.0	2022	696	696	-
Total Notes Payable				$ 8,241	$ 114

Annual requirements to amortize such long-term debt as of June 30, 2002 to maturity are as follows (in thousands):

Year Ending June 30	Principal	Interest
2003	$ 114	$ 604
2004	121	596
2005	174	418
2006	182	409
2007	191	401
2008-2012	4,389	1,634
2013-2017	767	503
2018-2022	984	286
2023-2025	1,319	43
Total	$ 8,241	$ 4,894

8. GOVERNMENTAL ACTIVITIES SHORT-TERM DEBT

The City issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its General Fund. These notes are necessary to meet the cash requirements of the City prior to the receipt of property taxes

Short -term debt activity for the year ended June 30, 2002, was as follows (in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Tax Anticipation Notes	$ 77,000	$ 73,000	$ (77,000)	$ 73,000

9. DISCRETELY PRESENTED COMPONENT UNIT SHORT-TERM DEBT

San Diego Medical Services Enterprise, LLC

Under the terms of an operating agreement between San Diego Medical Services Enterprise (SDMSE) and Rural/Metro, Rural/Metro has made available a line-of-credit in the initial amount of $3.5 million bearing an interest rate of 9.5% SDMSE did not have an outstanding balance, nor did it borrow on the line-of-credit at June 30, 2002.

10. 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, 2002 (in thousands):

Year Ending June 30,		
2003	$	8,216
2004		2,932
2005		1,015
2006		697
2007		575
2008-2012		172
2013-2017		37
2018-2022		37
2023-2027		15
Total	$	13,696

Rent expense as related to operating leases was $10,773,017 for the year ended June 30, 2002.

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, 2002 is provided in Notes 5 and 6.

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):

Year Ending June 30,		
2003	$	23,208
2004		22,033
2005		20,969
2006		20,569
2007		20,190
Thereafter		591,409
Total	$	698,378

10. LEASE COMMITMENTS (Continued)

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 $34,230,181 in the year ended June 30, 2002.

11. 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 $101,962,660 at June 30, 2002.

12. 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.

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.

12. PENSION PLANS (Continued)

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. Summary of Significant Accounting Policies

SDCERS financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period they are due. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan.

c. 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 (19 years remaining).

Members 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, 2001 to June 30, 2002 contributions totaling $105,699,000 ($51,058,000 employer and $54,641,000 employee) were made. Of the employer contributions, $40,846,000 was applied to normal cost and $10,212,000 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

12. PENSION PLANS (Continued)

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 Governmental Accounting Standards Board for expending purposes. As a result for June 30, 2002, the actuary rates are reported to be $39,230,000 more than paid by the City which, technically per GASB 27 effective for periods beginning 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.

d. Annual Required Contribution

The annual required contribution for the current year was determined as part of the June 30, 1996 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, 2002 was 19 years.

e. 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	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
6/30/99	$ 44,008	78.3%	$ 23,046
6/30/00	50,044	78.66	30,983
6/30/01	52,585	84.32	39,230

f. Net Pension Obligation Three Year-Trend Analysis

The following table shows the calculation of the City's NPO presented in governmental business-type and fiduciary funds 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
6/30/99	$ 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
6/30/01	54,346	2,269	4,030	21.41	52,585	44,338	8,247	39,230

12. PENSION PLANS (Continued)

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.

   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 $45,584,371. As of June 30, 2002, fair value of Plan assets totaled approximately $375,108,000. 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 $21,650,000 during the fiscal year.

   As of June 30, 2002, fair value of Plan assets totaled approximately $104,059,000. 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 2002 was approximately $2,614,401. CCDC contributions were calculated using the base salary amount of approximately $2,533,958. CCDC made the required 8% contribution, amounting to approximately $202,716 (net of forfeitures) for Fiscal Year 2002.

12. PENSION PLANS (Continued)

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 2002 was approximately $2,614,401. CCDC contributions were calculated using the base salary amount of approximately $2,533,958. CCDC made the required 10% contribution amounting to approximately $253,396 for Fiscal Year 2002. 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.

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 $9,206,590. SDCCC has funded the required contribution as of June 30, 2002.

For the fiscal year ended June 30, 2002, pension expense for the Plan amounted to $1,032,196. 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.

12. PENSION PLANS (Continued)

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, 2002 and 2001, the balance in the account was $124,315 and $121,798, respectively. The balance at June 30, 2002 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 2002 and 2001, was approximately $25,830,029 and $22,871,911, 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 $4,817,292 and $4,247,425 for Fiscal Years 2002 and 2001 respectively.

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 five 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 $1,524,625 for Fiscal Year 2002 based on covered payroll of approximately $10,872,780.

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 $4,322,216 at June 30, 2002.

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 3% of the base salary for management employees. Such contributions are fully vested upon contributions.

12. PENSION PLANS (Continued)

SEDC's total payroll in Fiscal Year 2002 was approximately $804,918. SEDC contributions were calculated using the base salary amount of approximately $683,100. SEDC made the required 12% contribution, amounting to approximately $91,710 for Fiscal Year 2002.

13. 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, 2002, approximately 3,327 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, 2002, approximately 536 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2002, expenditures of approximately $8,882,138 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.

14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund working capital advances balances at June 30, 2002 are as follows (in thousands):

	WCA From			
WCA To	Nonmajor Governmental	Internal Service Funds	Fiduciary Funds	Total
General Fund	$ 300	$ 10,728	$ 1,489	$ 12,517
Nonmajor Governmental	2,190	11,898	72	14,160
Sewer Utility Fund	-	18,916	155	19,071
Water Utility Fund	-	15,533	131	15,664
Nonmajor Enterprise	126	10,171	38	10,335
Internal Service Funds	-	310	94	404
Total	$ 2,616	$ 67,556	$ 1,979	$ 72,151

The balance of $67,246 due from the internal service funds generally resulted from initial investments made to establish working capital when each internal service fund was first created; none of the balance is scheduled to be collected in the subsequent year.

14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund receivables and payables and transfers balances at June 30, 2002 are as follows (in thousands):

	Due To			
Due From	Nonmajor Governmental	Nonmajor Enterprise	Fiduciary Funds	Total
General Fund	$ 583	$ -	$ 75,564	$ 76,147
Nonmajor Governmental	20,698	-	-	20,698
Nonmajor Enterprise	1,291	354	-	1,645
Total	$ 22,572	$ 354	$ 75,564	$ 98,490

The balance of $75,564,000 from the Fiduciary Fund Types is set aside to meet the legal requirements of the City's Tax Anticipation Notes. It is stipulated that the monies must be pledged and set aside in a separate repayment fund. These monies will be paid back to the General Fund upon payment of the Notes.

Primary Government and Component Units

	Due To
Due From	Nonmajor Governmental
San Diego Convention Center Corp.	$ 639
San Diego Housing Commission	267
Total	$ 906

Interfund transfer balances at June 30, 2002 are as follows (in thousands):

	Transfers From				
Transfers To	General Fund	Nonmajor Governmental	Nonmajor Enterprise	Internal Service Funds	Total
General Fund	$ -	$ 32,082	$ -	$ 6,699	$ 38,781
Nonmajor Governmental	27,551	274,653	643	-	302,847
Sewer Utility Fund	305	663	-	110	1,078
Water Utility Fund	180	761	-	45	986
Nonmajor Enterprise	1,868	420	-	49	2,337
Internal Service Funds	58	1,513	-	1,980	3,549
Total	$ 29,960	$ 310,092	$ 643	$ 8,883	$ 349,578

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14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Primary Government and Component Units

	Transfers From					
Transfers To	General Fund	Nonmajor Governmental	San Diego Convention Center Corp.	San Diego Housing Commission	San Diego Medical Services Enterprise, LLC	Total
General Fund	$ -	$ -	$ -	$ -	$ 650	$ 650
Nonmajor Governmental	-	-	6,332	2,425	-	8,257
San Diego Convention Center Corp.	-	350	-	-	-	350
San Diego Housing Commission	-	200	-	-	-	200
San Diego Medical Services Enterprise, LLC	22	-	-	-	-	22
Total	$ 22	$ 550	$ 6,332	$ 2,425	$ 650	$9,479

Transfers are used to: (1) move revenues from the fund in which it is legally required to collect them into the fund which it is legally required to expend them; (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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 $54,000,000 per occurrence are covered by the insurance. Any amounts over $54,000,000 per occurrence would be paid by the City.

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.

15. RISK MANAGEMENT (Continued)

Estimated liabilities for liability claims have been set up in the Self-Insurance Fund, Sewer Utility Fund, and Water Utility Fund. 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, 2002 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	Total
Balance July 1, 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
Claims and Changes in Estimates	21,714	30,144	51,858
Claim Payments	(13,088)	(24,910)	(37,998)
Balance June 30, 2002	$ 60,634	$ 42,600	$ 103,234

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 asset deficit approximately ($466,000) at June 30, 2002. This balance includes a net asset deficit in the Self Insurance Fund of approximately ($30,975,000) which represents unfunded estimated claims and claim settlements related to worker's compensation and long-term disability. 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, 2002, $73,000,000 of Tax Anticipation Notes issued during Fiscal Year 2001-2002 were still outstanding. Monies for full redemption of these notes were fully segregated in a separate repayment fund at June 30, 2002 and subsequently used to redeem the notes on August 1, 2002. The liability for these notes is shown in the General Fund. On July 1, 2002, the City issued $93,200,000 of Tax Anticipation Notes to finance Fiscal Year 2002-03 General Fund cash flow requirements.

17. COMMITMENTS (Continued)

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 $41,175,000 at June 30, 2002 is approximately $7,314,000 for each of the subsequent five years ending June 30, 2007.

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, 2002, approximately $461,669 of total leveraged loans are still outstanding.

The Sewer Utility's construction plans for various projects are estimated to cost approximately $167,975,411. As of June 30, 2002, the Utility's contractual commitments for the projects totaled approximately $81,412,314. 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 $104,220,000. As of June 30, 2002, the Utility's contractual commitments for the projects totaled approximately $70,834,000. The Utility intends to finance the contractual commitments with reserves and service charges and the installment purchase agreement.

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, 2002, 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)

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, 2002, the status of all third party bonds issued is as follows (in thousands):

	Issued	Outstanding
Mortgage Revenue	$ 505,501	$ 498,836
Industrial Development Revenue	345,805	341,796
1911 Act Special Assessment	184	69
Totals	$ 851,490	$ 840,701

19. THIRD PARTY DEBT (Continued)

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 Government-Wide Statement of Net Assets.

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 $10,821,000 reported as landfill closure and postclosure care liability at June 30, 2002 represents the cumulative amount reported to date based on the use of 63.8% of the estimated capacity of the landfill.

The City will recognize the remaining estimated cost of closure and postclosure care of $6,157,512 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, 2002 cash or equity in pooled cash and investments of $22,748,000 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

<u>City of San Diego and San Diego Data Processing Corporation</u>

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, 2002 and 2001 are approximately $27,404,299 and $24,475,142, respectively, of revenue earned from the City under this agreement.

21. OPERATING AGREEMENTS

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 members' equity. The amount of these expenditures for the years ended June 30, 2002 and 2001 were approximately $27,404,299 and $24,475,142, respectively. SDDPC earned $1,193,099 and $1,492,806 in general and administrative fees from such transactions for year ended June 30, 2002 and 2001, 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, 2002 and 2001, respectively:

	2002	2001
City	$ 26,004	$ 248,923

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 October 22, 2001, SDDPC renewed its fiscal year 2002 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. The fiscal year 2003 agreement was signed on August 30, 2002.

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 $3,152,150 and $2,788,516 relating to ARJIS for the years ended June 30, 2002 and 2001, respectively.

State of California

During fiscal year 2001, the SDDPC entered into an agreement with the State of California Department of Information Technology to provide data processing services. The SDDPC's data processing services revenue for the year ended June 30, 2002 was approximately $75,603.

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 paid SDMSE $650,000 and SDMSE paid the City $22,000.

During the year, SDMSE made a $1,000,000 profit distribution to its partners, $500,000 to the City and $500,00 to Rural Metro of San Diego, Inc.

22. RESTATEMENT OF BEGINNING BALANCES

As a result of changes in accounting policies and implementation of GASB No. 34, the fund statements, fund balances, retained earnings, and net assets as of June 30, 2001 have been restated as follows (in thousands):

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Water Utility	Internal Service Funds	Fiduciary Funds
Fund balances/net assets, June 30, 2001, as previously reported	$231,619	$176,001	$496,929	$946,009	$16,778	$2,999,449
Reclassification /Adjustments	22,516	(51,620)	(87,379)	4,137	(11,617)	(2,532)
Fund balances/net assets, June 30, 2001, as restated	$254,135	$124,381	$409,550	$950,146	$ 5,161	$2,996,917

23. SUBSEQUENT EVENTS

On July 1, 2002 the City issued $93,200,000 fiscal-year 2002-2003 Tax Anticipation Notes Series A.

On August 1, 2002, the City paid off the $73,000,000 fiscal-year 2001-2002 Tax Anticipation Notes.

On October 24, 2002, the Public Facilities Financing Authority issued $286,945,000 of Subordinated Water Revenue Bonds to finance the upgrade and expansion of the infrastructure of the Water System of the City of San Diego. The Series 2002 Bonds are secured by and payable solely from net system revenues of the Water Utility Fund. The interest rate on the bonds range from 2.00 – 5.00 percent and the maturity date is August 1, 2032.

* * *

TRUST AND AGENCY FUNDS
PENSION TRUST FUNDS
CITY EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - ANALYSIS OF FUNDING PROGRESS
LAST SIX FISCAL YEARS
(IN THOUSANDS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) PUC (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/96	$1,553,283	$1,682,605	$129,322	92.31%	$388,646	33.28%
6/30/97	1,716,872	1,822,432	105,560	94.21%	408,106	25.87%
6/30/98	1,950,158	2,061,301	111,143	94.61%	425,707	26.11%
6/30/99	2,143,463	2,271,356	127,893	94.37%	454,551	28.14%
6/30/00	2,592,998	2,625,934	32,936	98.75%	479,123	6.87%
6/30/01	2,670,923	2,932,664	261,741	91.07%	518,289	50.50%

GENERAL FUND

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

GENERAL FUND

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

General Fund revenues are derived from such sources as: Taxes; Licenses and Permits; Fines, Forfeitures, and Penalties; Use of Money and Property; Aid from Other Governmental Agencies; Charges for Current Services; and Other Revenue.

Current expenditures and encumbrances are classified by the functions of: General Government and Support; Public Safety–Police; Public Safety–Fire and Life Safety; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; and Interest on Long-Term Debt. Appropriations are made from the fund annually.

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PROPERTY TAXES					
One Percent Property Tax Allocation	$ -	$ -	$ -	$ 169,444	$ (169,444)
Current Year - Secured	143,231	-	143,231	-	143,231
Current Year Supplemental - Secured	7,038	-	7,038	-	7,038
Current Year - Unsecured	7,862	-	7,862	-	7,862
Current Unsecured Supplemental Roll	141	-	141	-	141
Homeowners' Exemptions - Secured	2,655	-	2,655	-	2,655
Homeowners' Exemptions - Unsecured	2	-	2	-	2
Prior Years' - Secured	3,349	-	3,349	-	3,349
Prior Years' - Unsecured	(63)	-	(63)	-	(63)
Interest and Penalties on Delinquent Taxes	516	-	516	-	516
Escapes - Secured	211	-	211	-	211
Escapes - Unsecured	263	-	263	-	263
Other Property Taxes	1,048	-	1,048	-	1,048
State Secured Unitary	3,723	-	3,723	-	3,723
TOTAL PROPERTY TAXES	169,976	-	169,976	169,444	532
SALES TAXES	139,197	-	139,197	141,672	(2,475)
OTHER LOCAL TAXES					
Franchises	56,239	-	56,239	45,519	10,720
Property Transfer Tax	7,034	-	7,034	5,614	1,420
Transient Occupancy Tax	52,143	-	52,143	61,921	(9,778)
TOTAL OTHER LOCAL TAXES	115,416	-	115,416	113,054	2,362
LICENSES AND PERMITS					
General Business Licenses	5,292	-	5,292	5,071	221
Refuse Collection Business Licenses	1,604	-	1,604	1,566	38
Other Regulatory Business Licenses	2,390	-	2,390	1,857	533
Rental Unit Tax	4,900	-	4,900	5,405	(505)
Parking Meter Revenue	5,501	-	5,501	5,172	329
Street and Curb Permits	66	-	66	53	13
Other Licenses and Permits	2,309	-	2,309	2,273	36
TOTAL LICENSES AND PERMITS	22,062	-	22,062	21,397	665
FINES, FORFEITURES AND PENALTIES					
California Vehicle Code Violations	22,304	-	22,304	28,984	(6,680)
Other City Ordinance Code Violations	1,945	-	1,945	1,450	495
Other California Statutory Violations	1	-	1	-	1
TOTAL FINES, FORFEITURES AND PENALTIES	24,250	-	24,250	30,434	(6,184)
REVENUE FROM USE OF MONEY AND PROPERTY					
Interest on Investments	7,874	1,112	8,986	9,395	(409)
Balboa Park Rents and Concessions	589	-	589	440	149
Mission Bay Park Rents and Concessions	20,808	-	20,808	19,085	1,723
Torrey Pines Golf Course Rents and Concessions	-	-	-	120	(120)
Other Rents and Concessions	5,426	-	5,426	5,031	395
TOTAL REVENUE FROM USE OF MONEY AND PROPERTY	34,697	1,112	35,809	34,071	1,738
REVENUE FROM FEDERAL AGENCIES					
Revenue from Federal Agencies	1,931	-	1,931	850	1,081

Continued on Next Page

GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUE FROM OTHER AGENCIES					
State Motor Vehicle License Fees	$ 69,866	$ -	$ 69,866	$ 70,311	$ (445)
Off-Highway Motor Vehicle License Fees	29	-	29	-	29
Local Relief	5,393	-	5,393	6,023	(630)
Tobacco Revenue	11,758	-	11,758	-	11,758
State Grants	981	-	981	868	113
TOTAL REVENUE FROM OTHER AGENCIES	88,027	-	88,027	77,202	10,825
CHARGES FOR CURRENT SERVICES					
Administrative Services to Other Agencies	138	-	138	40	98
Cemetery Revenue	692	-	692	589	103
Engineering Services	397	-	397	696	(299)
Fire Services	12,263	-	12,263	12,116	147
Golf Course Revenue	210	-	210	180	30
Library Revenue	1,932	-	1,932	1,602	330
Miscellaneous Recreation Revenue	2,225	-	2,225	2,032	193
Other Services	1,117	-	1,117	938	179
Paramedic Services	187	-	187	185	2
Planning and Miscellaneous Filing Fees	119	-	119	257	(138)
Police Services	3,308	-	3,308	3,008	300
Swimming Pools Revenue	1,548	-	1,548	1,256	292
Services Rendered to Other Funds for:					
General Government and Financial	35,298	-	35,298	33,770	1,528
Engineering	19,914	-	19,914	17,260	2,654
Park Design	1,932	-	1,932	1,611	321
Miscellaneous Services	8,566	-	8,566	8,225	341
TOTAL CHARGES FOR CURRENT SERVICES	89,936	-	89,936	83,855	6,081
OTHER REVENUE					
Other Refunds of Prior Years' Expenditures	1,207	-	1,207	362	845
Repairs and Damage Recoveries	288	-	288	78	210
Sale of Personal Property	508	-	508	381	127
Miscellaneous Revenue	1,288	-	1,288	2,027	(739)
TOTAL OTHER REVENUE	3,291	-	3,291	2,848	443
EXCESS REVENUE APPROPRIATED	-	-	-	2,666	(2,666)
TOTAL REVENUES	588,783	1,112	589,895	677,493	12,402
TRANSFERS FROM PROPRIETARY FUNDS					
Enterprise Funds:					
San Diego Data Processing Corporation	500	-	500	500	-
City of San Diego:					
Golf Course	1,280	-	1,280	1,288	-
Development Services	-	-	-	1	(1)
Recycling	23	-	23	23	-
Sewer Utility	370	-	370	370	-
Water Utility	181	-	181	181	-
Internal Service Funds:					
City of San Diego:					
Central Garage and Machine Shop	40	-	40	65	(25)
Print Shop	1	-	1	1	-
Special Engineering Fund	14	-	14	14	-
TOTAL TRANSFERS FROM PROPRIETARY FUNDS	2,409	-	2,409	2,435	(26)

GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF REVENUE AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSFERS FROM OTHER FUNDS					
Special Revenue Funds:					
Redevelopment Agency	$ -	$ -	$ -	$ -	$ -
City of San Diego:					
Special Gas Tax Street Improvement	3,469	-	3,469	4,738	(1,269)
Street Divisions Operations	89	-	89	89	-
Transient Occupancy Tax	11,023	-	11,023	20,968	(9,945)
Other Special Revenue-Budgeted	5,034	-	5,034	6,034	(1,000)
Other Special Revenue-Unbudgeted	3,411	-	3,411	3,911	(500)
Capital Projects Funds:					
City of San Diego:					
Other Construction	4,109	-	4,109	4,067	42
Permanent Funds:					
Cemetery Perpetuity	416	-	416	350	66
TOTAL TRANSFERS FROM OTHER FUNDS	27,551	-	27,551	40,157	(12,606)
TRANSFERS FROM COMPONENT UNIT					
Transfer from San Diego Medical Services Enterprise, LLC	22	-	22	22	-
PROCEEDS FROM CAPITAL LEASES					
Proceeds from Capital Leases	1,918	(1,918)	-	-	-
TOTAL REVENUE AND TRANSFERS	$ 720,681	$ (804)	$ 719,877	$ 720,107	$ (230)

GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
GENERAL GOVERNMENT AND SUPPORT					
Departmental:					
Mayor					
Salaries and Wages	$ 1,718	$ -	$ 1,718	$ 1,822	$ 104
Non-Personnel	708	11	719	719	-
Total Mayor	2,426	11	2,437	2,541	104
City Council District 1					
Salaries and Wages	485	-	485	487	2
Non-Personnel	207	18	225	225	-
Total City Council District 1	692	18	710	712	2
City Council District 2					
Salaries and Wages	496	-	496	497	1
Non-Personnel	205	6	211	211	-
Total City Council District 2	701	6	707	708	1
City Council District 3					
Salaries and Wages	469	-	469	479	10
Non-Personnel	215	1	216	216	-
Total City Council District 3	684	1	685	695	10
City Council District 4					
Salaries and Wages	493	-	493	522	29
Non-Personnel	194	2	196	209	13
Total City Council District 4	687	2	689	731	42
City Council District 5					
Salaries and Wages	434	-	434	486	52
Non-Personnel	190	2	192	192	-
Total City Council District 5	624	2	626	678	52
City Council District 6					
Salaries and Wages	418	-	418	446	28
Non-Personnel	226	4	230	230	-
Total City Council District 6	644	4	648	676	28
City Council District 7					
Salaries and Wages	459	-	459	481	22
Non-Personnel	247	16	263	263	-
Total City Council District 7	706	16	722	744	22
City Council District 8					
Salaries and Wages	511	-	511	522	11
Non-Personnel	234	1	235	235	-
Total City Council District 8	745	1	746	757	11
Council Administration					
Salaries and Wages	378	-	378	390	12
Non-Personnel	217	9	226	253	27
Total Council Administration	595	9	604	643	39
City Attorney					
Salaries and Wages	19,638	-	19,638	19,807	169
Non-Personnel	8,103	67	8,170	8,170	-
Total City Attorney	27,741	67	27,808	27,977	169

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 1,718	$ -	$ 1,718	$ 1,822	$ 104
8	-	8	16	8	716	11	727	736	8
8	-	8	16	8	2,434	11	2,445	2,557	112
-	-	-	-	-	485	-	485	487	2
-	-	-	1	1	207	18	225	226	1
-	-	-	1	1	692	18	710	713	3
-	-	-	-	-	496	-	496	497	1
4	-	4	4	-	209	6	215	215	-
4	-	4	4	-	705	6	711	712	1
-	-	-	-	-	469	-	469	479	10
5	-	5	5	-	220	1	221	221	-
5	-	5	5	-	689	1	690	700	10
-	-	-	-	-	493	-	493	522	29
1	1	2	2	-	195	3	198	211	13
1	1	2	2	-	688	3	691	733	42
-	-	-	-	-	434	-	434	486	52
-	-	-	1	1	190	2	192	193	1
-	-	-	1	1	624	2	626	679	53
-	-	-	-	-	418	-	418	446	28
-	-	-	1	1	226	4	230	231	1
-	-	-	1	1	644	4	648	677	29
-	-	-	-	-	459	-	459	481	22
-	-	-	1	1	247	16	263	264	1
-	-	-	1	1	706	16	722	745	23
-	-	-	-	-	511	-	511	522	11
1	-	1	1	-	235	1	236	236	-
1	-	1	1	-	746	1	747	758	11
-	-	-	-	-	378	-	378	390	12
-	-	-	-	-	217	9	226	253	27
-	-	-	-	-	595	9	604	643	39
-	-	-	-	-	19,638	-	19,638	19,807	169
111	8	119	239	120	8,214	75	8,289	8,409	120
111	8	119	239	120	27,852	75	27,927	28,216	289

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GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
City Auditor and Comptroller					
Salaries and Wages	$ 5,620	$ 3	$ 5,623	$ 5,755	$ 132
Non-Personnel	2,209	3	2,212	2,235	23
Total City Auditor and Comptroller	7,829	6	7,835	7,990	155
City Clerk					
Salaries and Wages	1,947	-	1,947	1,998	51
Non-Personnel	1,238	43	1,281	1,391	110
Total City Clerk	3,185	43	3,228	3,389	161
City Manager					
Salaries and Wages	277	-	277	277	-
Non-Personnel	110	-	110	111	1
Total City Manager	387	-	387	388	1
Engineering and Capital Projects - Administration					
Salaries and Wages	1,011	-	1,011	1,270	259
Non-Personnel	473	19	492	522	30
Total Engineering and Capital Projects - Administration	1,484	19	1,503	1,792	289
Field Engineering					
Salaries and Wages	7,000	-	7,000	7,018	18
Non-Personnel	3,068	101	3,169	3,170	1
Total Field Engineering	10,068	101	10,169	10,188	19
Public Buildings & Parks					
Salaries and Wages	2,182	-	2,182	2,264	82
Non-Personnel	984	-	984	1,063	79
Total Public Buildings & Parks	3,166	-	3,166	3,327	161
Equal Opportunity Contracting					
Salaries and Wages	1,235	-	1,235	1,236	1
Non-Personnel	562	89	651	791	140
Total Equal Opportunity Contracting	1,797	89	1,886	2,027	141
Budget and Management Services					
Salaries and Wages	1,729	-	1,729	1,729	-
Non-Personnel	882	-	882	884	2
Total Budget and Management Services	2,611	-	2,611	2,613	2
City Treasurer					
Salaries and Wages	3,156	-	3,156	3,156	-
Non-Personnel	3,038	117	3,155	3,155	-
Total City Treasurer's	6,194	117	6,311	6,311	-
Financing Services					
Salaries and Wages	882	-	882	1,081	199
Non-Personnel	403	1	404	437	33
Total Financing Services	1,285	1	1,286	1,518	232
General Services - Administration					
Salaries and Wages	496	-	496	496	-
Non-Personnel	219	6	225	227	2
Total General Services - Administration	715	6	721	723	2

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 5,620	$ 3	$ 5,623	$ 5,755	$ 132
23	9	32	32	-	2,232	12	2,244	2,267	23
23	9	32	32	-	7,852	15	7,867	8,022	155
-	-	-	-	-	1,947	-	1,947	1,998	51
1	-	1	31	30	1,239	43	1,282	1,422	140
1	-	1	31	30	3,186	43	3,229	3,420	191
-	-	-	-	-	277	-	277	277	-
-	-	-	-	-	110	-	110	111	1
-	-	-	-	-	387	-	387	388	1
-	-	-	-	-	1,011	-	1,011	1,270	259
1	-	1	1	-	474	19	493	523	30
1	-	1	1	-	1,485	19	1,504	1,793	289
-	-	-	-	-	7,900	-	7,900	7,918	18
358	8	366	366	-	3,426	109	3,535	3,536	1
358	8	366	366	-	10,426	109	10,535	10,554	19
-	-	-	-	-	2,182	-	2,182	2,264	82
4	-	4	6	2	988	-	988	1,069	81
4	-	4	6	2	3,170	-	3,170	3,333	163
-	-	-	-	-	1,235	-	1,235	1,236	1
2	-	2	2	-	564	89	653	793	140
2	-	2	2	-	1,799	89	1,888	2,029	141
-	-	-	-	-	1,729	-	1,729	1,729	-
17	27	44	44	-	899	27	926	928	2
17	27	44	44	-	2,628	27	2,655	2,657	2
-	-	-	-	-	3,156	-	3,156	3,156	-
229	2	231	234	3	3,267	119	3,386	3,389	3
229	2	231	234	3	6,423	119	6,542	6,545	3
-	-	-	-	-	882	-	882	1,081	199
1	-	1	41	40	404	1	405	478	73
1	-	1	41	40	1,286	1	1,287	1,559	272
-	-	-	-	-	496	-	496	496	-
-	-	-	-	-	219	6	225	227	2
-	-	-	-	-	715	6	721	723	2

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GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Facilities Maintenance					
Salaries and Wages	$ 7,185	$ -	$ 7,185	$ 7,590	$ 405
Non-Personnel	9,847	528	10,375	10,375	-
Total Facilities Maintenance	17,032	528	17,560	17,965	405
Purchasing					
Salaries and Wages	1,029	-	1,029	1,191	162
Non-Personnel	572	16	588	588	-
Total Purchasing	1,601	16	1,617	1,779	162
Storm Water					
Salaries and Wages	993	-	993	1,254	261
Non-Personnel	968	255	1,223	1,229	6
Total Storm Water	1,961	255	2,216	2,483	267
Information Technology and Communications					
Salaries and Wages	2,715	-	2,715	2,811	96
Non-Personnel	1,676	177	1,853	1,894	41
Total Information Technology and Communications	4,391	177	4,568	4,705	137
Governmental Relations					
Salaries and Wages	264	-	264	280	16
Non-Personnel	446	11	457	496	39
Total Governmental Relations	710	11	721	776	55
Human Resources					
Salaries and Wages	516	-	516	517	1
Non-Personnel	195	-	195	200	5
Total Human Resources	711	-	711	717	6
Organizational Effectiveness Program					
Salaries and Wages	392	-	392	393	1
Non-Personnel	181	1	182	203	21
Total Organizational Effectiveness Program	573	1	574	596	22
Personnel					
Salaries and Wages	3,357	-	3,357	3,406	49
Non-Personnel	1,894	179	2,073	2,105	32
Total Personnel	5,251	179	5,430	5,511	81
Public and Media Affairs					
Salaries and Wages	305	-	305	305	-
Non-Personnel	169	1	170	216	46
Total Public and Media Affairs	474	1	475	521	46
Real Estate Assets					
Salaries and Wages	2,557	-	2,557	2,844	287
Non-Personnel	1,205	16	1,221	1,341	120
Total Real Estate Assets	3,762	16	3,778	4,185	407
Special Projects					
Salaries and Wages	1,372	-	1,372	1,472	100
Non-Personnel	617	-	617	617	-
Total Special Projects	1,989	-	1,989	2,089	100
Total Departmental	113,421	1,703	115,124	118,456	3,331

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 7,185	$ -	$ 7,185	$ 7,590	$ 405
437	115	552	567	15	10,284	643	10,927	10,942	15
437	115	552	567	15	17,469	643	18,112	18,532	420
-	-	-	-	-	1,029	-	1,029	1,191	162
15	7	22	23	1	587	23	610	611	1
15	7	22	23	1	1,616	23	1,639	1,802	163
-	-	-	-	-	993	-	993	1,254	261
-	-	-	-	-	968	255	1,223	1,229	6
-	-	-	-	-	1,961	255	2,216	2,483	267
-	-	-	-	-	2,715	-	2,715	2,811	96
88	28	116	146	30	1,764	205	1,969	2,040	71
88	28	116	146	30	4,479	205	4,684	4,851	167
-	-	-	-	-	264	-	264	280	16
-	-	-	-	-	446	11	457	496	39
-	-	-	-	-	710	11	721	776	55
-	-	-	-	-	516	-	516	517	1
-	-	-	-	-	195	-	195	200	5
-	-	-	-	-	711	-	711	717	6
-	-	-	-	-	392	-	392	393	1
-	-	-	-	-	181	1	182	203	21
-	-	-	-	-	573	1	574	596	22
-	-	-	-	-	3,357	-	3,357	3,406	49
33	-	33	127	94	1,927	179	2,106	2,232	126
33	-	33	127	94	5,284	179	5,463	5,638	175
-	-	-	-	-	305	-	305	305	-
-	-	-	-	-	169	1	170	216	46
-	-	-	-	-	474	1	475	521	46
-	-	-	-	-	2,557	-	2,557	2,844	287
1	1	2	56	54	1,206	17	1,223	1,397	174
1	1	2	56	54	3,763	17	3,780	4,241	461
-	-	-	-	-	1,372	-	1,372	1,472	100
1	12	13	13	-	618	12	630	630	-
1	12	13	13	-	1,990	12	2,002	2,102	100
1,341	218	1,558	1,960	401	114,782	1,921	116,683	120,415	3,732

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GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Citywide Program:					
Assessments to Public Property					
Non-Personnel	$ 210	$ 10	$ 220	$ 260	$ 40
Citywide Elections					
Non-Personnel	227	62	289	289	-
Competition Program					
Non-Personnel	200	-	200	200	-
Employee Personal Property Damage					
Non-Personnel	4	-	4	11	7
Exceptional Performance Pay					
Salaries and Wages	-	-	-	42	42
Non-Personnel	-	-	-	15	15
Total Exceptional Performance Pay	-	-	-	57	57
Fellowship Program					
Salaries and Wages	20	-	20	20	-
Non-Personnel	37	-	37	64	27
Total Fellowship Program	57	-	57	84	27
Financial Accounting Systems					
Salaries and Wages	60	-	60	60	-
Non-Personnel	647	-	647	647	-
Total Financial Accounting Systems	707	-	707	707	-
General Government Printing					
Non-Personnel	64	10	74	95	21
Independent Audit					
Non-Personnel	19	61	80	80	-
Insurance					
Non-Personnel	631	10	641	649	8
Labor Relations					
Salaries and Wages	74	-	74	79	5
Non-Personnel	39	-	39	48	9
Total Labor Relations	113	-	113	127	14
Management Compensation Plan					
Non-Personnel	291	10	301	304	3
Total Management Compensation Plan	291	10	301	304	3

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Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 210	$ 10	$ 220	$ 260	$ 40
-	31	31	31	-	227	93	320	320	-
-	-	-	-	-	200	-	200	200	-
-	-	-	-	-	4	-	4	11	7
-	-	-	-	-	-	-	-	42	42
-	-	-	-	-	-	-	-	15	15
-	-	-	-	-	-	-	-	57	57
-	-	-	-	-	20	-	20	20	-
-	-	-	-	-	37	-	37	64	27
-	-	-	-	-	57	-	57	84	27
-	-	-	-	-	60	-	60	60	-
-	-	-	-	-	647	-	647	647	-
-	-	-	-	-	707	-	707	707	-
-	-	-	-	-	64	10	74	95	21
15	110	125	125	-	34	171	205	205	-
-	76	76	76	-	631	86	717	725	8
-	-	-	-	-	74	-	74	79	5
-	-	-	-	-	39	-	39	48	9
-	-	-	-	-	113	-	113	127	14
-	-	-	-	-	291	10	301	304	3
-	-	-	-	-	291	10	301	304	3

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GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Memberships					
Non-Personnel	$ 522	$ 10	$ 532	$ 549	$ 17
Municipal Activities					
Non-Personnel	21	-	21	21	-
Property Tax Administration					
Non-Personnel	1,578	10	1,588	1,747	159
Public Works Projects					
Salaries and Wages	360	-	360	360	-
Non-Personnel	397	186	583	2,083	1,500
Total Public Works Projects	757	186	943	2,443	1,500
Random Drug Testing					
Salaries and Wages	11	-	11	43	32
Non-Personnel	76	37	113	123	10
Total Random Drug Testing	87	37	124	166	42
Special Pay					
Non-Personnel	-	-	-	1	1
Training					
Salaries and Wages	11	-	11	11	-
Non-Personnel	25	10	35	37	2
Total Training	36	10	46	48	2
Travel Contingency					
Non-Personnel	-	-	-	7	7
San Diego Geographic Info Source					
Non-Personnel	373	-	373	373	-
Total San Diego Geographic Info Source	373	-	373	373	-
Space Rental					
Salaries and Wages	86	-	86	86	-
Non-Personnel	6,053	122	6,175	6,264	89
Total Space Rental	6,139	122	6,261	6,350	89
Other Special Projects					
Salaries and Wages	612	-	612	612	-
Non-Personnel	4,323	525	4,848	5,537	689
Total Other Special Projects	4,935	525	5,460	6,149	689
Total Citywide Programs	16,971	1,063	18,034	20,717	2,683
TOTAL GENERAL GOVERNMENT AND SUPPORT	130,392	2,766	133,158	139,172	6,014

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 522	$ 10	$ 532	$ 549	$ 17
-	-	-	-	-	21	-	21	21	-
-	-	-	-	-	1,578	10	1,588	1,747	159
-	-	-	-	-	360	-	360	360	-
96	107	203	236	33	493	293	786	2,319	1,533
96	107	203	236	33	853	293	1,146	2,679	1,533
-	-	-	-	-	11	-	11	43	32
25	-	25	41	16	101	37	138	164	26
25	-	25	41	16	112	37	149	207	58
-	-	-	-	-	-	-	-	1	1
-	-	-	-	-	11	-	11	11	-
-	8	8	8	-	25	18	43	45	2
-	8	8	8	-	36	18	54	56	2
-	2	2	2	-	-	2	2	9	7
13	-	13	18	5	386	-	386	391	5
13	-	13	18	5	386	-	386	391	5
-	-	-	-	-	86	-	86	86	-
236	355	591	613	22	6,289	477	6,766	6,877	111
236	355	591	613	22	6,375	477	6,852	6,963	111
-	-	-	-	-	612	-	612	612	-
194	409	603	703	100	4,517	934	5,451	6,240	789
194	409	603	703	100	5,129	934	6,063	6,852	789
579	1,096	1,677	1,853	176	17,550	2,161	19,711	22,570	2,859
1,920	1,316	3,236	3,813	577	132,312	4,082	136,394	142,985	6,591

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GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PUBLIC SAFETY - POLICE					
Departmental:					
Police					
Salaries and Wages	$ 175,897	$ -	$ 175,897	$ 180,050	$ 4,153
Non-Personnel	81,477	1,584	83,061	86,066	3,005
Total Police	257,374	1,584	258,958	266,116	7,158
Citywide Program:					
Police Review Board					
Salaries and Wages	143	-	143	143	-
Non-Personnel	99	-	99	99	-
Total Police Review Board	242	-	242	242	-
Other Special Projects					
Non-Personnel	98	-	98	100	2
Total Citywide Program	340	-	340	342	2
TOTAL PUBLIC SAFETY - POLICE	257,714	1,584	259,298	266,458	7,160
PUBLIC SAFETY - FIRE AND LIFE SAFETY					
Departmental:					
Fire and Life Safety					
Salaries and Wages	84,517	-	84,517	84,795	278
Non-Personnel	37,337	(991)	36,346	37,777	1,431
Total Fire and Life Safety	121,854	(991)	120,863	122,572	1,709
Citywide Program:					
Emergency Medical Services					
Salaries and Wages	174	-	174	186	12
Non-Personnel	243	20	263	293	30
Total Emergency Medical Services	417	20	437	479	42
Other Special Projects					
Non-Personnel	-	-	-	190	190
Total Citywide Program	417	20	437	669	232
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY	122,271	(971)	121,300	123,241	1,941

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 175,897	$ -	$ 175,897	$ 180,050	$ 4,153
1,477	28	1,505	1,912	407	82,954	1,612	84,566	87,978	3,412
1,477	28	1,505	1,912	407	258,851	1,612	260,463	268,028	7,565
-	-	-	-	-	143	-	143	143	-
-	-	-	-	-	99	-	99	99	-
-	-	-	-	-	242	-	242	242	-
-	-	-	-	-	98	-	98	100	2
-	-	-	-	-	340	-	340	342	2
1,477	28	1,505	1,912	407	259,191	1,612	260,803	268,370	7,567
-	-	-	-	-	84,517	-	84,517	84,795	278
658	328	986	1,181	195	37,995	(663)	37,332	38,958	1,626
658	328	986	1,181	195	122,512	(663)	121,849	123,753	1,904
-	-	-	-	-	174	-	174	186	12
13	-	13	13	-	256	20	276	306	30
13	-	13	13	-	430	20	450	492	42
-	-	-	-	-	-	-	-	190	190
13	-	13	13	-	430	20	450	682	232
671	328	999	1,194	195	122,942	(643)	122,299	124,435	2,136

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GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PARKS, RECREATION, CULTURE AND LEISURE					
Departmental:					
Park and Recreation - Management					
Salaries and Wages	$ 826	$ -	$ 826	$ 827	$ 1
Non-Personnel	430	10	440	442	2
Total Park and Recreation - Management	1,256	10	1,266	1,269	3
Coastal Parks					
Salaries and Wages	6,761	-	6,761	7,311	550
Non-Personnel	7,002	507	7,509	7,643	134
Total Coastal Parks	13,763	507	14,270	14,954	684
Inland Parks					
Salaries and Wages	9,163	-	9,163	9,165	2
Non-Personnel	7,200	303	7,503	7,704	201
Total Inland Parks	16,363	303	16,666	16,869	203
Metro Parks					
Salaries and Wages	8,367	-	8,367	8,595	228
Non-Personnel	8,376	674	9,050	9,050	-
Total Metro Parks	16,743	674	17,417	17,645	228
Northern Parks					
Salaries and Wages	4,289	-	4,289	4,357	68
Non-Personnel	5,173	516	5,689	5,833	144
Total Northern Parks	9,462	516	9,978	10,190	212
Special Services					
Salaries and Wages	5	-	5	27	22
Non-Personnel	3	-	3	7	4
Total Special Services	8	-	8	34	26
Library					
Salaries and Wages	16,387	-	16,387	16,858	471
Non-Personnel	13,592	444	14,036	15,009	973
Total Library	29,979	444	30,423	31,867	1,444
Total Departmental	87,574	2,454	90,028	92,828	2,800
Citywide Program:					
Park and Recreation Programs					
Non-Personnel	276	7	283	941	658
TOTAL PARKS, RECREATION, CULTURE AND LEISURE	87,850	2,461	90,311	93,769	3,458

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 826	$ -	$ 826	$ 827	$ 1
4	-	4	5	1	434	10	444	447	3
4	-	4	5	1	1,260	10	1,270	1,274	4
-	-	-	-	-	6,761	-	6,761	7,311	550
197	-	197	221	24	7,199	507	7,706	7,864	158
197	-	197	221	24	13,960	507	14,467	15,175	708
-	-	-	-	-	9,163	-	9,163	9,165	2
290	-	290	290	-	7,490	303	7,793	7,994	201
290	-	290	290	-	16,653	303	16,956	17,159	203
-	-	-	-	-	8,367	-	8,367	8,595	228
339	4	343	386	43	8,715	676	9,393	9,436	43
339	4	343	386	43	17,082	676	17,760	18,031	271
-	-	-	-	-	4,289	-	4,289	4,357	68
293	234	527	609	82	5,466	750	6,216	6,442	226
293	234	527	609	82	9,755	750	10,505	10,799	294
-	-	-	-	-	5	-	5	27	22
-	-	-	-	-	3	-	3	7	4
-	-	-	-	-	8	-	8	34	26
-	-	-	-	-	16,387	-	16,387	16,858	471
469	98	567	601	34	14,061	542	14,603	15,610	1,007
469	98	567	601	34	30,448	542	30,990	32,468	1,478
1,592	336	1,928	2,112	184	89,166	2,790	91,956	94,940	2,984
-	-	-	-	-	276	7	283	941	658
1,592	336	1,928	2,112	184	89,442	2,797	92,239	95,881	3,642

Continued on Next Page

GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSPORTATION					
Departmental					
Parking Management					
Salaries and Wages	$ 3,861	$ -	$ 3,861	$ 3,862	$ 1
Non-Personnel	2,624	301	2,925	2,957	32
Total Parking Management	6,485	301	6,786	6,819	33
Transportation Management					
Salaries and Wages	143	-	143	143	-
Non-Personnel	75	-	75	76	1
Total Transportation Management	218	-	218	219	1
Transportation Design					
Salaries and Wages	4,049	-	4,049	4,150	101
Non-Personnel	2,258	69	2,327	2,328	1
Total Transportation Design	6,307	69	6,376	6,478	102
Streets					
Non-Personnel	-	302	302	302	-
Total Streets	-	302	302	302	-
Traffic Engineering					
Salaries and Wages	3,497	-	3,497	3,525	28
Non-Personnel	2,072	63	2,135	2,142	7
Total Traffic Engineering	5,569	63	5,632	5,667	35
Total Departmental	18,579	735	19,314	19,485	171
Citywide Program:					
Transportation					
Non-Personnel	362	70	432	432	-
TOTAL TRANSPORTATION	18,941	805	19,746	19,917	171
SANITATION AND HEALTH					
Departmental:					
Collection Services					
Salaries and Wages	6,493	-	6,493	6,670	177
Non-Personnel	21,801	1,077	22,878	24,060	1,182
Total Collection Services	28,294	1,077	29,371	30,730	1,359
Environmental Protection					
Salaries and Wages	215	-	215	238	23
Non-Personnel	244	2	246	247	1
Total Environmental Protection	459	2	461	485	24
Resource Management					
Salaries and Wages	214	-	214	274	60
Non-Personnel	76	-	76	102	26
Total Resource Management	290	-	290	376	86
Mt. Hope Cemetery					
Salaries and Wages	539	-	539	593	54
Non-Personnel	810	46	856	856	-
Total Mt. Hope Cemetery	1,349	46	1,395	1,449	54
Total Departmental	30,392	1,125	31,517	33,040	1,523

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 3,861	$ -	$ 3,861	$ 3,862	$ 1
77	1	78	159	81	2,701	302	3,003	3,116	113
77	1	78	159	81	6,562	302	6,864	6,978	114
-	-	-	-	-	143	-	143	143	-
-	-	-	-	-	75	-	75	76	1
-	-	-	-	-	218	-	218	219	1
-	-	-	-	-	4,049	-	4,049	4,150	101
82	35	117	121	4	2,340	104	2,444	2,449	5
82	35	117	121	4	6,389	104	6,493	6,599	106
-	-	-	-	-	-	302	302	302	-
-	-	-	-	-	-	302	302	302	-
-	-	-	-	-	3,497	-	3,497	3,525	28
96	-	96	104	8	2,168	63	2,231	2,246	15
96	-	96	104	8	5,665	63	5,728	5,771	43
255	36	291	384	93	18,834	771	19,605	19,869	264
-	-	-	-	-	362	70	432	432	-
255	36	291	384	93	19,196	841	20,037	20,301	264
-	-	-	-	-	6,493	-	6,493	6,670	177
46	13	59	80	21	21,847	1,090	22,937	24,140	1,203
46	13	59	80	21	28,340	1,090	29,430	30,810	1,380
-	-	-	-	-	215	-	215	238	23
-	-	-	-	-	244	2	246	247	1
-	-	-	-	-	459	2	461	485	24
-	-	-	-	-	214	-	214	274	60
-	-	-	-	-	76	-	76	102	26
-	-	-	-	-	290	-	290	376	86
-	-	-	-	-	539	-	539	593	54
95	8	103	111	8	905	54	959	967	8
95	8	103	111	8	1,444	54	1,498	1,560	62
141	21	162	191	29	30,533	1,146	31,679	33,231	1,552

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GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Departmental (Continued):					
Citywide Program:					
Animal Regulation					
Non-Personnel	$ 3,866	$ 94	$ 3,960	$ 3,960	$ -
Health Services Furnished by County					
Non-Personnel	17	-	17	17	-
Refuse Container Fund					
Non-Personnel	119	-	119	119	-
Total Citywide Program	4,002	94	4,096	4,096	-
TOTAL SANITATION AND HEALTH	34,394	1,219	35,613	37,136	1,523
NEIGHBORHOOD SERVICES:					
Departmental:					
Community and Economic Development					
Salaries and Wages	4,463	-	4,463	4,466	3
Non-Personnel	7,879	384	8,263	8,318	55
Total Community and Economic Development	12,342	384	12,726	12,784	58
Building Development Review					
Salaries and Wages	1,055	-	1,055	1,055	-
Non-Personnel	617	1	618	673	55
Total Development Services	1,672	1	1,673	1,728	55
Neighborhood Code Compliance					
Salaries and Wages	3,710	-	3,710	3,824	114
Non-Personnel	2,448	94	2,542	2,542	-
Total Neighborhood Code Compliance	6,158	94	6,252	6,366	114
Planning					
Salaries and Wages	4,404	-	4,404	4,792	388
Non-Personnel	3,382	347	3,729	4,029	300
Total Planning	7,786	347	8,133	8,821	688
Total Departmental	27,958	826	28,784	29,699	915
Citywide Program:					
Community and Economic Development Special Projects					
Non-Personnel	100	20	120	440	320
Total Community and Economic Development Special Projects	100	20	120	440	320
Nuisance Abatement					
Non-Personnel	-	-	-	43	43
Total Citywide Program	100	20	120	483	363
TOTAL NEIGHBORHOOD SERVICES	28,058	846	28,904	30,182	1,278
DEBT SERVICE:					
Principal	1,553	-	1,553	1,553	-
Interest	1,157	2,373	3,530	3,530	-
TOTAL DEBT SERVICE	2,710	2,373	5,083	5,083	-
TOTAL EXPENDITURES	682,330	11,083	693,413	714,958	21,545

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ 71	$ 71	$ 71	$ -	$ 3,866	$ 165	$ 4,031	$ 4,031	$ -
-	3	3	12	9	17	3	20	29	9
-	-	-	-	-	119	-	119	119	-
-	74	74	83	9	4,002	168	4,170	4,179	9
141	95	236	274	38	34,535	1,314	35,849	37,410	1,561
-	-	-	59	59	4,463	-	4,463	4,525	62
474	74	548	549	1	8,353	458	8,811	8,867	56
474	74	548	608	60	12,816	458	13,274	13,392	118
-	-	-	-	-	1,055	-	1,055	1,055	-
-	-	-	-	-	617	1	618	673	55
-	-	-	-	-	1,672	1	1,673	1,728	55
-	-	-	-	-	3,710	-	3,710	3,824	114
28	5	33	187	154	2,476	99	2,575	2,729	154
28	5	33	187	154	6,186	99	6,285	6,553	268
-	-	-	-	-	4,404	-	4,404	4,792	388
66	105	171	217	46	3,448	452	3,900	4,246	346
66	105	171	217	46	7,852	452	8,304	9,038	734
568	184	752	1,012	260	28,526	1,010	29,536	30,711	1,175
-	-	-	-	-	100	20	120	440	320
-	-	-	-	-	100	20	120	440	320
-	-	-	-	-	-	-	-	43	43
-	-	-	-	-	100	20	120	483	363
568	184	752	1,012	260	28,626	1,030	29,656	31,194	1,538
-	-	-	-	-	1,553	-	1,553	1,553	-
-	-	-	-	-	1,157	2,373	3,530	3,530	-
-	-	-	-	-	2,710	2,373	5,083	5,083	-
6,624	2,323	8,947	10,701	1,754	688,954	13,406	702,360	725,659	23,299

Continued on Next Page

GENERAL FUND
CITY OF SAN DIEGO
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
June 30, 2002
(In Thousands)

	Current Year				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSFERS TO PROPRIETARY FUNDS					
Internal Service Funds:					
City of San Diego:					
Self Insurance	$ 6,454	$ -	$ 6,454	$ 6,454	$ -
Miscellaneous Internal Service	245	-	245	245	-
Total Internal Service Funds	6,699	-	6,699	6,699	-
TOTAL TRANSFERS TO PROPRIETARY FUNDS	6,699	-	6,699	6,699	-
TRANSFERS TO OTHER FUNDS					
Special Revenue Funds:					
City of San Diego:					
Acquisition, Improvement and Operation	391	-	391	391	-
Streets Division Operations	15,145	-	15,145	15,145	-
Other Special Revenue - Budgeted	213	-	213	213	-
Other Special Revenue - Unbudgeted	15,592	-	15,592	15,592	-
Total Special Revenue Funds	31,341	-	31,341	31,341	-
Capital Projects Funds:					
City of San Diego:					
Other Construction	631	-	631	631	-
Total Capital Projects Funds	631	-	631	631	-
TOTAL TRANSFERS TO OTHER FUNDS	31,972	-	31,972	31,972	-
TRANSFER TO COMPONENT UNIT					
Transfer to San Diego Medical Services Enterprise, LLC	650	-	650	650	-
TOTAL EXPENDITURES AND TRANSFERS	$ 721,651	$ 11,083	$ 732,734	$ 754,279	$ 21,545

Prior Year					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 6,454	$ -	$ 6,454	$ 6,454	$ -
-	-	-	-	-	245	-	245	245	-
-	-	-	-	-	6,699	-	6,699	6,699	-
-	-	-	-	-	6,699	-	6,699	6,699	-
-	-	-	-	-	391	-	391	391	-
-	-	-	-	-	15,145	-	15,145	15,145	-
-	-	-	-	-	213	-	213	213	-
55	-	55	55	-	15,847	-	15,847	15,847	-
55	-	55	55	-	31,396	-	31,396	31,396	-
55	-	55	55	-	686	-	686	686	-
55	-	55	55	-	686	-	686	686	-
110	-	110	110	-	32,082	-	32,082	32,082	-
-	-	-	-	-	650	-	650	650	-
$ 6,734	$ 2,323	$ 9,057	$ 10,811	$ 1,754	$ 728,385	$ 13,406	$ 741,791	$ 765,090	$ 23,299

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2002
(In Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
ASSETS					
Cash or Equity in Pooled Cash and Investments	$ 289,504	$ 5,393	$ 310,030	$ 305	$ 605,232
Cash With Custodian/Fiscal Agent	261	25,303	3	561	26,128
Investments at Fair Value	1,121	127,981	212,128	11,381	352,611
Receivables:					
Taxes - Net	8,697	29	-	-	8,726
Accounts - Net	7,382	-	1,468	17	8,867
Claims - Net	111	-	-	-	111
Special Assessments - Net	1,411	553	-	-	1,964
Notes	16,625	-	12,570	-	29,195
Accrued Interest	873	524	2,676	12	4,085
Grants	17,397	-	15,206	-	32,603
From Other Funds	1,316	142	19,240	-	20,698
From Other Agencies	1,507	-	95	-	1,602
Advances to Other Funds	13,309	-	851	-	14,160
Advances to Other Agencies	5,361	-	-	-	5,361
Land Held for Resale	7,507	-	74,067	-	81,574
Prepaid and Reimbursable Items and Deposits	341	1,197	3	-	1,541
TOTAL ASSETS	$ 372,723	$ 161,122	$ 648,337	$ 12,276	$ 1,194,458
LIABILITIES					
Accounts Payable	$ 4,609	$ -	$ 13,573	$ -	$ 18,182
Accrued Wages and Benefits	1,661	-	-	-	1,661
Other Accrued Liabilities	189	-	-	-	189
Matured Bonds, Notes and Interest Payable	-	3	-	-	3
Due to Other Funds	15,574	-	6,998	-	22,572
Due to Component Unit	906	-	-	-	906
Due to Other Agencies	178	-	182	-	360
Deferred Revenue	45,525	361	29,495	-	75,381
Advances from Other Funds	1,277	1,339	-	-	2,616
Sundry Trust Liabilities	2,388	-	5,585	-	7,973
TOTAL LIABILITIES	72,307	1,703	55,833	-	129,843
FUND EQUITY:					
Fund Balances:					
Reserved for Land Held for Resale	7,507	-	74,067	-	81,574
Reserved for Encumbrances	25,994	-	235,187	-	261,181
Reserved for Advances and Deposits	13,787	-	-	-	13,787
Reserved for Permanent Endowments	-	-	-	12,276	12,276
Reserved for Debt Service	50,477	155,879	-	-	206,156
Unreserved:					
Designated for Unrealized Gains	1,136	3,740	1,602	-	6,478
Designated for Subsequent Years' Expenditures	68,327	-	168,073	-	236,400
Undesignated	133,188	-	113,575	-	246,763
TOTAL FUND EQUITY	300,416	159,419	592,504	12,276	1,064,615
TOTAL LIABILITIES AND FUND EQUITY	$ 372,723	$ 161,122	$ 648,337	$ 12,276	$ 1,194,458

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

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2002
(In Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
REVENUES					
Property Taxes	$ 26,768	$ 22,467	$ 3,889	$ -	$ 53,124
Special Assessments	10,936	11,556	-	-	22,491
Sales Taxes	51,468	-	30,718	-	82,186
Other Local Taxes	86,948	-	-	-	86,948
Licenses and Permits	2,391	-	741	-	3,132
Fines, Forfeitures and Penalties	1,604	-	-	-	1,604
Revenue from Use of Money and Property	31,820	2,213	28,173	310	62,516
Revenue from Federal Agencies	35,741	-	4,963	-	40,704
Revenue from Other Agencies	42,458	-	41,196	-	83,654
Revenue from Private Sources	27,218	745	112,878	-	140,841
Charges for Current Services	20,414	-	-	68	20,482
Other Revenue	1,688	-	4,485	110	6,283
Distribution from Partner	500	-	-	-	500
TOTAL REVENUES	339,953	36,981	227,043	488	604,485
EXPENDITURES					
Current:					
General Government and Support	28,840	2,683	25,290	3	56,816
Public Safety - Police	29,818	-	-	-	29,818
Public Safety - Fire and Life Safety	9,032	-	-	-	9,032
Parks, Recreation, Culture and Leisure	74,325	-	10,700	18	85,043
Transportation	65,982	-	6,568	-	72,550
Sanitation and Health	2,316	-	-	-	2,316
Neighborhood Services	35,988	-	7,473	-	43,461
Capital Projects	17,220	-	190,863	-	208,083
Debt Service:					
Principal Retirement	4,320	33,958	-	-	38,278
Interest	2,037	45,946	-	-	47,983
TOTAL EXPENDITURES	269,878	82,587	240,894	21	593,180
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	70,276	(45,606)	(13,851)	467	11,285
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	3,302	-	55	-	3,357
Transfers from Other Funds	118,127	54,199	134,409	-	306,735
Transfers from Component Unit	550	-	-	-	550
Transfers to Proprietary Funds	(145)	-	(498)	-	(643)
Transfers to Other Funds	(194,694)	(12,920)	(94,060)	(530)	(302,204)
Transfers to Component Unit	(8,757)	-	-	-	(8,757)
Proceeds from Revenue Bonds	-	37,857	156,899	-	194,756
Proceeds from Tax Allocation Bonds	56,917	1,508	-	-	58,425
Proceeds from Capital Leases	706	-	-	-	706
TOTAL OTHER FINANCING SOURCES (USES)	(23,994)	80,644	196,805	(530)	252,925
NET CHANGE IN FUND BALANCES	46,281	35,038	182,954	(63)	264,210
Fund Balances at Beginning of Year, as Restated	254,135	124,381	409,550	12,339	800,405
FUND BALANCES AT END OF YEAR	$ 300,416	$ 159,419	$ 592,504	$ 12,276	$ 1,064,615

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

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE

SPECIAL REVENUE FUNDS

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF SAN DIEGO

ACQUISITION, IMPROVEMENT AND OPERATION FUND

This fund accounts for various operating activities including Business Improvement Areas, Lighting and Landscape Maintenance Areas, Facilities Financing, and the City's Public Art program. Revenues are derived from business tax surcharges, special assessments on property, various rents, concessions and fees, and interest earnings derived therefrom.

ENVIRONMENTAL GROWTH FUND

This fund was established in accordance with Section 103.1a of the City Charter to receive 25 percent of all monies derived from the revenues accruing to the City from gas, electricity, and steam franchises. One third of the franchise monies and the interest derived therefrom are used exclusively for the purpose of preserving and enhancing the environment of the City of San Diego. Two thirds of the franchise monies and the interest derived therefrom are used as matching funds for open space acquisition and for debt service of bonds issued by the San Diego Open Space Facilities District No. 1.

POLICE DECENTRALIZATION FUND

This fund accounts for monies allocated for Police Department decentralization expenditures for temporary facilities and to devise future capital improvement projects. Revenues are derived from sales tax allocations.

PUBLIC TRANSPORTATION FUND

This fund was established to account for funds set aside as reserves to be used for transportation-related purposes. Fund transfers and interest derived therefrom are the main sources of revenue.

QUALCOMM STADIUM OPERATIONS FUND

This fund accounts for the operations of the Stadium. The Stadium hosts various sporting events for its football and baseball tenants. Revenues are derived from rents, concessions, parking, and advertising.

SPECIAL GAS TAX STREET IMPROVEMENT FUND

This fund was established to account for the receipt of motor vehicle fuel taxes from the State under Sections 2106 and 2107 of the Streets and Highways Code. Expenditures are for the construction, improvement, maintenance, and operation of public streets and highways.

STREET DIVISION OPERATIONS FUND

This fund was established to account for the operations of Transportation's Street Division. Revenues are derived from Gas Tax, Transnet, and General Fund transfers, as well as revenues received for services performed by the Streets Division. Expenditures are for maintenance and operation of City streets.

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SPECIAL REVENUE FUNDS (Continued)

CITY OF SAN DIEGO (Continued)

TRANSIENT OCCUPANCY TAX FUND

This fund was established to receive and expend transient occupancy taxes. Since 1964, a tax has been imposed on transients of hotel and motel rooms in the City of San Diego. Effective August 1994, the tax was increased from 9% to 10.5%.

ZOOLOGICAL EXHIBITS FUND

This fund was established to collect monies from a fixed property tax levy authorized by Section 77a of the City Charter for the maintenance of zoological exhibits in Balboa Park. These funds are remitted in accordance with a contractual agreement with the San Diego Zoological Society, a not-for-profit corporation independent from the City of San Diego.

OTHER SPECIAL REVENUE - BUDGETED

This fund was established to account for revenues derived specifically for a variety of budgeted special programs administered by departments such as Police, Development Services, and General Services. Revenues in this fund are derived from service charges, revenues from other agencies, and fines.

GRANTS FUND

This fund was established to account for revenue received from federal, state and other governmental agencies. Expenditures are made and accounted for as prescribed by appropriate grant provisions/ agreements.

OTHER SPECIAL REVENUE FUND - UNBUDGETED

This fund was established to account for revenues earmarked for a variety of special programs administered by such departments as Engineering and Capital Projects, Libraries, Park and Recreation, and Police. Revenues in this fund are derived from such sources as parking fees, service charges, contributions from other agencies and private sources, and interest earnings.

BLENDED COMPONENT UNITS

CENTRE CITY DEVELOPMENT CORPORATION

This fund was established to account for the revenues and expenditures of the Centre City Development Corporation ("CCDC"). CCDC is a non-profit corporation that administers certain redevelopment projects in downtown San Diego and provides redevelopment advisory services to the Redevelopment Agency (the "Agency") of the City of San Diego. CCDC is primarily funded by the Agency and by the City of San Diego.

FN0917-0000195

SPECIAL REVENUE (Continued)

BLENDED COMPONENT UNITS (Continued)

PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the activities of the Public Facilities Financing Authority (the "Authority"). The Authority is a joint powers entity of the City and the Redevelopment Agency of the City of San Diego and was created to finance and construct public capital facility improvements of the Agency or the City. The Authority's special revenue account is generally used to account for revenues from the Reassessment District Bond fund and investment income used to pay for costs of issuance and administrative expenses related to debt redemption.

REDEVELOPMENT AGENCY

This fund was established to account for the activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. The Agency's special revenue account is used to account for funds restricted for the benefit of low and moderate income housing. Funding is primarily from property tax increment revenues and the City of San Diego.

SAN DIEGO INDUSTRIAL DEVELOPMENT AUTHORITY

This fund was established to account for revenues and expenditures of the San Diego Industrial Development Authority (the "Authority"). The Authority was formed in 1983 pursuant to the California Industrial Development Financing Act for the purpose of providing an alternative method of financing to participating parties for economic development purposes, through the sale and issuance of revenue bonds. Revenues are derived from fees collected from companies applying for industrial development bond financing. Expenditures are incurred for management and administrative services provided by the City of San Diego.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION

This fund was established to account for the revenues and expenditures of the Southeastern Economic Development Corporation ("SEDC"): SEDC is a non-profit corporation that administers economic development projects within the community of Southeast San Diego and provides redevelopment advisory services to the Redevelopment Agency of the City of San Diego (the "Agency"). SEDC is primarily funded by the Agency and by the City of San Diego pursuant to operating agreements under which SEDC is reimbursed for eligible costs incurred in connection with such activities.

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2002
(In Thousands)

	City of San Diego	Centre City Development Corporation
ASSETS		
Cash or Equity in Pooled Cash and Investments	$ 160,623	$ 127
Cash With Custodian/Fiscal Agent	261	-
Investments at Fair Value	1,065	-
Receivables:		
Taxes - Net	7,493	-
Accounts - Net	7,382	-
Claims - Net	111	-
Special Assessments - Net	1,411	-
Notes	728	-
Accrued Interest	388	-
Grants	17,397	-
From Other Funds	1,316	-
From Other Agencies	839	563
Advances to Other Funds	13,309	-
Advances to Other Agencies	5,361	-
Land Held for Resale	-	-
Prepaid and Reimbursable Items and Deposits	332	2
TOTAL ASSETS	$ 218,016	$ 692
LIABILITIES		
Accounts Payable	$ 4,276	$ 49
Accrued Wages and Benefits	1,661	-
Other Accrued Liabilities	86	103
Due to Other Funds	1,874	-
Due to Component Unit	906	-
Due to Other Agencies	178	-
Deferred Revenue	29,628	-
Advances from Other Funds	578	540
Sundry Trust Liabilities	2,388	-
TOTAL LIABILITIES	41,575	692
FUND EQUITY:		
Fund Balances:		
Reserved for Land Held for Resale	-	-
Reserved for Encumbrances	17,301	-
Reserved for Advances and Deposits	13,787	-
Reserved for Debt Service	-	-
Unreserved:		
Designated for Unrealized Gains	658	-
Designated for Subsequent Years' Expenditures	45,483	-
Undesignated	99,212	-
TOTAL FUND EQUITY	176,441	-
TOTAL LIABILITIES AND FUND EQUITY	$ 218,016	$ 692

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
$ -	$ 128,617	$ 49	$ 88	$ 289,504
-	-	-	-	261
56	-	-	-	1,121
-	1,204	-	-	8,697
-	-	-	-	7,382
-	-	-	-	111
-	-	-	-	1,411
-	15,897	-	-	16,625
-	484	1	-	873
-	-	-	-	17,397
-	-	-	-	1,316
-	-	-	105	1,507
-	-	-	-	13,309
-	-	-	-	5,361
-	7,507	-	-	7,507
-	2	-	5	341
$ 56	$ 153,711	$ 50	$ 198	$ 372,723
$ -	$ 284	$ -	$ -	$ 4,609
-	-	-	-	1,661
-	-	-	-	189
-	13,700	-	-	15,574
-	-	-	-	906
-	-	-	-	178
-	15,897	-	-	45,525
-	-	-	159	1,277
-	-	-	-	2,388
-	29,881	-	159	72,307
-	7,507	-	-	7,507
-	8,693	-	-	25,994
-	-	-	-	13,787
-	50,477	-	-	50,477
-	478	-	-	1,136
56	22,773	15	-	68,327
-	33,902	35	39	133,188
56	123,830	50	39	300,416
$ 56	$ 153,711	$ 50	$ 198	$ 372,723

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2002
(In Thousands)

	City of San Diego	Centre City Development Corporation
REVENUES		
Property Taxes	$ 5,158	$ -
Special Assessments	10,935	-
Sales Taxes	51,488	-
Other Local Taxes	86,948	-
Licenses and Permits	2,301	-
Fines, Forfeitures and Penalties	1,604	-
Revenue from Use of Money and Property	25,059	-
Revenue from Federal Agencies	35,741	-
Revenue from Other Agencies	38,491	4,472
Revenue from Private Sources	28,794	-
Charges for Current Services	20,414	-
Other Revenue	1,634	45
Distribution from Partner	500	-
TOTAL REVENUES	305,137	4,517
EXPENDITURES		
Current:		
General Government and Support	19,732	4,517
Public Safety - Police	29,618	-
Public Safety - Fire and Life Safety	9,032	-
Parks, Recreation, Culture and Leisure	74,325	-
Transportation	65,982	-
Sanitation and Health	2,316	-
Neighborhood Services	32,219	-
Capital Projects	12,747	-
Debt Service:		
Principal Retirement	4,320	-
Interest	2,037	-
TOTAL EXPENDITURES	252,328	4,517
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	52,809	-
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	3,302	-
Transfers from Other Funds	116,709	-
Transfers from Component Unit	350	-
Transfers to Proprietary Funds	(145)	-
Transfers to Other Funds	(136,378)	-
Transfers to Component Unit	(8,757)	-
Proceeds from Tax Allocation Bonds	-	-
Proceeds from Capital Leases	706	-
TOTAL OTHER FINANCING SOURCES (USES)	(24,213)	-
NET CHANGE IN FUND BALANCES	28,596	-
Fund Balances at Beginning of Year, as Restated	147,845	-
FUND BALANCES AT END OF YEAR	$ 176,441	$ -

Public Facilities Financing Authority	Redevelopment Agency	San Diego Industrial Development Authority	Southeastern Economic Development Corporation	Total
$ -	$ 21,610	$ -	$ -	$ 26,766
-	-	-	-	10,935
-	-	-	-	51,468
-	-	-	-	66,948
-	-	-	-	2,391
-	-	-	-	1,604
-	6,758	3	-	31,820
-	-	-	-	35,741
-	-	-	1,495	42,458
-	424	-	-	27,218
-	-	-	-	20,414
-	6	-	4	1,688
-	-	-	-	500
-	28,797	3	1,499	339,953
308	2,737	-	1,546	28,840
-	-	-	-	29,818
-	-	-	-	9,032
-	-	-	-	74,326
-	-	-	-	65,982
-	-	-	-	2,316
-	3,769	-	-	35,968
-	4,473	-	-	17,220
-	-	-	-	4,320
-	-	-	-	2,037
308	10,979	-	1,546	269,678
(308)	17,818	3	(47)	70,275
-	-	-	-	3,302
350	1,068	-	-	118,127
-	200	-	-	550
-	-	-	-	(145)
-	(56,316)	-	-	(194,694)
-	-	-	-	(8,757)
-	56,917	-	-	56,917
-	-	-	-	706
350	(131)	-	-	(23,994)
42	17,687	3	(47)	46,281
14	106,143	47	86	254,135
$ 56	$ 123,830	$ 50	$ 39	$ 300,416

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	City of San Diego	
	Actual on Budgetary Basis	Final Budget
REVENUES		
Property Taxes	$ 5,111	$ 5,051
Special Assessments	10,890	10,889
Sales Taxes	49,786	51,343
Other Local Taxes	86,789	89,563
Fines, Forfeitures and Penalties	1,233	988
Revenue from Use of Money and Property	18,854	23,252
Revenue from Federal Agencies	705	848
Revenue from Other Agencies	18,467	27,465
Revenue from Private Sources	273	361
Charges for Current Services	19,818	20,431
Other Revenue	360	440
Distribution from Partner	500	1,200
Excess Revenue Appropriated	-	723
TOTAL REVENUES	212,766	232,564
EXPENDITURES		
Current:		
General Government and Support	6,357	12,589
Public Safety - Police	10,678	11,721
Public Safety - Fire and Life Safety	7,543	7,585
Parks, Recreation, Culture and Leisure	74,213	96,815
Transportation	52,461	54,612
Sanitation and Health	2,010	2,168
Neighborhood Services	5,004	5,513
Capital Projects	5,668	7,777
Debt Service:		
Principal Retirement	707	654
Interest	144	141
TOTAL EXPENDITURES	164,776	199,575
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	47,990	32,979
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	1,700	-
Transfers from Other Funds	81,856	82,292
Transfers from Component Unit	350	250
Transfers to Proprietary Funds	(145)	(145)
Transfers to Other Funds	(114,972)	(123,372)
Transfers to Component Unit	(7,016)	(15,153)
TOTAL OTHER FINANCING SOURCES (USES)	(38,227)	(56,128)
NET CHANGE IN FUND BALANCES	9,763	(23,149)
Fund Balances Undesignated at July 1, 2001, as Restated	45,064	45,064
Reserved for Encumbrances at July 1, 2001, as Restated	17,531	17,531
Designated for Subsequent Years' Expenditures at July 1, 2001, as Restated	8,324	8,324
Designated for Subsequent Years' Expenditures at June 30, 2002	(11,900)	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2002	$ 68,782	$ 47,770

Centre City Development Corporation		Southeastern Economic Development Corporation		Total		
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ 8,111	$ 5,051	$ 60
-	-	-	-	10,890	10,889	1
-	-	-	-	49,786	51,343	(1,557)
-	-	-	-	86,769	89,563	(2,794)
-	-	-	-	1,233	988	245
-	-	-	-	18,854	23,252	(4,398)
-	-	-	-	705	848	(143)
4,472	4,739	1,495	1,649	24,434	33,853	(9,419)
-	-	-	-	273	361	(88)
-	-	-	-	19,818	20,431	(613)
45	30	4	-	409	470	(61)
-	-	-	-	500	1,200	(700)
-	-	-	-	-	723	(723)
4,517	4,769	1,499	1,649	219,782	238,972	(20,190)
4,517	4,769	1,546	1,649	12,420	19,007	6,587
-	-	-	-	10,678	11,721	1,043
-	-	-	-	7,543	7,585	42
-	-	-	-	74,213	96,815	22,602
-	-	-	-	52,461	54,612	2,151
-	-	-	-	2,010	2,168	158
-	-	-	-	5,004	5,513	509
-	-	-	-	5,659	7,777	2,118
-	-	-	-	707	654	(53)
-	-	-	-	144	141	(3)
4,517	4,769	1,546	1,649	170,839	205,993	35,154
-	-	(47)	-	47,943	32,979	14,964
-	-	-	-	1,700	-	1,700
-	-	-	-	81,856	82,292	(436)
-	-	-	-	350	250	100
-	-	-	-	(145)	(145)	-
-	-	-	-	(114,972)	(123,372)	8,400
-	-	-	-	(7,016)	(15,153)	8,137
-	-	-	-	(38,227)	(56,128)	17,901
-	-	(47)	-	9,716	(23,149)	32,865
-	-	86	-	45,150	45,064	86
-	-	-	-	17,531	17,531	-
-	-	-	-	8,324	8,324	-
-	-	-	-	(11,900)	-	(11,900)
$ -	$ -	$ 39	$ -	$ 68,821	$ 47,770	$ 21,051

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2002
(In Thousands)

	Budgeted				
	Acquisition, Improvement and Operation	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
ASSETS					
Cash or Equity in Pooled Cash and Investments	$ 9,539	$ 5,111	$ 3,272	$ 2,191	$ 1,795
Cash With Custodian/Fiscal Agent	-	-	-	-	-
Investments at Fair Value	-	-	-	-	-
Receivables:					
Taxes - Net	-	2,927	-	-	-
Accounts - Net	756	-	-	-	530
Claims - Net	7	-	-	-	-
Special Assessments - Net	305	-	-	-	-
Notes	-	-	-	-	-
Accrued Interest	53	24	-	17	16
Grants	-	-	-	-	-
From Other Funds	-	-	-	-	-
From Other Agencies	-	-	-	-	-
Advances to Other Funds	398	1,565	-	-	-
Advances to Other Agencies	470	-	-	-	-
Prepaid and Reimbursable Items and Deposits	-	-	-	-	4
TOTAL ASSETS	$ 11,528	$ 9,627	$ 3,272	$ 2,208	$ 2,345
LIABILITIES					
Accounts Payable	$ 857	$ 2	$ 752	$ -	$ 258
Accrued Wages and Benefits	58	-	-	-	236
Other Accrued Liabilities	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Due to Component Unit	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-
Deferred Revenue	933	-	-	-	222
Advances from Other Funds	-	-	-	-	-
Sundry Trust Liabilities	-	-	-	-	-
TOTAL LIABILITIES	1,858	2	752	-	716
FUND EQUITY:					
Fund Balances:					
Reserved for Encumbrances	1,074	245	-	2	254
Reserved for Advances and Deposits	867	1,565	-	-	-
Unreserved:					
Designated for Unrealized Gains	52	20	-	12	4
Designated for Subsequent Years' Expenditures	28	223	-	-	409
Undesignated	7,649	7,563	2,520	2,194	962
TOTAL FUND EQUITY	9,670	9,625	2,520	2,208	1,629
TOTAL LIABILITIES AND FUND EQUITY	$ 11,528	$ 9,627	$ 3,272	$ 2,208	$ 2,345

					Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
$ 1,514	$ 3,083	$ 49,855	$ 69	$ 6,404	$ 5,695	$ 72,195	$ 160,823
-	-	-	-	-	-	261	261
-	-	-	-	-	-	1,065	1,065
-	-	4,504	59	-	-	3	7,493
1,954	230	620	-	1,730	-	1,354	7,382
1	18	-	-	-	-	85	111
-	-	-	-	-	-	1,106	1,411
-	-	10	-	-	468	250	728
44	5	75	-	31	123	-	388
-	-	-	-	17	17,380	-	17,397
-	-	426	-	860	-	-	1,316
-	-	708	-	-	131	-	839
-	11,269	-	-	82	-	1	13,309
-	-	855	-	-	3,954	82	5,351
-	9	-	-	-	-	319	332
$ 3,513	$ 14,608	$ 57,053	$ 128	$ 9,162	$ 27,651	$ 76,921	$ 218,016
$ -	$ 30	$ 463	$ -	$ 67	$ 1,386	$ 481	$ 4,276
2	899	28	-	331	86	11	1,651
-	86	-	-	-	-	-	86
-	-	-	-	583	-	1,291	1,874
-	-	639	-	-	-	267	906
-	-	-	-	-	178	-	178
27	248	631	-	111	17,442	10,014	28,628
-	-	-	-	278	-	300	578
-	-	-	-	-	2,388	-	2,388
29	1,263	1,761	-	1,370	21,480	12,344	41,575
60	1,006	7,865	-	277	89	6,349	17,301
-	11,263	-	-	82	-	10	13,787
41	6	208	-	19	62	225	658
421	980	7,856	128	2,146	-	33,583	45,483
2,972	-	39,854	-	5,268	6,020	24,410	99,212
3,484	13,345	55,292	128	7,792	6,171	64,577	176,441
$ 3,513	$ 14,608	$ 57,053	$ 128	$ 9,162	$ 27,651	$ 76,921	$ 218,016

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2002
(in Thousands)

	Budgeted				
	Acquisition, Improvement and Operation	Environmental Growth	Police Decentralization	Public Transportation	Qualcomm Stadium Operations
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Special Assessments	10,890	-	-	-	-
Sales Taxes	924	-	9,252	-	-
Other Local Taxes	-	13,290	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	300	155	-	9	16,389
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	42	-	-	-	-
Charges for Current Services	2,161	-	-	-	-
Other Revenue	198	-	-	-	34
Distribution from Partner	-	-	-	-	-
TOTAL REVENUES	14,515	13,445	9,252	9	16,423
EXPENDITURES					
Current:					
General Government and Support	1,127	-	-	-	-
Public Safety - Police	-	-	8,459	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	8,023	1,559	-	-	17,755
Transportation	-	-	-	17	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	4,890	-	-	-	-
Capital Projects	-	152	-	-	863
Debt Service:					
Principal Retirement	-	-	-	-	53
Interest	-	-	-	-	42
TOTAL EXPENDITURES	14,040	1,711	8,459	17	18,724
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	475	11,734	793	(8)	(2,301)
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	1,211	-	-	3,950	7,511
Transfers from Component Unit	-	-	-	-	-
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(17)	(7,010)	(3,047)	(3,910)	(5,389)
Transfers to Component Unit	-	-	-	-	-
Proceeds from Capital Leases	-	-	-	-	706
TOTAL OTHER FINANCING SOURCES (USES)	1,194	(7,010)	(3,047)	40	2,828
NET CHANGE IN FUND BALANCES	1,669	4,724	(2,254)	32	527
Fund Balances at Beginning of Year	8,001	4,901	4,774	2,176	1,102
FUND BALANCES AT END OF YEAR	$ 9,670	$ 9,625	$ 2,520	$ 2,208	$ 1,629

					Unbudgeted		
Special Gas Tax Street Improvement	Street Division Operations	Transient Occupancy Tax	Zoological Exhibits	Other Special Revenue	Grants	Other Special Revenue	Total
$ -	$ -	$ -	$ 5,111	$ -	$ -	$ 47	$ 5,158
-	-	-	-	-	-	45	10,935
-	1,000	38,610	-	-	-	1,682	51,468
23,346	-	47,018	-	3,115	-	179	86,948
-	-	-	-	-	-	2,391	2,391
-	12	-	-	1,221	-	371	1,604
896	15	1,207	-	346	783	5,459	25,069
-	-	-	-	705	34,562	474	35,741
-	1,443	15,965	-	69	16,087	1,937	36,491
-	131	100	-	-	-	26,521	26,794
14	1,468	266	-	15,919	-	596	20,414
3	8	69	-	28	510	764	1,634
-	-	-	-	500	-	-	500
23,759	4,077	104,235	5,111	21,903	51,942	40,466	305,137
221	-	965	-	3,182	580	13,657	19,732
-	-	-	-	2,047	18,097	1,015	29,618
-	-	-	-	7,620	1,239	273	9,032
-	-	34,681	5,348	139	3,774	3,035	74,325
22	49,583	-	-	-	-	16,360	65,962
-	-	74	-	1,821	109	312	2,316
-	-	-	-	-	21,969	5,340	32,219
2,329	-	1,466	-	454	2,309	5,174	12,747
-	654	-	-	-	1,860	1,753	4,320
-	102	-	-	-	1,455	438	2,037
2,572	50,339	37,188	5,348	15,163	51,412	47,357	252,328
21,187	(46,262)	67,049	(237)	6,740	530	(6,891)	52,809
-	-	1,225	-	475	-	1,602	3,302
2,307	45,695	20,832	-	350	1,591	33,262	116,709
-	-	350	-	-	-	-	350
(145)	-	-	-	-	-	-	(145)
(23,024)	(458)	(53,887)	-	(7,513)	(4,180)	(17,843)	(136,378)
-	-	(8,332)	-	-	-	(2,425)	(8,757)
-	-	-	-	-	-	-	706
(20,862)	45,237	(47,812)	-	(6,688)	(2,589)	14,496	(24,213)
325	(1,026)	19,237	(237)	52	(2,059)	7,605	28,596
3,159	14,370	36,055	365	7,740	8,230	56,972	147,845
$ 3,484	$ 13,345	$ 55,292	$ 128	$ 7,792	$ 6,171	$ 64,577	$ 176,441

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Acquisition, Improvement and Operation				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Special Assessments	10,890	-	10,890	10,889	1
Sales Taxes	824	-	824	824	-
Other Local Taxes	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	300	20	320	222	98
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	42	-	42	144	(102)
Charges for Current Services	2,191	-	2,191	2,328	(137)
Other Revenue	108	-	108	358	(150)
Distribution from Partner	-	-	-	-	-
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	14,515	20	14,535	14,865	(330)
EXPENDITURES					
Current					
General Government and Support	1,127	81	1,208	1,487	280
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	8,023	877	8,900	14,420	5,520
Transportation	-	52	52	52	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	4,890	114	5,004	5,513	509
Capital Projects	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	14,040	1,124	15,164	21,482	6,318
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	475	(1,104)	(629)	(6,617)	5,988
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	-
Transfers from Other Funds	1,211	-	1,211	1,258	(47)
Transfers from Component Unit	-	-	-	-	-
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(17)	-	(17)	(17)	-
Transfers to Component Unit	-	-	-	-	-
Proceeds from Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,194	-	1,194	1,241	(47)
NET CHANGE IN FUND BALANCES	$ 1,669	$ (1,104)	565	(5,376)	5,941
Fund Balances Undesignated at July 1, 2001			6,378	6,378	-
Reserved for Encumbrances at July 1, 2001			600	600	-
Designated for Subsequent Years' Expenditures at July 1, 2001			44	44	-
Designated for Subsequent Years' Expenditures at June 30, 2002			(28)	-	(28)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2002			$ 7,649	$ 1,736	$ 5,913

Environmental Growth					Police Decentralization				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	9,252	-	9,252	11,809	(2,557)
13,290	-	13,290	10,452	2,838	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
155	(24)	131	108	23	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
13,445	(24)	13,421	10,560	2,861	9,252	-	9,252	11,809	(2,557)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,459	-	8,459	8,992	533
-	-	-	-	-	-	-	-	-	-
1,559	150	1,709	2,593	884	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
152	95	247	471	224	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,711	245	1,956	3,064	1,108	8,459	-	8,459	8,992	533
11,734	(269)	11,465	7,496	3,969	793	-	793	2,817	(2,024)
-	-	-	-	-	-	-	-	-	-
-	-	-	902	(902)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(7,010)	(717)	(7,727)	(7,727)	-	(3,047)	-	(3,047)	(3,047)	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(7,010)	(717)	(7,727)	(6,825)	(902)	(3,047)	-	(3,047)	(3,047)	-
$ 4,724	$ (986)	3,738	671	3,067	$ (2,254)	$ -	(2,254)	(230)	(2,024)
		3,669	3,669	-			4,774	4,774	-
		139	139	-			-	-	-
		240	240	-			-	-	-
		(223)	-	(223)			-	-	-
		$ 7,563	$ 4,719	$ 2,844			$ 2,520	$ 4,544	$ (2,024)

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Public Transportation				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Special Assessments	-	-		-	-
Sales Taxes	-	-		-	-
Other Local Taxes	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	9	22	31	250	(219)
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
Distribution from Parber	-	-	-	-	-
Excess Revenue Appropriated	-	-	-	-	-
TOTAL REVENUES	9	22	31	250	(219)
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	17	2	19	321	302
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Projects	-	-		-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	17	2	19	321	302
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8)	20	12	(71)	83
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-		-	-
Transfers from Other Funds	3,950	-	3,950	4,010	(60)
Transfers from Component Unit	-	-	-	-	-
Transfers to Proprietary Funds	-	-	-	-	-
Transfers to Other Funds	(3,910)	-	(3,910)	(3,910)	
Transfers to Component Unit	-	-		-	-
Proceeds from Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	40	-	40	100	(60)
NET CHANGE IN FUND BALANCES	$ 32	$ 20	52	29	23
Fund Balances Undesignated at July 1, 2001			2,139	2,139	
Reserved for Encumbrances at July 1, 2001			3	3	
Designated for Subsequent Years' Expenditures at July 1, 2001			-	-	
Designated for Subsequent Years' Expenditures at June 30, 2002			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2002			$ 2,194	$ 2,171	$ 23

Qualcomm Stadium Operations					Special Gas Tax Street Improvement				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-		-	-	-	-		-	-
-	-		-	-	-	-		-	-
-	-	-	-	-	23,346		- 23,346	22,846	500
-	-	-	-	-	-	-	-	-	-
16,389	24	16,413	21,620	(5,207)	396	8	404	408	(4)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	14		- 14		- 14
34	-	34	31	3	3		- 3	50	(47)
-	-		-	-	-	-	-	-	-
16,423	24	16,447	21,651	(5,204)	23,759	8	23,767	23,304	463
-	-		-	-	221	20	241	241	
-	-	-	-	-	-	-	-	-	-
-	-		-	-	-	-	-	-	-
17,766	229	17,995	23,412	5,417					
-	-	-	-	-	22		- 22	50	28
-	-	-	-	-	-	-	-	-	-
863	(681)	182	674	492	2,329	31	2,360	2,727	367
53	-	53		- (53)		-	-	-	-
42	-	42	39	(3)	-	-	-	-	-
18,724	(452)	18,272	24,125	5,853	2,572	51	2,623	3,018	395
(2,301)	476	(1,825)	(2,474)	649	21,187	(43)	21,144	20,286	858
-	-		-	-	-	-		-	-
7,511	-	7,511	7,511		2,307	-	2,307	2,307	
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	(145)	-	(145)	(145)	
(5,389)	-	(5,389)	(5,819)	430	(23,024)	-	(23,024)	(23,362)	338
-	-		-	-	-	-		-	-
706	(706)	-	-	-	-	-	-	-	-
2,828	(706)	2,122	1,692	430	(20,862)	-	(20,862)	(21,200)	338
$ 527	$ (230)	297	(782)	1,079	$ 325	$ (43)	282	(914)	1,196
		281	281	-			2,257	2,257	
		786	786	-			254	254	
		27	27	-			800	800	
		(409)		- (409)			(421)		- (421)
		$ 982	$ 282	$ 670			$ 2,872	$ 2,197	$ 775

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Street Division Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Special Assessments	-	-	-	-	
Sales Taxes	1,000	-	1,000	-	1,000
Other Local Taxes	-	-	-	-	
Fines, Forfeitures and Penalties	12	-	12	-	12
Revenue from Use of Money and Property	15	(6)	9	9	
Revenue from Federal Agencies	-	-	-	-	
Revenue from Other Agencies	1,443	-	1,443	1,465	(22)
Revenue from Private Sources	131	-	131	33	98
Charges for Current Services	1,488	-	1,488	2,040	(572)
Other Revenue	8	-	8	1	7
Distribution to Partner	-	-	-	-	
Excess Revenue Appropriated	-	-	-	723	(723)
TOTAL REVENUES	4,077	(6)	4,073	4,271	(200)
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	
Public Safety - Police	-	-	-	-	
Public Safety - Fire and Life Safety	-	-	-	-	
Parks, Recreation, Culture and Leisure	-	-	-	-	
Transportation	49,583	2,785	52,368	54,189	1,821
Sanitation and Health	-	-	-	-	
Neighborhood Services	-	-	-	-	
Capital Projects	-	-	-	-	
Debt Service:					
Principal Retirement	654	-	654	654	
Interest	102	-	102	102	
TOTAL EXPENDITURES	50,339	2,785	53,124	54,945	1,821
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(46,262)	(2,791)	(49,053)	(50,674)	1,621
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	-	-	-	
Transfers from Other Funds	45,695	-	45,905	46,336	(641)
Transfers from Component Unit	-	-	-	-	
Transfers to Proprietary Funds	-	-	-	-	
Transfers to Other Funds	(458)	-	(458)	(458)	
Transfers to Component Unit	-	-	-	-	
Proceeds from Capital Leases	-	-	-	-	
TOTAL OTHER FINANCING SOURCES (USES)	45,237	-	45,237	45,878	(641)
NET CHANGE IN FUND BALANCES	$ (1,025)	$ (2,791)	(3,816)	(4,796)	980
Fund Balances Undesignated at July 1, 2001			-	-	
Reserved for Encumbrances at July 1, 2001			4,796	4,796	
Designated for Subsequent Years' Expenditures at July 1, 2001			-	-	
Designated for Subsequent Years' Expenditures at June 30, 2002			(980)	-	(980)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2002			$ -	$ -	$ -

Transient Occupancy Tax					Zoological Exhibits				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ 5,111	$ -	$ 5,111	$ 5,051	$ 60
-	-	-	-	-	-	-	-	-	-
38,810	-	38,810	38,810	-	-	-	-	-	-
47,018	-	47,018	56,265	(9,247)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,207	(37)	1,170	140	1,030	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
16,055	-	16,055	25,914	(9,860)	-	-	-	-	-
100	-	100	164	(64)	-	-	-	-	-
258	-	258	40	218	-	-	-	-	-
80	-	80	-	80	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
104,236	(37)	104,199	121,153	(16,955)	5,111	-	5,111	5,051	60
965	739	1,704	6,971	5,267	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
34,691	5,426	40,117	50,897	10,780	5,348	-	5,348	5,348	-
-	-	-	-	-	-	-	-	-	-
74	55	129	154	25	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,466	950	2,416	3,449	1,033	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
37,196	7,170	44,366	61,471	17,105	5,348	-	5,348	5,348	-
67,040	(7,217)	59,832	59,682	150	(237)	-	(237)	(297)	60
1,226	-	1,225	-	1,225	-	-	-	-	-
20,832	-	20,832	19,291	1,541	-	-	-	-	-
350	-	350	-	350	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(63,887)	-	(63,887)	(79,032)	15,145	-	-	-	-	-
(8,332)	(684)	(7,016)	(7,143)	127	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(47,812)	(684)	(48,496)	(66,884)	18,388	-	-	-	-	-
$ 19,227	$ (7,901)	11,336	(7,202)	18,538	$ (237)	$ -	(237)	(297)	60
		20,517	20,517		-			-	-
		9,982	9,982		-			-	-
		5,404	5,404		-		365	365	
		(7,565)		(7,565)			(128)		(128)
		$ 38,654	$ 28,681	$ 10,973			$ -	$ 68	$ (68)

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Other Special Revenue				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Special Assessments	-	-		-	-
Sales Taxes	-	-		-	-
Other Local Taxes	3,115	-	3,115		- 3,115
Fines, Forfeitures and Penalties	1,221	-	1,221	988	233
Revenue from Use of Money and Property	348	30	378	495	(118)
Revenue from Federal Agencies	705	-	705	848	(143)
Revenue from Other Agencies	68	-	68	85	(17)
Revenue from Private Sources	-	-		-	-
Charges for Current Services	15,919	-	15,919	16,023	(104)
Other Revenue	28	-	28		- 28
Distribution from Partner	500	-	500	1,200	(700)
Excess Revenue Appropriated	-	-		-	-
TOTAL REVENUES	21,903	30	21,933	19,640	2,293
EXPENDITURES					-
Current:					
General Government and Support	3,182	22	3,204	3,880	676
Public Safety - Police	2,047	172	2,219	2,729	510
Public Safety - Fire and Life Safety	7,520	23	7,543	7,585	42
Parks, Recreation, Culture and Leisure	139	5	144	145	1
Transportation	-	-		-	-
Sanitation and Health	1,821	60	1,881	2,014	133
Neighborhood Services	-	-		-	-
Capital Projects	454	-	454	456	2
Debt Service:					
Principal Retirement	-	-		-	-
Interest	-	-		-	-
TOTAL EXPENDITURES	15,163	282	15,445	16,809	1,364
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,740	(252)	6,488	2,831	3,657
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	475	-	475		- 475
Transfers from Other Funds	350	-	350	677	(327)
Transfers from Component Unit		-	-	-	250 (250)
Transfers to Proprietary Funds		-	-	-	-
Transfers to Other Funds	(7,513)	-	(7,513)		- (7,513)
Transfers to Component Unit	-	-		-	(8,010) 8,010
Proceeds from Capital Leases	-	-		-	-
TOTAL OTHER FINANCING SOURCES (USES)	(6,688)	-	(6,688)	(7,083)	395
NET CHANGE IN FUND BALANCES	$ 52	$ (252)	(200)	(4,252)	4,052
Fund Balances Undesignated at July 1, 2001			5,069	6,089	
Reserved for Encumbrances at July 1, 2001			901	901	
Designated for Subsequent Years' Expenditures at July 1, 2001			1,644	1,644	
Designated for Subsequent Years' Expenditures at June 30, 2002			(2,146)		- (2,146)
FUND BALANCES UNDESIGNATED AT JUNE 30, 2002			$ 5,268	$ 3,362	$ 1,906

Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ 5,111	$ -	$ 5,111	$ 5,051	$ 60
10,890	-	10,890	10,889	1
49,786	-	49,786	51,343	(1,557)
96,780	-	96,780	99,563	(2,784)
1,233	-	1,233	988	245
18,817	37	18,854	23,252	(4,398)
705	-	705	848	(143)
18,487	-	18,487	27,485	(8,998)
273	-	273	361	(88)
19,818	-	19,818	20,431	(613)
360	-	360	440	(80)
500	-	500	1,200	(700)
-	-	-	723	(723)
212,729	37	212,766	232,554	(19,788)
5,495	862	6,357	12,589	6,232
10,506	172	10,678	11,721	1,043
7,520	23	7,543	7,585	42
67,616	6,597	74,213	96,615	22,402
49,622	2,839	52,461	54,612	2,151
1,895	115	2,010	2,168	158
4,890	114	5,004	5,513	509
5,264	395	5,659	7,777	2,118
707	-	707	654	(53)
144	-	144	141	(3)
153,559	11,217	164,776	199,675	34,799
59,170	(11,180)	47,990	32,979	15,011
1,700	-	1,700	-	1,700
81,856	-	81,856	82,292	(436)
350	-	350	250	100
(145)	-	(145)	(145)	-
(114,256)	(717)	(114,972)	(123,372)	8,400
(6,332)	(684)	(7,016)	(15,153)	8,137
706	(706)	-	-	-
(36,120)	(2,107)	(38,227)	(56,128)	17,901
$ 23,050	$ (13,287)	9,763	(23,149)	32,912
		45,084	45,084	-
		17,531	17,531	-
		8,324	8,324	-
		(11,900)	-	(11,900)
		$ 68,802	$ 47,770	$ 21,012

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
ENVIRONMENTAL GROWTH FUND
COMBINING BALANCE SHEET
June 30, 2002
(In Thousands)

	Two-Thirds Requirement	One-Third Requirement	Total
ASSETS			
Cash or Equity in Pooled Cash and Investments	$ 2,348	$ 2,763	$ 5,111
Receivables:			
Taxes - Net	1,951	976	2,927
Accrued Interest	8	16	24
Advances to Other Funds	1,339	226	1,565
TOTAL ASSETS	$ 5,646	$ 3,981	$ 9,627
LIABILITIES			
Accounts Payable	$ -	$ 2	$ 2
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	-	245	245
Reserved for Advances and Deposits	1,339	226	1,565
Unreserved:			
Designated for Unrealized Gains	12	17	29
Designated for Subsequent Years' Expenditures	-	223	223
Undesignated	4,295	3,268	7,563
TOTAL FUND EQUITY	5,646	3,979	9,625
TOTAL LIABILITIES AND FUND EQUITY	$ 5,646	$ 3,981	$ 9,627

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2002
(In Thousands)

	Two-Thirds Requirement	One-Third Requirement	Total
REVENUES			
Other Local Taxes	$ 8,861	$ 4,429	$ 13,290
Revenue from Use of Money and Property	75	80	155
TOTAL REVENUES	8,936	4,509	13,445
EXPENDITURES			
Current:			
Parks, Recreation, Culture and Leisure	-	1,559	1,559
Capital Projects	-	152	152
TOTAL EXPENDITURES	-	1,711	1,711
EXCESS OF REVENUES OVER EXPENDITURES	8,936	2,798	11,734
OTHER FINANCING SOURCES (USES)			
Transfers to Other Funds	(6,916)	(94)	(7,010)
NET CHANGE IN FUND BALANCES	2,020	2,704	4,724
Fund Balances at Beginning of Year	3,626	1,275	4,901
FUND BALANCES AT END OF YEAR	$ 5,646	$ 3,979	$ 9,625

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
ENVIRONMENTAL GROWTH FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Two-Thirds Requirement				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Other Local Taxes	$ 8,861	$ -	$ 8,861	$ 7,003	$ 1,858
Revenue from Use of Money and Property	75	(12)	63	54	9
TOTAL REVENUES	8,936	(12)	8,924	7,057	1,867
EXPENDITURES					
Current:					
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Capital Projects	-	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	8,936	(12)	8,924	7,057	1,867
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	-	-	902	(902)
Transfers to Other Funds	(6,916)	(717)	(7,633)	(7,633)	-
TOTAL OTHER FINANCING SOURCES (USES)	(6,916)	(717)	(7,633)	(6,731)	(902)
NET CHANGE IN FUND BALANCES	$ 2,020	$ (729)	1,291	326	965
Fund Balances Undesignated at July 1, 2001			3,004	3,004	-
Reserved for Encumbrances at July 1, 2001			-	-	-
Designated for Subsequent Years' Expenditures at July 1, 2001			-	-	-
Designated for Subsequent Years' Expenditures at June 30, 2002			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2002			$ 4,295	$ 3,330	$ 965

One-Third Requirement					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ 4,429	$ -	$ 4,429	$ 3,449	$ 980	$ 13,290	$ -	$ 13,290	$ 10,452	$ 2,838
80	(12)	68	54	14	155	(24)	131	108	23
4,509	(12)	4,497	3,503	994	13,445	(24)	13,421	10,560	2,861
1,559	150	1,709	2,593	884	1,559	150	1,709	2,593	884
152	95	247	471	224	152	95	247	471	224
1,711	245	1,956	3,064	1,108	1,711	245	1,956	3,064	1,108
2,798	(257)	2,541	439	2,102	11,734	(269)	11,465	7,496	3,969
-	-	-	-	-	-	-	-	902	(902)
(94)	-	(94)	(94)	-	(7,010)	(717)	(7,727)	(7,727)	-
(94)	-	(94)	(94)	-	(7,010)	(717)	(7,727)	(6,825)	(902)
$ 2,704	$ (257)	2,447	345	2,102	$ 4,724	$ (986)	3,738	671	3,067
		665	665	-			3,669	3,669	-
		139	139	-			139	139	-
		240	240	-			240	240	-
		(223)	-	(223)			(223)	-	(223)
		$ 3,268	$ 1,389	$ 1,879			$ 7,563	$ 4,719	$ 2,844

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
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NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
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DEBT SERVICE FUNDS

Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

CITY OF SAN DIEGO

PRE-ARRAIGNMENT DETENTION FACILITY

This fund was established to account for the payment of principal and interest and to maintain a reserve for certificates of participation issued in fiscal year 1992. The certificates were issued to fund construction of a misdemeanor pre-arraignment detention facility. Certificate payments are made from funds appropriated during the annual budget process. The reserve is to be used only in the event there are insufficient funds available to pay the annual principal or interest requirement.

PUBLIC SAFETY COMMUNICATIONS PROJECT

This fund was established to account for the payment of principal and interest on general obligation bonds issued in 1991. These bonds are serviced by property taxes.

OTHER SPECIAL ASSESSMENTS FUNDS

These funds were established to account for the payment of principal and interest for bonds issued under the Improvement Bond Act of 1915 and the Mello-Roos Community Facilities District Act of 1982. These bonds are serviced by assessments and special taxes levied on property owners within each assessment area.

BLENDED COMPONENT UNITS

CITY OF SAN DIEGO METROPOLITAN TRANSIT DEVELOPMENT BOARD AUTHORITY

This fund was established to account for the debt service activities of the City of San Diego Metropolitan Transit Development Board Authority (the "Authority") Joint Powers Agency. The Authority was created to acquire, construct, maintain and operate public transit facilities. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest. This fund is serviced by investment income, lease payments from the City of San Diego, and proceeds from lease revenue bonds and certificates of participation.

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

This fund was established to account for the debt service activities of the Convention Center Expansion Financing Authority (the "Authority"). The Authority is a joint powers entity of the City of San Diego and the San Diego Unified Port District and was established to finance, acquire, and construct an expansion to the existing convention center. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest.

FN0917-0000222

DEBT SERVICE FUNDS (Continued)

BLENDED COMPONENT UNITS (Continued)

PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the debt service activities of the Public Facilities Financing Authority (the "Authority"). The Authority is a joint powers entity of the City of San Diego and the Redevelopment Agency of the City of San Diego and was created to finance and construct public capital facility improvements of the Agency or the City. The Authority's debt service fund is used to account for the payment of long-term debt principal and interest.

REDEVELOPMENT AGENCY

This fund was established to account for the debt service activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. This fund is serviced by property tax increments, sale of real estate, and investment income.

SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

This fund was established to account for the debt service activities of the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"). The Corporation was established to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. The City makes lease payments from annual appropriations payable out of any source of legally available funds.

SAN DIEGO OPEN SPACE PARK FACILITIES DISTRICT #1

This fund was established for the purpose of acquiring open space properties to implement the Open Space element of the City of San Diego General Plan. This fund was established to account for financial resources accumulated for the payment of long-term debt principal and interest. This fund is serviced by City contributions and investment income.

FN0917-0000223

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
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COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
June 30, 2002
(In Thousands)

	City of San Diego	City of San Diego/TDB Authority
ASSETS		
Cash or Equity in Pooled Cash and Investments	$ 3,532	$ -
Cash With Custodian/Fiscal Agent	-	2,763
Investments at Fair Value	20,227	9,646
Receivables:		
Taxes - Net	29	-
Special Assessments - Net	553	-
Accrued Interest	45	-
From Other Funds	-	-
From Other Agencies	-	-
Prepaid and Reimbursable Items and Deposits	-	-
TOTAL ASSETS	$ 24,386	$ 12,409
LIABILITIES		
Matured Bonds, Notes and Interest Payable	$ 3	$ -
Deferred Revenue	361	-
Advances From Other Funds	-	-
TOTAL LIABILITIES	364	-
FUND EQUITY		
Fund Balances:		
Reserved for Debt Service	24,004	12,003
Unreserved:		
Designated for Unrealized Gains	18	406
TOTAL FUND EQUITY	24,022	12,409
TOTAL LIABILITIES AND FUND EQUITY	$ 24,386	$ 12,409

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
Year Ended June 30, 2002
(In Thousands)

REVENUES		
Property Taxes	$ 2,313	$ -
Special Assessments	11,556	-
Revenue from Use of Money and Property	943	709
Revenue from Private Sources	-	-
TOTAL REVENUES	14,812	709
EXPENDITURES		
Current:		
General Government and Support	7	-
Debt Service:		
Principal Retirement	5,645	6,370
Interest	8,517	2,822
TOTAL EXPENDITURES	14,169	9,192
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	643	(8,483)
OTHER FINANCING SOURCES (USES)		
Transfers from Other Funds	6,570	8,550
Transfers to Other Funds	(5,742)	-
Proceeds from Revenue Bonds	-	-
Proceeds from Tax Allocation Bonds	-	-
TOTAL OTHER FINANCING SOURCES (USES)	828	8,550
NET CHANGE IN FUND BALANCES	1,471	67
Fund Balances at Beginning of Year, as Restated	22,551	12,342
FUND BALANCES AT END OF YEAR	$ 24,022	$ 12,409

FN0917-0000225

Convention Center Expansion Financing Authority	Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities and Equipment Leasing Corporation	San Diego Open Space Park Facilities District #1	Total
$ -	$ -	$ 132	$ -	$ 1,729	$ 5,393
469	-	22,071	-	-	25,303
-	80,699	15,285	2,124	-	127,981
-	-	-	-	-	29
-	-	-	-	-	563
-	462	-	-	17	524
-	-	142	-	-	142
-	-	-	-	-	-
-	-	27	-	1,170	1,197
$ 469	$ 81,161	$ 37,657	$ 2,124	$ 2,916	$ 161,122
$ -	$ -	$ -	$ -	$ -	$ 3
-	-	-	-	-	361
-	-	-	-	1,339	1,339
-	-	-	-	1,339	1,703
469	81,012	34,633	1,991	1,567	155,679
-	149	3,024	133	10	3,740
469	81,161	37,657	2,124	1,577	159,419
$ 469	$ 81,161	$ 37,657	$ 2,124	$ 2,916	$ 161,122
$ -	$ -	$ 20,154	$ -	$ -	$ 22,467
-	-	-	-	-	11,556
249	(1,576)	1,480	152	256	2,213
-	-	745	-	-	745
249	(1,576)	22,379	152	256	36,981
451	29	1,484	712	-	2,683
4,020	3,875	6,218	3,485	4,345	33,958
9,681	6,119	13,197	3,039	2,571	45,946
14,152	10,023	20,899	7,236	6,916	82,587
(13,903)	(11,599)	1,480	(7,084)	(6,660)	(45,606)
13,393	10,388	1,734	6,648	6,916	54,199
(6,880)	(194)	(194)	-	-	(12,920)
-	37,857	-	-	-	37,857
-	-	1,508	-	-	1,508
6,513	48,051	3,138	6,648	6,916	80,644
(7,390)	36,452	4,618	(436)	256	35,038
7,859	44,709	33,039	2,660	1,321	124,381
$ 469	$ 81,161	$ 37,657	$ 2,124	$ 1,577	$ 159,419

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
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COMBINING BALANCE SHEET
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
June 30, 2002
(In Thousands)

	Budgeted		Unbudgeted	
	Pre-Arraignment Detention Facility	Public Safety Communications Project	Other Special Assessments	Total
ASSETS				
Cash or Equity in Pooled Cash and Investments	$ -	$ 1,982	$ 1,550	$ 3,532
Investments at Fair Value	-	-	20,227	20,227
Receivables:				
Taxes - Net	-	29	-	29
Special Assessments - Net	-	-	553	553
Accrued Interest	-	10	35	45
TOTAL ASSETS	$ -	$ 2,021	$ 22,365	$ 24,386
LIABILITIES				
Matured Bonds, Notes and Interest Payable	$ -	$ -	$ 3	$ 3
Deferred Revenue	-	-	361	361
TOTAL LIABILITIES	-	-	364	364
FUND EQUITY				
Fund Balances:				
Reserved for Debt Service	-	2,009	21,995	24,004
Unreserved:				
Designated for Unrealized Gains	-	12	6	18
TOTAL FUND EQUITY	-	2,021	22,001	24,022
TOTAL LIABILITIES AND FUND EQUITY	$ -	$ 2,021	$ 22,365	$ 24,386

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
Year Ended June 30, 2002
(In Thousands)

REVENUES				
Property Taxes	$ -	$ 2,313	$ -	$ 2,313
Special Assessments	-	-	11,556	11,556
Revenue from Use of Money and Property	97	32	814	943
TOTAL REVENUES	97	2,345	12,370	14,812
EXPENDITURES				
Current:				
General Government and Support	-	-	7	7
Debt Service:				
Principal Retirement	1,900	1,155	2,590	5,645
Interest	152	1,197	7,168	8,517
TOTAL EXPENDITURES	2,052	2,352	9,765	14,169
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,955)	(7)	2,605	643
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	969	-	5,601	6,570
Transfers to Other Funds	-	-	(5,742)	(5,742)
TOTAL OTHER FINANCING SOURCES (USES)	969	-	(141)	828
NET CHANGE IN FUND BALANCES	(986)	(7)	2,464	1,471
Fund Balances at Beginning of Year	986	2,028	19,537	22,551
FUND BALANCES AT END OF YEAR	$ -	$ 2,021	$ 22,001	$ 24,022

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2002
(In Thousands)

	Pre-Arraignment Detention Facility				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Revenue from Use of Money and Property	97	-	97	97	-
TOTAL REVENUES	97	-	97	97	-
EXPENDITURES					
Current:					
General Government and Support	-	-	-	-	-
Debt Service:					
Principal Retirement	1,900	-	1,900	1,900	-
Interest	152	-	152	152	-
TOTAL EXPENDITURES	2,052	-	2,052	2,052	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,955)	-	(1,955)	(1,955)	-
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	969	-	969	969	-
TOTAL OTHER FINANCING SOURCES (USES)	969	-	969	969	-
NET CHANGE IN FUND BALANCES	$ (986)	$ -	(986)	(986)	-
Reserved for Debt Service at July 1, 2001			986	986	-
Reserved for Debt Service at June 30, 2002			-	-	-
FUND BALANCES UNDESIGNATED AT JUNE 30, 2002			$ -	$ -	$ -

Public Safety Communications Project					Total				
Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ 2,313	$ -	$ 2,313	$ 2,352	$ (39)	$ 2,313	$ -	$ 2,313	$ 2,352	$ (39)
32	7	39	-	39	129	7	136	97	39
2,345	7	2,352	2,352	-	2,442	7	2,449	2,449	-
-	-	-	-	-	-	-	-	-	-
1,155	-	1,155	1,155	-	3,055	-	3,055	3,055	-
1,197	-	1,197	1,197	-	1,349	-	1,349	1,349	-
2,352	-	2,352	2,352	-	4,404	-	4,404	4,404	-
(7)	7	-	-	-	(1,962)	7	(1,955)	(1,955)	-
-	-	-	-	-	969	-	969	969	-
-	-	-	-	-	969	-	969	969	-
$ (7)	$ 7	-	-	-	$ (993)	$ 7	(986)	(986)	-
		2,009	2,009	-			2,995	2,995	-
		(2,009)	(2,009)	-			(2,009)	(2,009)	-
		$ -	$ -	$ -			$ -	$ -	$ -

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
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NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
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CAPITAL PROJECTS FUNDS

Capital Projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

CITY OF SAN DIEGO

CAPITAL OUTLAY FUND

This fund was established per Section 77 of the City Charter to account for the acquisition, construction and completion of permanent public improvements and real property. Capital Outlay Fund revenues are derived from the sale of City-owned real property supplemented by sales tax revenue.

OTHER CONSTRUCTION FUND

This fund was established to account for a variety of capital projects such as park and street improvements and construction of public facilities in new development areas. Revenues in this fund are derived from such sources as contributions from developers, grants from Federal, State and other governmental agencies, special assessments, special taxes, fees, and interest derived therefrom.

BLENDED COMPONENT UNITS

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

This fund was established to account for the capital improvement activities of the Convention Center Expansion Financing Authority (the "Authority"). The Authority, created by the City of San Diego and the San Diego Unified Port District, facilitates the financing, acquisition and construction of an expansion to the existing convention center. Revenues are derived from the issuance of bonds, revenue from other agencies and interest earnings on investments.

PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the capital improvement acquisition and construction activities of the Public Facilities Financing Authority (the "Authority") Joint Powers Agency. The Authority, created by the City of San Diego and the Redevelopment Agency of the City of San Diego (the "Agency"), facilitates the financing and construction of public capital improvements of the City or the Agency. Revenues are derived from the issuance of bonds and interest earnings on investments.

REDEVELOPMENT AGENCY

This fund was established to account for the capital improvement activities of the Redevelopment Agency of the City of San Diego (the "Agency"). The Agency was established to provide a method for revitalizing deteriorated and blighted areas of the City of San Diego. Funds are derived from the City of San Diego, from the issuance of bonds for specific redevelopment projects, sale of real estate and investment income.

FN0917-0000234

CAPITAL PROJECTS FUNDS (Continued)

BLENDED COMPONENT UNITS (Continued)

SAN DIEGO FACILITIES AND EQUIPMENT LEASING CORPORATION

This fund was established to account for the capital improvement activities of the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"). The Corporation was established as a non-profit organization to acquire and lease to the City of San Diego real and personal property to be used in the municipal operations of the City. This fund accounts for proceeds from the issuance of Certificates of Participation used to finance construction projects in Balboa and Mission Bay parks.

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
June 30, 2002
(In Thousands)

	City of San Diego	Convention Center Expansion Financing Authority
ASSETS		
Cash or Equity in Pooled Cash and Investments	$ 241,362	$ -
Cash With Custodian/Fiscal Agent	-	-
Investments at Fair Value	16,494	1,399
Receivables:		
Accounts - Net	1,468	-
Notes	15	-
Accrued Interest	1,302	-
Grants	15,206	-
From Other Funds	5,682	-
From Other Agencies	95	-
Advances to Other Funds	-	-
Land Held for Resale	-	-
Prepaid and Reimbursable Items and Deposits	-	-
TOTAL ASSETS	$ 281,624	$ 1,399
LIABILITIES		
Accounts Payable	$ 49	$ -
Due to Other Funds	5,666	426
Due to Other Agencies	182	-
Deferred Revenue	16,856	-
Sundry Trust Liabilities	-	-
TOTAL LIABILITIES	22,753	426
FUND EQUITY		
Fund Balances:		
Reserved for Land Held for Resale	-	-
Reserved for Encumbrances	25,057	-
Unreserved:		
Designated for Unrealized Gains	1,229	-
Designated for Subsequent Years' Expenditures	122,034	973
Undesignated	110,551	-
TOTAL FUND EQUITY	258,871	973
TOTAL LIABILITIES AND FUND EQUITY	$ 281,624	$ 1,399

Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities And Equipment Leasing Corporation	Total
$ 21,581	$ 47,085	$ 2	$ 310,030
-	-	3	3
194,221	-	14	212,128
-	-	-	1,468
-	12,555	-	12,570
1,135	239	-	2,676
-	-	-	15,206
-	13,558	-	19,240
-	-	-	95
152	699	-	851
-	74,067	-	74,067
-	3	-	3
$ 217,089	$ 148,206	$ 19	$ 648,337
$ 8,377	$ 5,147	$ -	$ 13,573
906	-	-	6,998
-	-	-	182
-	12,639	-	29,495
-	5,585	-	5,585
9,283	23,371	-	55,833
-	74,067	-	74,067
182,843	27,287	-	235,187
143	230	-	1,602
24,288	20,759	19	168,073
532	2,492	-	113,575
207,806	124,835	19	592,504
$ 217,089	$ 148,206	$ 19	$ 648,337

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
Year Ended June 30, 2002
(In Thousands)

	City of San Diego	Convention Center Expansion Financing Authority
REVENUES		
Property Taxes	$ -	$ -
Sales Taxes	30,718	-
Licenses and Permits	741	-
Revenue from Use of Money and Property	13,719	250
Revenue from Federal Agencies	4,963	-
Revenue from Other Agencies	41,196	-
Revenue from Private Sources	44,821	-
Other Revenue	3,701	-
TOTAL REVENUES	139,859	250
EXPENDITURES		
Current:		
General Government and Support	1,779	-
Parks, Recreation, Culture and Leisure	193	-
Transportation	6,568	-
Neighborhood Services	28	-
Capital Projects	133,705	9,301
TOTAL EXPENDITURES	142,273	9,301
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,414)	(9,051)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	55	-
Transfers from Other Funds	43,087	2,125
Transfers to Proprietary Funds	(498)	-
Transfers to Other Funds	(63,409)	(4,840)
Proceeds from Revenue Bonds	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(20,765)	(2,715)
NET CHANGE IN FUND BALANCES	(23,179)	(11,766)
Fund Balances at Beginning of Year, as Restated	282,050	12,739
FUND BALANCES AT END OF YEAR	$ 258,871	$ 973

Public Facilities Financing Authority	Redevelopment Agency	San Diego Facilities And Equipment Leasing Corporation	Total
$ -	$ 3,889	$ -	$ 3,889
-	-	-	30,718
-	-	-	741
1,575	12,628	1	28,173
-	-	-	4,963
-	-	-	41,196
58,854	9,203	-	112,876
-	784	-	4,485
60,429	26,504	1	227,043
8,741	14,770	-	25,290
10,185	322	-	10,700
-	-	-	6,568
-	7,445	-	7,473
27,603	20,254	-	190,863
46,529	42,791	-	240,894
13,900	(16,287)	1	(13,851)
-	-	-	56
58,724	30,473	-	134,409
-	-	-	(498)
(21,717)	(4,094)	-	(94,060)
156,899	-	-	156,899
193,906	26,379	-	196,805
207,806	10,092	1	182,954
-	114,743	18	409,550
$ 207,806	$ 124,835	$ 19	$ 592,504

COMBINING BALANCE SHEET
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
June 30, 2002
(In Thousands)

	Capital Outlay	Other Construction	Total
ASSETS			
Cash or Equity in Pooled Cash and Investments	$ 14,859	$ 226,503	$ 241,362
Investments at Fair Value	-	16,494	16,494
Receivables:			
Accounts - Net	550	918	1,468
Notes	-	15	15
Accrued Interest	22	1,280	1,302
Grants	12,361	2,845	15,206
From Other Funds	-	5,682	5,682
From Other Agencies	-	95	95
TOTAL ASSETS	$ 27,792	$ 253,832	$ 281,624
LIABILITIES			
Accounts Payable	$ 9	$ 40	$ 49
Due to Other Funds	5,666	-	5,666
Due to Other Agencies	30	152	182
Deferred Revenue	14,604	2,252	16,856
TOTAL LIABILITIES	20,309	2,444	22,753
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	1,991	23,066	25,057
Unreserved:			
Designated for Unrealized Gains	4	1,225	1,229
Designated for Subsequent Years' Expenditures	4,555	117,479	122,034
Undesignated	933	109,618	110,551
TOTAL FUND EQUITY	7,483	251,388	258,871
TOTAL LIABILITIES AND FUND EQUITY	$ 27,792	$ 253,832	$ 281,624

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
Year Ended June 30, 2002
(In Thousands)

	Capital Outlay	Other Construction	Total
REVENUES			
Sales Taxes	$ 2,005	$ 28,713	$ 30,718
Licenses and Permits	-	741	741
Revenue from Use of Money and Property	443	13,276	13,719
Revenue from Federal Agencies	4,605	358	4,963
Revenue from Other Agencies	37,477	3,719	41,196
Revenue from Private Sources	10	44,811	44,821
Other Revenue	2,238	1,463	3,701
TOTAL REVENUES	46,778	93,081	139,859
EXPENDITURES			
Current:			
General Government and Support	214	1,565	1,779
Parks, Recreation, Culture and Leisure	(2)	195	193
Transportation	-	6,568	6,568
Neighborhood Services	-	28	28
Capital Projects	50,735	82,970	133,705
TOTAL EXPENDITURES	50,947	91,326	142,273
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,169)	1,755	(2,414)
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	-	55	55
Transfers from Other Funds	35,081	8,006	43,087
Transfers to Proprietary Funds	-	(498)	(498)
Transfers to Other Funds	(35,356)	(28,053)	(63,409)
TOTAL OTHER FINANCING SOURCES (USES)	(275)	(20,490)	(20,765)
NET CHANGE IN FUND BALANCES	(4,444)	(18,735)	(23,179)
Fund Balances at Beginning of Year	11,927	270,123	282,050
FUND BALANCES AT END OF YEAR	$ 7,483	$ 251,388	$ 258,871

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

NONMAJOR GOVERNMENTAL FUNDS

PERMANENT

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

PERMANENT FUNDS

CITY OF SAN DIEGO

CARMEL VALLEY SEWER MAINTENANCE

This fund was established to fund the City's share of maintenance costs for a private sewer system in the Carmel Valley community. The original contribution was received from a developer and interest earnings derived therefrom will finance a fifty-year maintenance period.

CEMETERY PERPETUITY

This fund was established to account for the Mt. Hope Cemetery endowment. Investment earnings derived from the endowment supplement grave sales revenues in order to finance cemetery operations.

EFFIE SERGEANT

This fund was established to account for a donation to benefit the North Park Branch Library. Investment earnings are used to finance library services and programs.

GLADYS EDNA PETERS

This fund was established to account for a donation to benefit the Rancho Bernardo Branch Library. Investment earnings are used to procure and maintain a collection of large print books and periodicals.

LOS PENASQUITOS CANYON

This fund was established to account for the Los Penasquitos Canyon Preserve Trust Fund. Investment earnings are used to finance operations, land acquisitions, historical restoration, and maintenance of the Penasquitos Preserve Park.

MONTEZUMA ROAD MEDIAN MAINTENANCE

This fund was established to account for an endowment from San Diego State University. Investment earnings derived therefrom are used to finance the maintenance of medians along Montezuma Road.

SOUTHCREST PARK ESTATES II

This fund was established to finance the City's landscape maintenance costs for the Southcrest Park Estates II, a residential development within the Southcrest Redevelopment project area. The original contribution was received from a developer, and investment earnings derived therefrom will finance the permanent maintenance costs.

FN0917-0000246

COMBINING BALANCE SHEET
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
June 30, 2002
(In Thousands)

	Carmel Valley Sewer Maintenance	Cemetery Perpetuity
ASSETS		
Cash or Equity in Pooled Cash and Investments	$ 40	$ 97
Cash With Custodian/Fiscal Agent	-	471
Investments at Fair Value	-	8,326
Receivables:		
Accounts - Net	-	17
Accrued Interest	-	12
TOTAL ASSETS	$ 40	$ 8,923
FUND EQUITY:		
Fund Balances:		
Reserved for Permanent Endowments	40	8,923
TOTAL FUND EQUITY	$ 40	$ 8,923

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
Year Ended June 30, 2002
(In Thousands)

REVENUES		
Revenue from Use of Money and Property	$ 2	$ 291
Charges for Current Services	-	68
Other Revenue	-	-
TOTAL REVENUES	2	359
EXPENDITURES		
Current:		
General Government and Support	-	-
Parks, Recreation, Culture and Leisure	-	-
TOTAL EXPENDITURES	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2	359
OTHER FINANCING SOURCES (USES)		
Transfers to Other Funds	-	(416)
NET CHANGE IN FUND BALANCES	2	(57)
Fund Balances at Beginning of Year	38	8,980
FUND BALANCES AT END OF YEAR	$ 40	$ 8,923

Effie Sergeant	Gladys Edna Peters	Los Penasquitos Canyon	Montezuma Road Median Maintenance	Southcrest Park Estates II	Total
$ 53	$ 2	$ -	$ 103	$ 10	$ 305
22	9	59	-	-	581
409	321	2,325	-	-	11,361
-	-	-	-	-	17
-	-	-	-	-	12
$ 484	$ 332	$ 2,384	$ 103	$ 10	$ 12,276
484	332	2,384	103	10	12,276
$ 484	$ 332	$ 2,384	$ 103	$ 10	$ 12,276

$ 18	$ 13	$ (17)	$ 3	$ -	$ 310
-	-	-	-	-	68
-	-	-	100	10	110
18	13	(17)	103	10	488
-	-	3	-	-	3
3	15	-	-	-	18
3	15	3	-	-	21
15	(2)	(20)	103	10	467
-	-	(114)	-	-	(530)
15	(2)	(134)	103	10	(63)
469	334	2,518	-	-	12,339
$ 484	$ 332	$ 2,384	$ 103	$ 10	$ 12,276

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

NONMAJOR BUSINESS-TYPE FUNDS

ENTERPRISE

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

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 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. These funds use full accrual accounting.

CITY OF SAN DIEGO

AIRPORTS FUND

This fund was established to account for the operation, maintenance and development of both City-owned airports--Montgomery and Brown Fields. Airports Fund revenues are derived from such sources as rent/lease revenue, usage fees, earnings on investments and aid from other governmental agencies.

CITY STORE FUND

This fund was established to account for activities of the City's entrepreneurial program. This program operates retail store outlets for the purpose of selling surplus city materials and other items promoting the City of San Diego.

DEVELOPMENT SERVICES

This fund was established to account for construction management, development project review, permitting, and inspection services for the City.

ENVIRONMENTAL SERVICES FUND

This fund was established to account for refuse disposal, collection, energy conservation, resource management, and other environmental programs.

GOLF COURSE FUND

This fund was established to operate, maintain, and improve physical conditions and initiate capital improvement programs for Torrey Pines and Balboa golf courses. Revenues are derived from green fees and leases.

RECYCLING FUND

This fund was established to account for the planning, implementation, operation and management of City recycling and waste diversion programs. Revenues are derived from the Recycling Fee on all waste generated in the City or disposed of at the City landfill.

FN0917-0000253

ENTERPRISE FUNDS (Continued)

BLENDED COMPONENT UNIT

SAN DIEGO DATA PROCESSING CORPORATION

This fund accounts for the operations of the San Diego Data Processing Corporation, Inc. ("SDDPC"). SDDPC was formed for the purpose of providing data processing services to public agencies, primarily the City of San Diego, which is the sole member of the Corporation. The Corporation also provides telecommunication services to the City. Rates are charged for the various services provided as per operating agreements and are subject to change each year.

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF NET ASSETS
June 30, 2002
(In Thousands)

	City of San Diego	
	Airports	City Store
ASSETS		
Cash or Equity in Pooled Cash and Investments	$ 6,297	$ 192
Cash with Custodian/Fiscal Agent	-	76
Receivables:		
Accounts - Net	475	-
Accrued Interest	37	1
Grants	355	-
From Other Funds	-	-
Advances to Other Funds	210	-
Inventories	-	35
Prepaid and Reimbursable Items and Deposits	-	5
Restricted Assets:		
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds	-	-
Capital Assets - Depreciable	6,756	12
Capital Assets - Non-Depreciable	2,507	-
TOTAL ASSETS	16,637	321
LIABILITIES		
Accounts Payable	11	28
Accrued Wages and Benefits	164	-
Other Accrued Liabilities	-	-
Long-Term Debt Due Within One Year	-	-
Due to Other Funds	-	-
Due to Other Agencies	-	-
Deferred Revenue	-	-
Deposits/Advances from Others	-	-
Estimated Landfill Closure and Postclosure Care	-	-
Capital Lease Obligations	-	-
Net Pension Liability	46	-
Contracts and Notes Payable	-	-
TOTAL LIABILITIES	221	28
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	9,263	12
Unrestricted	7,153	281
TOTAL NET ASSETS	$ 16,416	$ 293

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

FN0917-0000256

Development Services	Environmental Services	Golf Course	Recycling	San Diego Data Processing Corporation	Total
$ 6,469	$ 28,642	$ 5,340	$ 12,216	$ 725	$ 59,781
-	-	-	-	-	76
35	1,589	23	2,396	1,910	6,428
(112)	314	33	74	-	347
12	-	-	18	-	385
1,291	354	-	-	-	1,645
15	4,900	847	4,363	-	10,335
-	-	-	-	312	347
-	-	-	-	1,244	1,249
-	22,746	-	-	124	22,872
3,196	7,304	1,827	8,916	18,348	46,359
-	92,132	9,488	-	1,987	106,114
10,906	157,883	17,558	27,983	24,850	256,938
632	614	8	62	3,587	4,942
4,105	1,829	425	969	2,350	9,842
-	-	-	-	2,813	2,813
-	86	-	1,294	-	1,380
354	-	-	-	-	354
-	-	1	7	-	8
4,204	211	-	71	-	4,486
-	44	-	-	-	44
-	10,821	-	-	-	10,821
-	189	-	6,043	-	6,232
1,108	492	117	137	-	1,900
-	-	-	-	3,944	3,944
10,403	14,286	551	8,583	12,694	46,766
2,842	99,161	11,315	1,579	20,335	144,507
(2,339)	44,436	5,692	17,821	(8,379)	64,665
$ 503	$ 143,597	$ 17,007	$ 19,400	$ 11,956	$ 209,172

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2002
(In Thousands)

	City of San Diego	
	Airports	City Store
OPERATING REVENUES		
Charges for Services	$ -	$ 738
Contributions	-	3
Usage Fees	3,358	-
Other	237	-
TOTAL OPERATING REVENUES	3,595	741
OPERATING EXPENSES		
Maintenance and Operations	1,978	332
Cost of Materials Issued	-	309
Taxes	-	-
Administration	818	89
Depreciation	480	1
TOTAL OPERATING EXPENSES	3,076	731
OPERATING INCOME (LOSS)	519	10
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	282	9
Federal Grant Assistance	89	-
Other Agency Grant Assistance	4	-
Gain (Loss) on Sale/Retirement of Capital Assets	-	(3)
Debt Service Interest Payments	-	-
Other	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	375	6
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	894	16
Capital Contributions	168	-
Transfers from Governmental Funds	-	-
Transfers Out	-	-
Transfers to Governmental Funds	(7)	-
CHANGE IN NET ASSETS	1,056	16
Net Assets at Beginning of Year	15,361	277
NET ASSETS AT END OF YEAR	$ 16,418	$ 293

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

FN0917-0000258

Development Services	Environmental Services	Golf Course	Recycling	San Diego Data Processing Corporation	Total
$ 44,445	$ 1,012	$ 6,753	$ 1,929	$ 57,192	$ 111,169
-	-	-	-	-	3
-	33,076	683	13,874	-	50,991
193	181	6	2,860	1,207	4,484
44,638	34,269	7,442	17,663	58,399	166,647
44,812	27,550	4,904	13,064	-	92,640
-	-	-	-	-	309
-	-	-	-	7,836	7,836
580	4,320	712	1,980	43,821	52,200
504	546	138	894	6,336	8,899
45,896	32,416	5,754	15,918	57,893	161,684
(1,258)	1,853	1,688	1,645	506	4,963
603	2,464	333	790	-	4,471
-	-	-	-	-	89
-	918	-	-	-	922
(22)	(10)	-	6	-	(29)
(19)	-	-	(338)	-	(357)
-	1,029	-	3	-	1,032
562	4,391	333	461	-	6,128
(696)	6,244	2,021	2,106	506	11,091
-	-	2,108	-	-	2,276
643	-	-	-	-	643
(24)	(22)	(1)	(2)	-	(49)
(146)	(237)	(1,303)	(95)	(500)	(2,289)
(223)	5,985	2,825	2,009	6	11,673
726	137,612	14,182	17,391	11,950	197,499
$ 503	$ 143,597	$ 17,007	$ 19,400	$ 11,956	$ 209,172

NONMAJOR BUSINESS-TYPE FUNDS - OTHER ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2002
(In Thousands)

	City of San Diego	
	Airports	City Store
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	$ 4,266	$ 741
Payments to Suppliers	(1,313)	(724)
Payments to Employees	(1,275)	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	1,678	17
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Governmental Funds	-	-
Transfers Out	-	-
Transfers to Governmental Funds	(7)	-
Operating Grants Received	(24)	-
Proceeds from Advances and Deposits	-	-
Payments for Advances and Deposits	(9)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(40)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	-	-
Proceeds from Contributed Capital	168	-
Acquisition of Capital Assets	(256)	-
Principal Payments on Capital Leases	-	-
Principal Payments on Long-Term Debt	-	-
Interest Paid on Long-Term Debt	-	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(88)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received on Investments	304	10
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	304	10
Net Increase (Decrease) in Cash and Cash Equivalents	1,854	27
Cash and Cash Equivalents at Beginning of Year	4,443	241
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,297	$ 268
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating Income (Loss)	$ 519	$ 10
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	480	1
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts - Net	670	-
From Other Funds	-	-
Increase (Decrease) in Inventories	-	-
Increase (Decrease) in in Prepaid and Reimbursable Items and Deposits	-	-
Increase (Decrease) in Accounts Payable	(13)	6
Increase (Decrease) in Accrued Wages and Benefits	13	-
Increase (Decrease) in Other Accrued Liabilities	-	-
Increase (Decrease) in Due to Other Funds	-	-
Increase (Decrease) in Deferred Revenue	-	-
Increase (Decrease) in Net Pension Liability	9	-
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care	-	-
Other Nonoperating Revenue (Expenses)	-	-
Total Adjustments	1,159	7
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 1,678	$ 17

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

FN0917-0000260

Development Services	Environmental Services	Golf Course	Recycling	San Diego Data Processing Corporation	Total
$ 41,243	$ 35,413	$ 7,523	$ 17,813	$ 58,145	$ 164,944
(10,719)	(19,053)	(2,397)	(7,362)	(15,560)	(57,137)
(33,657)	(11,384)	(3,259)	(7,389)	(33,927)	(90,891)
(3,133)	4,976	1,867	2,862	8,649	16,916
843	-	-	-	-	843
(24)	(22)	(1)	(2)	-	(49)
(146)	(237)	(1,303)	(95)	(500)	(2,296)
3	918	-	(18)	-	879
-	8	-	-	-	8
93	(362)	(85)	(828)	-	(1,191)
569	303	(1,389)	(943)	(500)	(2,000)
-	-	-	1,860	2,200	4,060
-	-	2,108	-	-	2,276
(674)	(2,546)	(3,568)	(2,044)	(7,208)	(16,296)
-	(82)	-	(1,115)	(10)	(1,207)
-	-	-	-	(2,425)	(2,425)
(19)	-	-	(338)	-	(357)
(693)	(2,628)	(1,460)	(1,617)	(7,443)	(13,929)
757	2,763	383	877	-	5,094
757	2,763	383	877	-	5,094
(2,500)	5,414	(599)	1,179	706	6,081
8,969	45,876	5,939	11,037	143	76,648
$ 6,469	$ 51,290	$ 5,340	$ 12,216	$ 849	$ 82,729
$ (1,258)	$ 1,853	$ 1,688	$ 1,845	$ 508	$ 4,963
504	546	138	894	6,338	8,899
(28)	(54)	61	13	(253)	431
158	87	-	-	-	245
-	-	-	-	568	568
-	-	-	-	306	306
546	281	(93)	25	1,648	2,400
260	161	29	190	(89)	594
-	-	-	7	(373)	(366)
(97)	-	-	-	-	(97)
(3,527)	83	-	35	-	(3,409)
267	89	24	50	-	439
-	901	-	-	-	901
-	1,029	-	3	-	1,032
(1,875)	3,123	179	1,217	8,143	11,953
$ (3,133)	$ 4,976	$ 1,867	$ 2,862	$ 8,649	$ 16,916

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

INTERNAL SERVICE FUNDS

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of fiduciary funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

PENSION TRUST FUNDS

CITY OF SAN DIEGO

CITY EMPLOYEES' RETIREMENT SYSTEM FUND

The City Employees' Retirement System ("CERS") Fund is under the control of the Retirement Board of Administration. It is a defined benefit plan, whereby funds are accumulated from contributions from both the City and employees, plus earnings from Fund investments. Disbursements are made for retirements, disability and death benefit payments, and refunds.

SUPPLEMENTAL PENSION SAVINGS PLAN FUND

The Supplemental Pension Savings Plan Fund is a defined contribution plan, where benefits depend solely on amounts contributed to the plan by both the City and employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

BLENDED COMPONENT UNIT

CENTRE CITY DEVELOPMENT CORPORATION

The Centre City Development Corporation ("CCDC") pension fund accounts for the Corporation's defined contribution pension plans. Benefits depend solely on amounts contributed to the plans by both the Corporation and employees, plus investment earnings.

AGENCY FUNDS

CITY OF SAN DIEGO

These funds were established to account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds, including federal and state income taxes withheld from employees, 401(k) plan, parking citation revenues, and employee benefit plans.

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COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
June 30, 2002
(In Thousands)

	City of San Diego Reporting Entity			
	City Employees' Retirement System	Supplemental Pension Savings Plan	Centre City Development Corporation	Total
ASSETS				
Cash or Equity in Pooled Cash and Investments	$ 2,719	$ 58	$ -	$ 2,777
Cash with Custodian/Fiscal Agent	240,878	355,142	5,180	601,200
Investments at Fair Value	2,457,969	-	-	2,457,969
Receivables:				
Contributions	12,763	2,273	-	15,036
Accrued Interest	11,109	-	-	11,109
Loans	-	19,966	-	19,966
Securities Sold	47,378	-	-	47,378
Prepaid and Reimbursable Items and Deposits	1	-	-	1
Capital Assets - Net	291	-	-	291
TOTAL ASSETS	2,773,108	377,439	5,180	3,155,727
LIABILITIES				
Accounts Payable	2,940	-	-	2,940
Accrued Wages and Benefits	437	-	-	437
Deferred Revenue	243	-	-	243
Net Pension Liabilities	99	-	-	99
Securities Purchased	241,929	-	-	241,929
TOTAL LIABILITIES	245,648	-	-	245,647
NET ASSETS				
Held in Trust for Pension Benefits and Other Purposes	$ 2,527,460	$ 377,439	$ 5,180	$ 2,910,079

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2002
(In Thousands)

ADDITIONS				
Employer Contributions	$ 79,852	$ 22,818	$ 456	$ 103,126
Employee Contributions	82,343	22,766	146	105,255
Charges for Services	451	-	-	451
Earnings on Investments	(75,935)	(24,396)	(518)	(100,849)
TOTAL OPERATING ADDITIONS	86,711	21,188	84	107,983
DEDUCTIONS				
Benefit and Claim Payments	150,915	36,195	93	187,203
Administration	7,590	-	1	7,591
Depreciation	35	-	-	35
TOTAL OPERATING DEDUCTIONS	158,540	36,195	94	194,829
NONOPERATING REVENUES (EXPENSES)				
Gain (Loss) on Sale/Retirement of Capital Assets	8	-	-	8
CHANGE IN NET ASSETS	(71,821)	(15,007)	(10)	(86,838)
Net Assets at Beginning of Year, as Restated	2,599,281	392,446	5,190	2,996,917
NET ASSETS AT END OF YEAR	$ 2,527,460	$ 377,439	$ 5,180	$ 2,910,079

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2002
(In Thousands)

	Employee Benefits	Employees' 401(k)	Other Miscellaneous Agency	Total
ASSETS				
Cash or Equity in Pooled Cash and Investments	$ 7,441	$ 400	$ 89,336	$ 97,177
Investments at Fair Value	-	104,059	-	104,059
Receivables:				
Accounts - Net	48	-	6,489	6,537
Accrued Interest	7	-	1	8
Loans	-	5,599	-	5,599
TOTAL ASSETS	$ 7,496	$ 110,058	$ 95,826	$ 213,380
LIABILITIES				
Accounts Payable	$ 214	$ -	$ 2,585	$ 2,799
Employees' 401(k) Plans	-	110,058	-	110,058
Due to Other Funds	-	-	75,564	75,564
Advances from Other Funds	1,979	-	-	1,979
Deposits/Advances from Others	-	-	9,452	9,452
Sundry Trust Liabilities	5,303	-	8,225	13,528
TOTAL LIABILITIES	$ 7,496	$ 110,058	$ 95,826	$ 213,380

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2002
(In Thousands)

	Beginning Balance, as Restated	Additions	Deductions	Ending Balance
Employee Benefits				
ASSETS				
Cash or Equity in Pooled Cash and Investments	$ 6,233	$ 59,288	$ 58,080	$ 7,441
Receivables:				
Accounts - Net	53	414	419	48
Accrued Interest	11	139	143	7
TOTAL ASSETS	$ 6,297	$ 59,841	$ 58,642	$ 7,496
LIABILITIES				
Accounts Payable	$ 1,885	$ 27,052	$ 28,723	$ 214
Advances from Other Funds	2,085	-	106	1,979
Sundry Trust Liabilities	2,327	63,048	60,072	5,303
TOTAL LIABILITIES	$ 6,297	$ 90,100	$ 88,901	$ 7,496
Employees' 401(k)				
ASSETS				
Cash or Equity in Pooled Cash and Investments	$ 360	$ 27,280	$ 27,240	$ 400
Investments at Fair Value	99,276	35,709	30,926	104,059
Receivables:				
Loans	5,633	2,540	2,574	5,599
TOTAL ASSETS	$ 105,269	$ 65,529	$ 60,740	$ 110,058
LIABILITIES				
Employees' 401(k) Plans	$ 105,269	$ 22,327	$ 17,538	$ 110,058
TOTAL LIABILITIES	$ 105,269	$ 22,327	$ 17,538	$ 110,058

Other Miscellaneous Agency

	Beginning Balance, as Restated	Additions	Deductions	Ending Balance
ASSETS				
Cash or Equity in Pooled Cash and Investments	$ 92,217	$ 1,249,225	$ 1,252,106	$ 89,336
Receivables:				
Accounts - Net	6,310	6,267	6,088	6,489
Accrued Interest	2	11	12	1
TOTAL ASSETS	$ 98,529	$ 1,255,503	$ 1,258,206	$ 95,826
LIABILITIES				
Accounts Payable	$ 1,668	$ 100,324	$ 99,407	$ 2,585
Due to Other Funds	78,061	77,952	80,449	75,564
Deposits/Advances from Others	10,455	3,363	4,366	9,452
Sundry Trust Liabilities	8,345	147,896	148,016	8,225
TOTAL LIABILITIES	$ 98,529	$ 329,535	$ 332,238	$ 95,826

TOTAL AGENCY FUNDS

ASSETS				
Cash or Equity in Pooled Cash and Investments	$ 98,810	$ 1,335,793	$ 1,337,426	$ 97,177
Investments at Fair Value	99,276	35,709	30,926	104,059
Receivables:				
Accounts - Net	6,363	6,681	6,507	6,537
Accrued Interest	13	150	155	8
Loans	5,633	2,540	2,574	5,599
TOTAL ASSETS	$ 210,095	$ 1,380,873	$ 1,377,588	$ 213,380
LIABILITIES				
Accounts Payable	$ 3,553	$ 127,376	$ 128,130	$ 2,799
Employees' 401(k) Plans	105,269	22,327	17,538	110,058
Due to Other Funds	78,061	77,952	80,449	75,564
Advances from Other Funds	2,085	-	106	1,979
Deposits/Advances from Others	10,455	3,363	4,366	9,452
Sundry Trust Liabilities	10,672	210,944	208,088	13,528
TOTAL LIABILITIES	$ 210,095	$ 441,962	$ 438,677	$ 213,380

THE CITY OF SAN DIEGO • STATE OF CALIFORNIA •
SEMPER VIGILANS

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Trust Agreement and the Lease which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

DEFINITIONS

Unless the context otherwise requires, the terms defined below will for all purposes below have the meanings defined below, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined below. All capitalized terms used below and not defined below shall have the meanings ascribed thereto in the Lease.

"Additional Certificates" means certificates of participation authorized by a supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"Additional Payments" means all amounts payable by the City as Additional Payments as defined in the Lease.

"Assignment Agreement" means the Assignment Agreement related to the Certificates, dated as of the date of the Trust Agreement, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

"Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which banking institutions in the State of New York or the State of California are authorized or required by law or executive order to remain closed.

"Certificates" means the $[COP Amount] aggregate principal amount of City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding) to be executed and delivered by the Trustee pursuant to the Trust Agreement.

"Certificate Year" means the period extending from November 1 each calendar year to October 31 of the subsequent calendar year, provided that the first Certificate Year will commence on the Closing Date and end on October 31, 2004; provided for purpose of certain provisions of the Trust Agreement, Certificate Year will have the meaning ascribed thereto in the Tax Certificate.

"City" means the City of San Diego, a chartered city and municipal corporation organized and existing under the City Charter and the laws and Constitution of the State, and its successors and assigns.

"City Representative" means the City Manager, the Deputy City Manager or any other person authorized by the City Manager of the City to act on behalf of the City with respect to the Lease or the Trust Agreement.

"Closing Date" means the date on which the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser thereof.

"Code" means the Internal Revenue Code of 1986, and the regulations issued under the Trust Agreement, as the same may be amended from time to time, and any successor provisions of law.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement dated as of the June 1, 2003, by the City and Wells Fargo Bank, National Association, as it may be amended from time to time in accordance with the terms thereof.

"Corporation" means the San Diego Facilities and Equipment Leasing Corporation, a nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

"Corporation Representative" means the President, Vice President, Secretary, Treasurer, or any other person authorized to act on behalf of the Corporation under or with respect to the Lease.

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Certificates and the application of the proceeds of the Certificates, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the City, the Corporation and the Trustee, compensation to any financial consultants or underwriters, legal fees and expenses, Certificate insurance premiums filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Depository" means the securities depository acting as depository pursuant to the Trust Agreement.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

"Escrow Agreement" means that certain Escrow Agreement dated as of June 1, 2003, by and among the City, the Corporation, and Wells Fargo Bank, National Association, as Escrow Bank, providing for the defeasance of the 1993 Certificates.

"Escrow Bank" means BNY Western Trust Company, a national banking association, duly organized and existing under the laws of the United States of America, or its successor as escrow bank under the Escrow Agreement.

"Escrow Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Event of Default" means an event of default under the Lease, as defined therein.

"Fitch" means Fitch Ratings, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody's) designated by the City by notice to the Trustee.

"Fiscal Year" means the fiscal year of the City commencing July 1 and ending June 30 of the next year.

"Government Obligations" means Permitted Investments of the type described in paragraph (1) of the definition thereof.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the City.

"Insurance Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which the Insurer's Fiscal Agent or lending institutions in the State of New York are authorized or required by law or executive order to remain closed.

"Insurance Policy" means the municipal bond insurance policy issued by the Insurer insuring the payment when due of the principal of and interest with respect to the Certificates as provided therein.

"Insurer" means Ambac Assurance Corporation, a stock insurance company incorporated under the laws of the State of Wisconsin or any successor thereto or assignee thereof.

"Interest Payment Date" means May 1 and November 1 of each year commencing November 1, 2003.

"Lease" means the Facilities Lease related to the Certificates, dated as of the date of the Trust Agreement, by and between the City and the Corporation, and any duly authorized and executed amendments thereto.

"Lease Payment" means any payment required to be paid by the City to the Corporation pursuant to the Lease.

"Lease Payment Date" means each April 23 and October 23 commencing October 23, 2003.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Letter of Representations" means the letter of the City delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates making reference to the DTC Operational Arrangements memorandum, as it may be amended from time to time, setting forth the basis on which the Depository serves as depository for such book-entry certificates, as such letters were originally executed or as they may be supplemented or revised or replaced by letters from the City and the Trustee delivered to and accepted by the Depository.

"Moody's" means Moody's Investors Service or any successors or assigns thereto.

"Net Proceeds" means any proceeds of any insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

"Net Proceeds Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

"Original Purchaser" means Citigroup Global Markets Inc., Inc., as the original purchaser of the Certificates on the Closing Date.

"Outstanding" when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or prepayment of which funds or Government Obligations, together with interest earned thereon, in the necessary amount will have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment will have been given as provided in the Trust Agreement or provision satisfactory to the Trustee will have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates will have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest with respect to the Certificates shall be paid by the Insurer pursuant to the Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City.

"Owner" or "Certificate Owner" or "Owner of a Certificate", or any similar term, when used with respect to a Certificate means the person in whose name such Certificate is registered on the registration books maintained by the Trustee.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

"Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the City:

(1) For all purposes including defeasance investments in refunding escrow accounts (the Trustee is entitled to rely upon investment direction of the City as a certification that such investment is a Permitted Investment):

(a) cash (insured at all times by the Federal Deposit Insurance Corporation); or

(b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are based by the full faith and credit of the U.S., including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

(c) obligations of Government-Sponsored Agencies that are not backed by the full faith and credit of the U.S. Government, including:

- Federal Home Loan Mortgage Corp. (FHLMC) Debt obligations
- Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
- Federal Home Loan Banks (FHL Banks)
- Federal National Mortgage Association (FNMA) Debt obligations
- Financing Corp. (FICO) Debt obligations
- U.S. Agency for International Development (U.S. A.I.D.) Guaranteed notes

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (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).

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA's), Federal Housing Administration and Federal Financing Bank;

(b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other Government Sponsored Agencies approved by the Insurer;

(c) U.S. dollar denominated deposit accounts and bankers' acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or Moody's or any successors thereto; or

(ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1)(b) above, which escrow may be applied only to the payment of such principal of and

interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(h) investment agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);

(i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; and

(j) other forms of investments (including repurchase agreements) approved in writing by the Insurer.

The value of the above investments shall be determined as follows:

"Qualified Reserve Fund Credit Instrument" shall have the meaning ascribed thereto in the Trust Agreement.

"Value" which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers.

(b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest.

(c) As to any investment not specified above: the value thereof established by prior agreement between the City, the Trustee and the Insurer.

"Prepayment" means any payment made by the City pursuant to the Lease as a prepayment of Lease Payments.

"Prepayment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Principal Office" means the corporate trust office of the Trustee at 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017, Attention: Corporate Trust Services; or such other or additional offices as may be designated by the Trustee.

"Property" means the site described in the Lease being leased to the City by the Corporation under the terms of the Lease.

"Record Date" means the close of business on the fifteenth day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a Business Day.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Reserve Fund Surety Bond" means the debt service reserve fund surety bond dated the Closing Date to be provided by the Insurer in an amount equal to the Reserve Requirement as of the Closing Date.

"Reserve Requirement" means, as of any calculation date, the least of (1) the maximum aggregate annual Lease Payments (in any Certificate Year) then payable under the Lease (exclusive of Lease Payments attributable to Certificates that have been defeased), (2) 125% of the average annual aggregate Lease Payments (in any Certificate Year) then payable under the Lease (exclusive of Lease Payments attributable to Certificates that have been defeased), or (3) 10% of the face amount of the Certificates and/or the Additional Certificates, as applicable (less original issue discount if in excess of two percent of the stated prepayment amount at maturity).

"S&P" means Standard & Poor's Ratings Services or any successors or assigns thereto.

"Site Lease" means the Site and Facilities Lease related to the Certificates, dated the date of the Trust Agreement, by and between the Corporation and the City.

"Special Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the City.

"State" means the State of California.

"Tax Certificate" means the Tax Certificate, dated as of the Closing Date, concerning matters pertaining to the use and investment of proceeds of the Certificates executed and delivered to the City on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

"Term" means the time during which the Lease is in effect, as provided in the Lease.

"Trustee" means Wells Fargo Bank, National Association, a national banking association duly organized and existing under the laws of the United States of America, and any successor trustee.

"Trust Agreement" means the Trust Agreement, together with any amendments thereof or supplements thereto permitted to be made under the Trust Agreement.

THE CERTIFICATES OF PARTICIPATION

Transfer and Exchange

Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Principal Office accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate or Certificates will be surrendered for transfer, the Trustee will execute and deliver a new Certificate or Certificates of the same tenor and maturity, for like aggregate

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principal amount in authorized denominations. The Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental change required to be paid with respect to such exchange.

Exchange of Certificates. Certificates may be exchanged at the Principal Office for a like aggregate principal amount of Certificates of other authorized denominations of the same tenor and maturity. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

Time for Transfer or Exchange. The Trustee will not be obligated to transfer or exchange any Certificate after a Record Date and before the following Interest Payment Date, or during the period in which it is selecting Certificates for prepayment, or after notice of prepayment has been given as provided in the Trust Agreement.

Certificate Register

The Trustee will keep or cause to be kept at its Principal Office sufficient books for the registration and transfer of the Certificates which will, during normal working hours and upon reasonable notice, be open to inspection by the City and the Corporation; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Certificates. The City, the Corporation and the Trustee will be entitled to treat the registered owner of a Certificate as the absolute owner thereof for all purposes, whether or not a Certificate will be overdue and the City, the Corporation and the Trustee will not be affected by any notice to the contrary.

Additional Certificates

Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee will, upon written request or requests of the City Representative and of the Corporation Representative, execute and deliver from time to time one or more series of Additional Certificates in such aggregate principal amount as may be set forth in such written request or requests, provided that there has been compliance with all of the following conditions, which are conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement have executed a supplemental agreement which (i) sets forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, which may be separate and apart from the funds and accounts established under the Trust Agreement for the Certificates, as are necessary or appropriate, and (ii) requires that prior to the delivery of such Additional Certificates the Reserve Requirement with respect to such Additional Certificates is on deposit in the Reserve Fund established under the Trust Agreement or in a reserve fund established under such supplemental agreement;

(b) The scheduled principal and interest payable with respect to such Additional Certificates will be payable only on Interest Payment Dates applicable to the Certificates;

(c) The Lease will have been amended, if necessary, to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates, including all Additional Certificates, as and when the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with the Trust Agreement), (ii) if appropriate, amend the definition of "Property" to include as part of the Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Property as such Property is constituted as of the date of the Trust

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Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions will not prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement);

(d) There has been delivered to the Trustee a counterpart of the amendments required by the Trust Agreement;

(e) The Trustee has received a certificate of the Corporation Representative that there exists on the part of the Corporation no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(f) The Trustee has received a certificate of the City Representative that (i) there exists on the part of the City no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Property;

(g) The Trustee has received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease comply in all respects with the requirements of the Trust Agreement, (ii) said supplemental agreement and said amendments to the Lease have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in rendering the opinions set forth in this clause (ii), will be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease), (iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said supplemental agreement, and the Lease, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such supplemental agreement and said amendments to the Lease, and performance by the parties under the Trust Agreement, will not result in the inclusion of the interest portion of any Lease Payments payable with respect to any Certificates, including Additional Certificates, theretofore prepared, executed and delivered, in the gross income of the Owners of the Certificates for purposes of federal income taxation;

(h) The City will have provided the Insurer written notice of the proposed execution and delivery of such Additional Certificates at the addresses indicated in the Trust Agreement and will have received prior written consent of the Insurer with respect to such Additional Certificates; provided that any Additional Certificates being delivered to refund any outstanding Certificates will not require the prior written consent of the Insurer if the aggregate maximum annual debt service with respect to the Certificates and the Additional Certificates during any remaining year that the Certificates will be outstanding does not exceed maximum annual debt service with respect to the Certificates prior to such refunding.

(i) There will have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the Lease providing that the insured amount is at least equal to the aggregate principal amount of all of the Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates;

(j) Upon the execution and delivery of such Additional Certificates, the amount on deposit in the Reserve Fund will be equal to the Reserve Requirement, taking into account the execution of the Additional Certificates; and

(k) Such other conditions will have been satisfied, and such other instruments will have been duly executed and delivered to the Trustee (with a copy to the Insurer), as the City or the Corporation will have reasonably requested.

Upon delivery to the Trustee of the foregoing instruments, the Trustee will cause to be executed and delivered Additional Certificates representing the aggregate principal amount specified in such supplemental agreement, and such Additional Certificates will be equally and ratably secured with all Certificates, including any Additional Certificates, theretofore prepared, executed and delivered, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate, including Additional Certificates, over any other; provided, however, that no provision of the Trust Agreement will require the City to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the City to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, will be in the sole discretion of the City.

COSTS OF ISSUANCE FUND

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund". The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of a written requisition from a City Representative stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the second Business Day preceding November 1, 2003, or upon the earlier written request of a City Representative, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Escrow Fund or, at the request of the City, to the Lease Payment Fund.

ESCROW FUND

The Trustee will establish and maintain a separate fund to be known as the "Escrow Fund". Except as otherwise provided in the Trust Agreement, moneys in the Escrow Fund shall be used solely for the funding of the Escrow Fund established pursuant to the Escrow Agreement for the defeasance of the 1993 Certificates and pursuant to written instructions of the City and shall be fully disbursed at the Closing Date. Upon the transfer of moneys as contemplated in the Trust Agreement, the Trustee shall close the Escrow Fund and transfer any proceeds therein to the Lease Payment Fund for credit to the next Lease Payments then due.

PREPAYMENT FUND

Establishment of Prepayment Fund.

The Trustee will establish a special fund designated as the "City of San Diego (1993 Balboa Park/Mission Bay Park Refunding) Prepayment Fund," referred to in the Trust Agreement as the "Prepayment Fund"; will keep such fund separate and apart from all other funds and moneys held by it; and will administer such fund as provided in the Trust Agreement. Moneys to be used for prepayment of the Certificates will be deposited into the Prepayment Fund and used solely for the purpose of prepaying the Certificates in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates to the Trustee.

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Surplus

Any funds remaining in the Prepayment Fund after prepayment and payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees and expenses to the Trustee pursuant to the Trust Agreement and any other Additional Payments payable under the Lease or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the City.

LEASE PAYMENTS; LEASE PAYMENT FUND

Assignment of Rights in Lease

The Corporation has, pursuant to the Assignment Agreement, assigned and set over to the Trustee certain of its rights in the Lease, including but not limited to all of the Corporation's rights to receive and collect all of the Lease Payments, the Prepayments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease or pursuant to the Trust Agreement. All Lease Payments, Prepayments and such other amounts to which the Corporation may at any time be entitled (other than Additional Payments due to the Corporation under the Lease) are to be paid directly to the Trustee, and all of the Lease Payments and Prepayments collected or received by the Corporation are to be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee and if received by the Corporation at any time are to be deposited by the Corporation with the Trustee within five (5) Business Days after the receipt thereof, and all such Lease Payments are to be deposited by the Trustee upon the receipt thereof in the Lease Payment Fund, all such Prepayments are to be deposited by the Trustee upon the receipt thereof in the Prepayment Fund. If the City fails to deposit with the Trustee a Lease Payment on the applicable Lease Payment Date, the Trustee shall, within three Insurance Business Days after such Lease Payment Date, notify the Insurer of such failure. The Insurance Policy will be held by the Trustee and will be deemed to be held in the Lease Payment Fund.

Security Interest in Moneys and Funds

The Corporation and the City, as their interests may appear, grant to the Trustee for the benefit of the Owners a lien on and a security interest in all moneys in the funds held by the Trustee under the Trust Agreement (excepting only the Rebate Fund and any moneys to be deposited into the Rebate Fund), including without limitation, the Lease Payment Fund, the Reserve Fund, the Prepayment Fund, the Project Fund and the Net Proceeds Fund, and all such moneys are to be held by the Trustee in trust and applied to the purposes specified in the Trust Agreement and in the Lease.

Pledge of Lease Payments and Proceeds

The Lease Payments and any proceeds from the re-letting or any other disposition of the Property pursuant to the Lease (the "Lease Proceeds") are irrevocably pledged to and will be used for the punctual payment of the interest and principal represented by the Certificates and the Lease Payments and Lease Proceeds will not be used for any other purpose while any of the Certificates remain Outstanding. This pledge will constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms of the Lease, subject to the Trust Agreement.

Establishment of Lease Payment Fund

The Trustee will establish a special fund designated as the "City of San Diego (1993 Balboa Park/Mission Bay Park Refunding) Lease Payment Fund." All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation will have any beneficial right

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or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as provided in the Trust Agreement.

Deposits

There will be deposited in the Lease Payment Fund all Lease Payments and in the Prepayment Fund all Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement and the Lease, and any other moneys required to be deposited therein pursuant to the Lease, including without limitation that section of the Lease regarding proceeds of rental interruption insurance or pursuant to the Trust Agreement, which moneys will be applied as a credit towards any Lease Payment then due.

Application of Moneys

Except as provided in the Trust Agreement, all amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates as the same will become due and payable, in accordance with the provisions of the Trust Agreement, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund, as provided in the Trust Agreement.

On or before each Interest Payment Date, the Trustee will set aside an amount sufficient to pay the interest becoming due and payable on such Interest Payment Date on all Outstanding Certificates. Moneys so set aside will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Certificates as it will become due and payable (including, accrued interest on any Certificates prepaid prior to maturity).

On or before each Interest Payment Date on which the principal of the Certificates will be payable, the Trustee will set aside an amount equal to (i) the principal amount of the Certificates coming due and payable on such Interest Payment Date pursuant to the Trust Agreement, (ii) the prepayment price of the Certificates (consisting of the principal amount thereof and any applicable premiums) required to be prepaid on such Interest Payment Date pursuant to any of the provisions of the Trust Agreement. Moneys so set aside will be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the serial Certificates at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Certificates upon the prepayment thereof pursuant to the Trust Agreement.

Surplus

Any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the City.

RESERVE FUND

Establishment of Reserve Fund

The Trustee will establish a special fund designated as the "City of San Diego (1993 Balboa Park/Mission Bay Park Refunding) Reserve Fund," referred to in the Trust Agreement as the "Reserve Fund." All moneys at any time on deposit in the Reserve Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates, as a reserve for the payment when due of all the Lease Payments to be paid pursuant to the Lease and of all payments on the Certificates and applied solely as provided in the Trust Agreement.

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Certain Net Proceeds

Net Proceeds of rental interruption insurance will be deposited first to the Reserve Fund to make up any deficiencies therein and second to the Lease Payment Fund to be credited to the payment of the Lease Payments in the order in which they become due.

Transfers of Excess

The Trustee will, on or before April 23 and October 23 of each year, provide written notice to the City of any moneys which will be on hand in the Reserve Fund (including investment earnings) in excess of the Reserve Requirement on the next succeeding May 1 or November 1, as the case may be, and one Business Day immediately preceding any Lease Payment Date, the Trustee will transfer such excess moneys to the Lease Payment Fund to be applied to the Lease Payment then due from the City. In the event of the partial Prepayment of Lease Payments the City may instruct the Trustee to reduce the amounts on deposit in the Reserve Fund to the Reserve Requirement as of such date and may direct the Trustee to transfer excess amounts from the Reserve Fund for any lawful purpose.

The transfers described above are in each case subject to the requirement that if the Certificate proceeds will have become subject to the arbitrage rebate provisions of the Code as described in the Trust Agreement then certain investment earnings are to be transferred to the Rebate Fund at the direction of the City as provided in the Trust Agreement.

Application of Reserve Fund in Event of Deficiency in Lease Payment Fund

Whether or not Lease Payments are then in abatement, if one (1) day immediately preceding any Interest Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the principal, and interest with respect to the Certificates then coming due and payable, the Trustee first will apply the moneys available in the Reserve Fund to make delinquent Lease Payments on behalf of the City by transferring the amount necessary for such purpose to the Lease Payment Fund. The Trustee will take whatever action is necessary to liquidate or draw upon investments of funds held in the Reserve Fund or draw upon any surety bond, insurance policy or letter of credit securing the Reserve Fund to make such funds available for application as provided under the Trust Agreement on the Interest Payment Date.

Transfer to Make All Lease Payments

If on any Interest Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal or interest with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the written direction of the City Representative, transfer all amounts in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments or Prepayments on behalf of the City and such moneys will be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates and the Trustee's fees and expenses pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or upon provision for such payments as provided in the Trust Agreement and provisions for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will at the written direction of the City be withdrawn by the Trustee and paid to the City.

NET PROCEEDS FUND

Establishment of Net Proceeds Fund: Deposits

The Trustee will establish when required a special fund designated as the "City of San Diego (1993 Balboa Park/Mission Bay Park Refunding) Net Proceeds Fund," referred to in the Trust Agreement as the "Net Proceeds Fund," to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided in the Trust Agreement. The Trustee will deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease.

Casualty Insurance. The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the City Representative as provided in the Lease. Pending such application, such Net Proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement. After all of the Certificates have been paid and the entire amount of principal and interest with respect to the Certificates has been paid in full, or provision made for payment satisfactory to the Trustee, including provision for all amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, the Trustee will pay any remaining moneys in the Net Proceeds Fund to the City after payment of any amounts due to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee with respect to the Property will be applied and disbursed by the Trustee upon the Written Request of the City as follows:

(a) If the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Lease Payments and Additional Payments payable by the City under the Lease (such determination to be certified by the City in writing), such proceeds will, with the written approval of the Insurer, be remitted to the City and used for any lawful purpose thereof; or

(b) If the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Lease Payments and Additional Payments payable by the City under the Lease; then the Trustee will, with the written approval of the Insurer, immediately deposit such proceeds in the Prepayment Fund and such proceeds will be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

MONEYS IN FUNDS; INVESTMENT

Held in Trust

The moneys and investments held by the Trustee under the Trust Agreement, other than in the Rebate Fund, are irrevocably held in trust for the benefit of the Owners and, in the case of the Rebate Fund, for payment as required to the United States Treasury, and for the purposes in the Trust Agreement, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the City, or any of them.

Investments Authorized

By Trustee. Subject to the further provisions of the Trust Agreement, moneys held by the Trustee under the Trust Agreement will be invested and reinvested on maturity thereof by the Trustee pursuant to the

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Trust Agreement. The Trustee will report any such investments to the City on a monthly basis in its regular statements.

Upon Direction of City. The City Representative will direct by facsimile, to the designated trust officer responsible for the administration of the Trust Agreement, followed by oral notification and distribution by U.S. Mail or overnight courier service of such notice, such investment in specific Permitted Investments not less than two Business Days prior to the date that such Permitted Investment is to take effect. Such investments and reinvestments will be made giving full consideration for the time at which funds are required to be available. In the event that the City Representative does not so direct the Trustee, the Trustee will invest in the Permitted Investments described in paragraph 2(e) of the definition thereof.

Investments purchased with funds on deposit in the Lease Payment Fund and Prepayment Fund are to mature not later than the Interest Payment Date or prepayment date, as appropriate, immediately succeeding the investment. Notwithstanding anything to the contrary contained in the Trust Agreement, investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity of not greater than five years; provided that such amounts may be invested in an investment agreement to the later of the final maturity of the Certificates or any Additional Certificates so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Trust Agreement; and provided that no such investment of amounts in the Reserve Fund allocable to the Certificates or a series of Additional Certificates shall mature later than the respective final maturity date of the Certificates or the series of Additional Certificates, as applicable.

Registration. Such investments, if registrable, will be registered in the name of the Trustee for the benefit of the Owners and held by the Trustee or its nominee.

Trustee as Purchaser or Agent. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment. The Trustee or any of its affiliates may act as a sponsor of, or as an advisor to any provider of, Permitted Investments under the Trust Agreement. The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

Disposition of Investments

Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement will be credited to the respective fund for which it is held, except as otherwise provided in the Trust Agreement.

Accounting

The Trustee will furnish to the City, not less than monthly, an accounting (which may be in the form of its regular statements) of all investments made by the Trustee and all funds and amounts held by the Trustee; provided, that the Trustee will not be obligated to deliver an accounting for any fund or account that (i) has a balance of zero and (ii) has not had any activity since the last reporting date. The Trustee will keep accurate records of all funds administered by it and of all Certificates paid and discharged.

Valuation and Disposition of Investments

Valuation. With respect to all funds and accounts, investments will be valued by the Trustee (i) as frequently as deemed necessary by the Insurer but not less often than annually nor more often than monthly,

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and (ii) upon any draw upon the Reserve Fund. In making any such valuations, the Trustee may utilize, and conclusively rely upon such valuation services as may be available to the Trustee, including those within its regular accounting system.

Disposition. Subject to the provisions of the Trust Agreement, the Trustee will sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it will be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited.

Commingling of Moneys in Funds

The Trustee may, and upon the written request of the City Representative will, commingle any of the funds held by it pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee under the Trust Agreement will be accounted for separately notwithstanding such commingling by the Trustee.

Tax Covenants

General. The City and the Corporation have covenanted with the holders of the Certificates that, notwithstanding any other provisions of the Trust Agreement, they will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest with the Certificates under the Code. The City and the Corporation (to the extent that the Corporation may have control over the proceeds of the Certificates) will not, directly or indirectly, use or permit the use of proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest with respect to the Certificates.

Use of Proceeds. The City and the Corporation (to the extent that the Corporation may have control over the proceeds of the Certificates) will not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be "private activity bonds" within the meaning of the Code, and in furtherance thereof, will not make any use of the proceeds of the Certificates, or any portion thereof, or any other funds of the City, that would cause the Certificates to be "private activity bonds" within the meaning of the Code. To that end, so long as any Certificates are outstanding, the City and the Corporation, with respect to such proceeds and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued under the Trust Agreement and under the Code, to the extent such requirements are, at the time, applicable and in effect. The City will establish reasonable procedures necessary to ensure continued compliance with the Code and the continued qualification of the Certificates as "governmental bonds."

Arbitrage. The City and the Corporation (to the extent that the Corporation may have control over the Project or the proceeds of the Certificates) will not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or other funds of the City, or take or omit to take any action, that would cause the Certificates to be "arbitrage bonds" within the meaning of the Code. To that end, the City and the Corporation will comply with all requirements of the Code and all regulations of the United States Department of the Treasury issued under the Trust Agreement to the extent such requirements are, at the time, in effect and applicable to the Certificates.

Federal Guarantee. The City and the Corporation (to the extent that the Corporation may have control over the proceeds of the Certificates) will not make any use of the proceeds of the Certificates or any other funds of the City, or take or omit to take any other action, that would cause the Certificates to be "federally guaranteed" within the meaning of the Code.

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Information Reporting. The City and the Corporation (to the extent that the Corporation may have control over the proceeds of the Certificates) will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

Hedge Bonds. The City and the Corporation (to the extent that the Corporation may have control over the proceeds of the Certificates) will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Certificates to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the City and the Corporation takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Certificates for federal income tax purposes; and

Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of the Trust Agreement, the City covenants that it will comply with the provisions of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. These covenants will survive payment in full or defeasance of the Certificates.

Rebate Fund

The Trustee will establish a special fund designated the "City of San Diego (1993 Balboa Park/Mission Bay Park Refunding) Rebate Fund" (the "Rebate Fund"). All amounts at any time on deposit in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the "Rebate Requirement") pursuant to the Code and the Treasury Regulations promulgated thereunder (the "Treasury Regulations"). Such amounts will be free and clear of any lien under the Trust Agreement and will be governed by the Trust Agreement and by the Tax Certificate.

THE TRUSTEE

Appointment of Trustee

Appointment. Wells Fargo Bank, National Association, a banking corporation duly organized and existing under the laws of the State of California, has been appointed Trustee by the Corporation and the City.

Qualifications. The Corporation and the City agree that they will maintain a Trustee having a corporate trust office in New York, New York, San Francisco, California, Seattle, Washington, or Los Angeles, California capable of exercising trust powers in the State of California, with a reported capital surplus of at least $75,000,000, or be a member of a bank holding company system, which will have a combined capital and surplus of at least $75,000,000, and subject to supervision or examination by federal or state authority, so long as any Certificates are Outstanding.

Removal. The Insurer and, so long as there is no Event of Default, the City, may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto.

Resignation. The Trustee may, upon prior written notice to the City, the Insurer and the Corporation, resign; provided that such resignation will not take effect until the successor Trustee is appointed as provided in the Trust Agreement. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee subject to written approval of the Insurer. In the event the City does not name a successor Trustee within thirty (30) days of receipt of notice of the Trustees' resignation, then the Trustee may petition a federal or state court to seek the immediate appointment of a successor trustee.

Successor. Any successor Trustee will be a bank or trust company meeting the qualifications as set forth above. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee and upon receipt of written approval of the

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Insurer. Upon such acceptance, the successor Trustee will mail notice thereof to the Owners at their respective addresses set forth on the Certificate registration books.

Rights of the Trustee

Ownership of Certificates. The Trustee may become the Owner with the same rights it would have if it were not Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository 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 the majority in principal amount of the Certificates then Outstanding.

Attorneys, Agents, Receivers. The Trustee may execute any of the trusts or powers and perform the duties required of it under the Trust Agreement by or through attorneys, agents, or receivers, shall not be responsible for the actions or omissions of such attorneys, agents or receivers if appointed by it with reasonable care, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Trust Agreement.

Standard of Care. So long as there is no Event of Default, (a) the Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct, and (b) the Trustee will only perform those duties specifically set forth in the Trust Agreement and no implied duties, covenants or obligations whatsoever shall be read into the Trust Agreement. In the event of and during the continuance of an Event of Default, the Trustee will exercise such care in performing its duties under the Trust Agreement as a corporate trustee would exercise in such event.

Indemnification of Trustee. The City will, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents, and employees harmless from and against (whether or not litigated) all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Property by the City, (ii) any breach or default on the part of the City in the performance of any of its obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Property, (iii) any act of negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act of negligence of any assignee of, or purchaser from, the City or of any of its or their agents, contractors, servants, employees or licensees with respect to the Property, or (v) the exercise and performance by the Trustee of its powers and duties under the Trust Agreement or any related document, (vi) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates or the Trust Agreement, or (vii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made in light of the circumstances in which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Certificates. No indemnification will be made in the Trust Agreement or other agreements for willful misconduct or negligence by the Trustee, its officers, agents, employees, successors or assigns.

In accepting the trust created by the Trust Agreement, the Trustee acts solely as Trustee for the Owners and not in its individual capacity, and all persons, including, without limitation, the Owners, Corporation and City, having any claim against the Trustee arising from the Trust Agreement will look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise provided in the Trust Agreement or where the Trustee has breached its standard of care as described in the Trust Agreement. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

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No provision of the Trust Agreement will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Trust Agreement or in the exercise of any of its rights or powers.

The Trustee will 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 Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or in the exercise of any right under the Trust Agreement.

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

The Trustee will not to be deemed to have knowledge of any Event of Default under the Trust Agreement or under the Lease unless it has actual knowledge thereof at its Principal Office.

MODIFICATION OR AMENDMENT OF AGREEMENTS

Amendments Permitted

With Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time, with notice to any rating agency then rating the Certificates, by a supplemental agreement or amendment thereto which will become effective when the written consents of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, will have been filed with the Trustee. No such modification or amendment will:

(a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, or diminish the security afforded by the Insurance Policy without the express consent of the Owner of such Certificate and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), or

(b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or

(c) modify any of the rights or obligations of the Trustee without its written assent thereto, or

(d) amend the Trust Agreement dealing with permitted amendments without the prior written consent of the Owners of all Certificates then outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

Without Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement or amendments thereto, with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) without the consent of any such Owners, but only to the extent permitted by law and only:

(a) to add to the covenants and agreements of the City under the Trust Agreement,

(b) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in the Lease,

(c) in regard to matters arising under the Trust Agreement or under the Lease Agreement, as the parties thereto may deem necessary or desirable, will not adversely affect the interest of the Owners or the Insurer,

(d) to substitute the Property, or a portion thereof, in accordance with the Lease,

(e) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates,

(f) to add to the rights of the Trustee,

(g) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement.

Any such supplemental agreement will become effective upon execution and delivery by the parties thereto.

Procedure for Amendment with Written Consent of the Owners

The Trust Agreement or the Lease may be amended by supplemental agreement as provided in the Trust Agreement. In the event the consent of the Owners is required pursuant to the Trust Agreement, a copy of such supplemental agreement, together with a request to the Owners for their consent thereto, will be mailed by the Trustee to each Owner of a Certificate at his address as set forth in the Certificate registration books, but failure to receive copies of such supplemental agreement and request so mailed will not affect the validity of the supplemental agreement when assented to as provided in the Trust Agreement.

Such supplemental agreement will not become effective unless there will be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement) and notices will have been mailed as provided the Trust Agreement. Any such consent will be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when further notice has been mailed as provided in the Trust Agreement.

Effect of Supplemental Agreement

From and after the time any supplemental agreement becomes effective pursuant to the Trust Agreement, the Trust Agreement or the Lease, as the case may be, will be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties thereto and all Owners of Certificates Outstanding, as the case may be, will thereafter be determined, exercised and enforced under the Trust Agreement subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement will be deemed to be part of the terms and conditions of the Trust Agreement or the Lease, as the case may be, for any and all purposes.

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COVENANTS

Compliance With and Enforcement of the Lease

The City has covenanted to perform all obligations and duties imposed on it under the Lease. The Corporation has covenanted to perform all obligations and duties imposed on it under the Lease. The City will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Lease by the Corporation. The Corporation and the City, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or either of them, in the Property, which may or can in any manner affect such estate of the City, will deliver the same, or a copy thereof, to the Trustee.

Observance of Laws and Regulations

The City will observe and perform all valid and lawful obligations or regulations imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise owned or acquired by the City, including its right to exist and carry on business as a municipal corporation, to the end that such rights, privileges and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits

The City will promptly, and also upon request of the Trustee, the Insurer or any Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Property, and will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose.

City Budgets

In accordance with the Lease, the City Representative will certify to the Trustee on or before August 1 of each year that the City has included all Lease Payments (other than Lease Payments of advance rental) and Additional Payments due under the Lease in the Fiscal Year covered by its annual budget and the amount so included. If the City fails to certify that it has included all such Lease Payments and Additional Payments in such annual budget, the Trustee will promptly provide the City written notice specifying that the City has failed to observe and perform its covenant and agreement in the Lease and requesting that such failure be remedied within 30 days, or such failure will constitute an Event of Default under the Lease.

LIMITATION OF LIABILITY

Limited Liability of the City

Except for the payment of Lease Payments, Additional Payments and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the City contained in the Trust Agreement and in the Lease, the City will have no obligation or liability to any of the other parties to the Trust Agreement or to the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

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No Liability of the City or Corporation for Trustee Performance

Except as expressly provided in the Trust Agreement, neither the City nor the Corporation will have any obligation or liability to any other parties thereto or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Limitation of Rights to Parties and Certificate Owners

Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or will be construed to give any person other than the City, the Corporation, the Trustee and the Owners, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision of the Trust Agreement; and all such covenants, conditions and provisions are and will be for the sole and exclusive benefit of the City, the Corporation, the Trustee and the Owners.

Except as expressly provided in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the City or with respect to the observance or performance by the City of the other agreements, conditions, and covenant imposed upon the City by the Lease or by the Trust Agreement.

EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS

Events of Default

Remedies. If an Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything in the Trust Agreement or in the Lease to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE; provided further that so long as the Insurer will not be in default in its payment obligations under the Insurance Policy, the Insurer will control all remedies upon an Event of Default.

Actual Knowledge. The Trustee will not be deemed to have knowledge of any Event of Default unless and until the trust officer responsible for the administration of the Trust Agreement will have actual knowledge thereof, or will have received written notice thereof at the Principal Office.

Application of Funds

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or the Lease, will be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable to the Trustee pursuant to the Trust Agreement and the Lease in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, *Costs and Expenses*: to the payment of the costs, fees and expenses of the Trustee in declaring such Event of Default and in performing its duties under the Trust Agreement, including reasonable compensation to its or their agents, attorneys and counsel and then any of such amounts incurred by the Owners;

Second, *Interest*: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Third, *Principal*: to the payment to the persons entitled thereto of the unpaid principal with respect to any Certificates which will have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Fourth, *Insurer*: to the extent not included in clauses First, Second or Third above, to the payment of all amounts then due to the Insurer, as certified in writing to the Trustee.

Institution of Legal Proceedings

If one or more Events of Default will happen and be continuing, the Trustee, with the prior written consent of the Insurer, may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in the Lease, or in aid of the execution of any power in the Trust Agreement granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties under the Trust Agreement; provided that such written request will not be otherwise than in accordance with provisions of law and the Trust Agreement and that the Trustee will have the right to decline to follow any such written request if the Trustee will be advised by counsel that the action or proceeding so requested may not be taken lawfully or if the Trustee in good faith will determine that the action or proceeding so requested would be unjustly prejudicial to the Certificate Owners not a party to such written request or expose the Trustee to liability.

Non-Waiver

Nothing in the Trust Agreement or in the Certificates will affect or impair the obligation of the City which is absolute and unconditional, to pay or prepay the Lease Payments as provided in the Lease. So long as the Insurer is not in default in its payment obligations under the Insurance Policy, the Trustee will not waive any default or breach of duty or contract under the Trust Agreement without the prior written consent of the Insurer. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time and as often as will be deemed expedient by the Trustee or the Owners.

Remedies Not Exclusive

No remedy conferred or reserved to the Trustee or to the Owners in the Trust Agreement is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings

Subject to the Insurer's right to control all remedies upon an Event of Default, in the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion, upon the request of the Insurer, or upon the request of the Owners of a majority in principal amount of the Certificates then Outstanding, it will have full power, in the exercise of its discretion for the best interest of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other

disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Outstanding Certificates under the Trust Agreement opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Certificate Owners' Right to Sue

No Owner of any Certificate executed under the Trust Agreement will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner will have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) so long as the Insurer is not in default in its payment obligations under the Insurance Policy, such Owner will have obtained the Insurer's consent to such institution or appointment; (c) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding will have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (d) said Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (e) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (f) there has been a default in the payment of such Owner's proportionate interest in the Lease Payments as the same become due.

Such notification, request, tender of indemnity, refusal or omission, and default are, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Trust Agreement; it being understood and intended that no one or more Owners will have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner, notwithstanding any provision of the Trust Agreement.

MISCELLANEOUS

Defeasance

Methods. If and when any Outstanding Certificates are paid and discharged in any one or more of the following ways:

(i) *Payment or Prepayment*: by well and truly paying or causing to be paid the principal, interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(ii) *Cash*: if prior to maturity and having given at least 30 days prior written notice of prepayment by depositing with the Trustee, in trust, concurrent with the giving of such notice, an amount of cash which (together with cash then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any; or

(iii) *Government Obligations*: by irrevocably depositing with the Trustee, in trust, Government Obligations together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon (and, in the event of

payment or provision for payment of all Outstanding Certificates, moneys then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date;

and all other amounts due under the Trust Agreement have been paid in full, then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the Corporation, the Trustee and the City with respect to such Certificates will cease and terminate, except only the obligation of the City and the Corporation to comply with the Code and the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the City from funds deposited pursuant to paragraphs (ii) and (iii) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (ii) and (iii) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease.

Surplus Moneys. Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to the one of the procedures described in the Trust Agreement, which are not required for the payment to be made to Owners, will be paid over to the City, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement, any amounts due and owing to the Insurer, and any other Additional Payments due under the Lease.

Surviving Provisions. The Trustee will retain such rights, powers and privileges under the Trust Agreement as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, on the Certificates and for the registration, transfer and exchange of the Certificates.

Opinions and Reports. Prior to any defeasance becoming effective under the Trust Agreement, the City shall cause to be delivered (i) an executed copy of a report, addressed to the Trustee, the City and the Insurer, in form and substance acceptable to the City and the Insurer of a nationally recognized firm of certified public accountants, verifying that the Government Obligations and cash, if any, satisfy the requirements of the Trust Agreement, (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, which escrow deposit agreement shall be in form and substance acceptable to the Insurer, and (iii) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee, the City and the Insurer, in form and substance acceptable to the City and the Insurer, to the effect that such Certificates are no longer Outstanding under the Trust Agreement.

Non-Presentment of Certificates. In the event any Certificate will not be presented for payment when the principal with respect thereto becomes due, either at maturity, or at the date fixed for prepayment thereof, if moneys sufficient to pay such Certificate will have been deposited in the Prepayment Fund or Lease Payment Fund, as applicable, all liability of the City and the Trustee to the Owner thereof for payment of such Certificate will forthwith cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Certificate who will thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on, or with respect to, said Certificate.

Any moneys so deposited with and held by the Trustee not so applied to the payment of Certificates within two years after the date on which the same will have become due will be paid by the Trustee to the City, free from the trusts created by the Trust Agreement. Prior to forwarding any such moneys to the City, the Trustee may publish notice of its intention to transfer such funds in The Bond Buyer or another financial newspaper of general circulation in New York, New York. In addition, Trustee will be indemnified from and against any and all liabilities to third parties resulting from its actions under the Trust Agreement. Thereafter, Owners will be entitled to look only to the City for payment, and then only to the extent of the amount so repaid by the Trustee. The City will not be liable for any interest on the sums paid to it pursuant to the defeasance provisions of the Trust Agreement and will not be regarded as a trustee or trustees of such money.

RIGHTS OF THE INSURER

Upon the occurrence and continuance of an Event of Default, the Insurer will 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 Trust Agreement.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEASE

DEFINITIONS

Unless the context otherwise requires, the terms defined below shall for all purposes below have the meanings defined below, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined below. All capitalized terms used below and not defined below shall have the meanings ascribed thereto in the Trust Agreement.

"Environmental Regulations" means all Laws and Regulations, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (together with the regulations promulgated thereunder, "CERCLA"), the Resource Conservation and Recovery Act, as amended (together with the regulations promulgated thereunder, "RCRA"), the Emergency Planning and Community Right-to-Know Act, as amended (together with the regulations promulgated thereunder, "Title III"), the Clean Water Act, as amended (together with the regulations promulgated thereunder, "CWA"), the Clean Air Act, as amended (together with the regulations promulgated thereunder, "CAA") and the Toxic Substances Control Act, as amended (together with the regulations promulgated thereunder, "TSCA"), and any state or local similar laws and regulations and any so-called local, state or federal "superfund" or "superlien" law.

"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 provisions the Lease, permit to remain unpaid; (ii) the Assignment Agreement; (iii) the Lease; (iv) the Site Lease; (v) any contested right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law to the extent permitted under the Lease; (vi) those existing leases regarding the Balboa Park House of Charm, described as Site B in Exhibit B of the Lease, in existence as of the Closing Date, and any extensions or renewals thereof, so long as such leases are expressly subordinate to the Lease; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions, liens or restrictions which exist of record as of the Closing Date and which the City hereby certifies will not materially impair the use of the Property by the City; and (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Insurer, the Corporation, the City and the Trustee consent in writing.

"Property" means the real property and improvements thereon described in Exhibit B to the Lease being leased to the City by the Corporation.

AGREEMENT TO LEASE; TERM OF LEASE; LEASE PAYMENTS

Term

The term of the Lease will commence on the date of execution thereof and will end on November 1, 2008 as to Site A, and November 1, 2023 as to Site B, unless extended pursuant to the Lease, or unless terminated prior thereto upon the earliest of any of the following events:

Default and Termination. A default by the City and the Corporation's election to terminate the Lease under the termination provisions of the Lease;

Payment of All Lease Payments. The payment by the City of all Lease Payments and any Additional Payments required under the Lease; or

Prepayment. The deposit of funds or Government Obligations with the Trustee in amounts sufficient to pay all Lease Payments as the same will become due, as provided in the Lease and the Trust Agreement.

Purchase. Upon the exercise by the City of its option to purchase all of the Corporation's interest in the Property as provided in the Lease; provided, however, that upon exercise by the City of its option to purchase the Corporation's interest in a portion of the Property, as provided in the Lease, the Lease will be terminated only with respect to the portion of the Property purchased.

Extension of Lease Term

The Term of the Lease may be extended up to ten years for each Site A and Site B described in the Lease, November 1, 2033 in connection with the execution and delivery of any Additional Certificates. If on the final maturity date of the Certificates or any Additional Certificates all Interest Components and Principal Components represented thereby shall not be fully paid by the City, or if the Lease Payments or Additional Payments under the Lease shall have been abated at any time as permitted by the terms thereof, then the Term shall be extended until all Certificates and Additional Certificates shall be fully paid, except that the Term shall in no event be extended beyond November 1, 2018 as to Site A and November 1, 2033 as to Site B.

Lease Payments

Time and Amount. Subject to the provisions of the Lease regarding abatement in event of loss of use of any portion of the Property, regarding option to purchase and regarding prepayment of Lease Payments, the City has agreed to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Property, the Lease Payments (denominated into components of principal and interest, the interest component being paid semiannually) in the amounts specified in Exhibit A to the Lease, to be due and payable in arrears on the twenty-third (23rd) day of the month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Dates specified in Exhibit A to the Lease (the "Lease Payment Date") which are sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates. In the event that any Additional Certificates are executed and delivered pursuant to the Trust Agreement, the City and the Trustee shall execute an amendment to state the Lease Payments due under the Lease as a result of the execution and delivery of such Additional Certificates.

The obligation of the City to pay Lease Payments shall commence on the Closing Date for the Certificates. In the event the City does not pay a Lease Payment due on the respective Lease Payment Date, the Trustee will provide prompt written notice to the City of such failure to pay; provided, however, that failure to give such notice will not excuse any event of default under the Lease.

Credits. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than capitalized interest, which will be credited in accordance with the Trust Agreement, and other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of principal with respect to any Certificates or Additional Certificates that have matured or been called for payment and have not been presented for payment or interest) will be credited towards the Lease Payment then due and payable. No Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund (other than those amounts excluded under the prior sentence) are at least equal to the Lease Payment then required to be paid.

Rate on Overdue Payments. In the event the City should fail to make any of the Lease Payments required in the Lease, the Lease Payment in default will continue as an obligation of the City until the amount in default will have been fully paid, and the City agrees to pay the same with interest thereon, to the extent

permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate then represented by such delinquent Lease Payment.

No Withholding. Notwithstanding any dispute between the Corporation and the City, including a dispute as to the failure of any portion of the Property in use by or possession of the City to perform the task for which it is leased, the City will make all Lease Payments and Additional Payments when due and will not withhold any Lease Payments pending the final resolution of such dispute.

Fair Rental Value

The Lease Payments and Additional Payments will be paid by the City in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Property during each such period for which said Lease Payments are to be paid. The parties to the Lease have agreed and determined that such total rental represents the fair rental value of the Property. In making such determination, consideration has been given to the fair market value and replacement cost of the Property, other obligations of the parties under this Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the City and the general public, and the transfer of the Corporation's leasehold interest in the Property at the end of the Term.

Without limiting the generality of the foregoing, the City represents and agrees that Site A (the North Torrey Pines Golf Course portion of the Property) has significant value to the City irrespective of golf course use which would be taken into account in determining fair rental value even if the property were to cease to be used as a golf course as a result of damage or destruction.

Budget and Appropriation

The City has covenanted to take such action as may be necessary to include all Lease Payments and Additional Payments (to the extent the amounts of such Additional Payments are known to the City at the time its annual budget is proposed), due under the Lease in its annual budget and to make the necessary annual appropriations therefor, and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year. To the extent the amount of such payments becomes known after the adoption of the annual budget, such amounts will be included and maintained in such budget as amended. The covenants on the part of the City contained in the Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City.

Abatement of Lease Payments in Event of Loss of Use

In the Event of Damage, Destruction, Condemnation or Title Defect. Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments and Additional Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Property or defects in the title with respect to the Property there is substantial interference with the use and possession of all or a portion of the Property by the City. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who is not an employee of the City) for the use and possession of the portion of the Property not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. Except as provided the Lease, in the event of any such damage, destruction, interference or taking, the Lease

shall continue in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage, destruction, interference or taking.

Notwithstanding a substantial interference with the use and possession of all or a portion of the Property, the City shall remain obligated to make Lease Payments which would otherwise be abated (i) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Property, or any portion thereof, are available to pay the amount which would otherwise be abated; and (ii) to the extent that moneys are available in the Reserve Fund or the Lease Payment Fund to pay the amount which would otherwise be abated. The Lease Payments shall be payable from such amounts paid under (i) and (ii) above as an obligation of the City payable from a special fund.

Repair or Replacement. In the event of such abatement, unless the abatement will be avoided as a result of a prepayment of Lease Payments from Net Proceeds, the City will use its best efforts to repair or replace the damaged or destroyed or taken portion of the Property, as the case may be, from Net Proceeds or special funds of the City or other moneys the application of which would, in the opinion of Special Counsel addressed to the Trustee, the City and the Corporation, not result in the obligations of the City under the Lease constituting indebtedness of the City in contravention of the Constitution and laws of the State.

Additional Payments. In addition to the Lease Payments, the City will also pay such amounts ("Additional Payments") as will be required for the payment of all administrative costs of the Corporation relating to the Property or the Certificates and any Additional Certificates, including without limitation all expenses, compensation and indemnification of the Trustee payable by the City under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its interest in the Property or undertaking of the transactions contemplated in the Lease or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, amounts due under the Reserve Fund Surety Bond to the extent such amounts are not includable as a part of the Lease Payments due under the Lease and any and all other amounts due to the Insurer and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates and any Additional Certificates or of the Trust Agreement including premiums or insurance maintained pursuant to the Lease or to indemnify the Corporation and its employees, officers and directors and the Trustee. All such Additional Payments to be paid hereunder shall be paid when due directly by the City to the respective parties to whom such Additional Payments are owing.

Net-Net-Net Lease

The Lease will be deemed and construed to be a "net-net-net lease" and the City has agreed that the Lease Payments will be an absolute net return to the Corporation, free and clear of any expenses, taxes, fees, insurance premiums, rebate payments, reserve deposits, charges or set-offs whatsoever, except as expressly provided in the Lease.

INSURANCE

Public Liability and Property Damage

Coverage. The City will maintain or cause to be maintained, throughout the Term of the Lease, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the City, its officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of any City property or portion thereof.

Limits. Said policy or policies will provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $500,000 in each case for damage to property resulting

from each accident or event (subject to a deductible clause of not to exceed $250,000) or such higher amount as is consented to by the Insurer. Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the liability limits set forth in the Lease.

Joint or Self-Insurance. Such liability insurance, including the deductible, may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the City.

Payment of Net Proceeds. The proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds will have been paid.

Workers' Compensation

The City will also maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto (with provision for self-insurance).

Casualty and Theft Insurance

Casualty and Theft Insurance; Coverage. The City will procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, insurance against loss or damage to any portion of the Property caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, excluding flood and earthquake; provided, however, that a flood and earthquake rider shall be purchased if the City, in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates.

Amount. Property, subject to a "deductible clause" not to exceed two hundred fifty thousand dollars ($250,000) for any one loss, or in the case of a flood and earthquake rider, ten percent (10%) of the coverage obtained. The term "full replacement value" as used in this paragraph shall mean the actual replacement cost of the improvements constituting the Property.

Joint or Self-Insurance. Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the City, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the City through a California joint powers authority.

Payment of Net Proceeds. The Net Proceeds of such insurance will be paid to the Trustee and deposited in the Net Proceeds Fund and applied as provided in the Lease.

Rental Interruption Insurance

Coverage and Amount. Upon delivery of the Property to it for occupancy, the City will maintain or cause to be maintained rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of rental income from the Property caused by perils covered by the insurance required to be maintained as provided in the Lease. Such rental interruption insurance shall name the Trustee and Corporation as additionally insured parties.

Joint Insurance. Such insurance may be maintained as part of or in conjunction with any other rental income or use and occupancy of insurance carried by the City.

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Payment of Net Proceeds. The Net Proceeds of such rental interruption insurance will be paid to the Trustee and deposited (1) in the Reserve Fund to make up any deficiencies therein, and (2) deposited in the Lease Payment Fund, to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance

The City will obtain and, throughout the Term of the Lease, maintain or cause to be maintained title insurance on the Property, in the form of an CLTA title policy (with western regional exceptions), in an amount equal to the aggregate principal amount of the Certificates and Additional Certificates Outstanding, issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners, subject only to Permitted Encumbrances. Said policy or policies will insure the City's leasehold estate under the Lease in the Property, subject only to Permitted Encumbrances. All Net Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Trust Agreement. So long as any of the Certificates and Additional Certificates remain Outstanding, each policy of the title insurance obtained pursuant to the Lease or required thereby will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Certificate Owners and the owners of any Additional Certificates. The Net Proceeds of such insurance will be applied as provided in the Lease.

General Insurance Provisions

Form of Policies. All policies of insurance required to be procured and maintained pursuant to the Lease and any statements of self-insurance will be in a form certified by an insurance agent, broker or consultant to the City to comply with the provisions of the Lease. All such policies will provide that the City will give the Trustee 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. Each policy of insurance required to be procured and maintained pursuant to the Lease regarding casualty and theft insurance, regarding rental interruption insurance and regarding title insurance will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Owners.

Payment of Premiums. The City will pay or cause to be paid when due the premiums for all insurance policies required by the Lease.

Self Insurance. The City may only elect to self insure as permitted by the Lease if and to the extent such self-insurance method or plan of protection will afford reasonable protection to the Corporation and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by other municipal corporations in the State other than the City. Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance will be deemed to be self-insurance for purposes of the Lease where the insurance above the deductible limits described in the Lease is provided by commercial carriers. Any self-insurance maintained by the City pursuant to the Lease, unless otherwise consented to by the Insurer, will comply with the following terms:

(a) The self-insurance program will be approved in writing by the City Manager or Deputy City Manager in accordance with the California Labor Code and the California Government Code;

(b) The self-insurance program will include an actuarially sound claims reserve fund out of which each self-insured claim will be paid; the adequacy of such fund will be evaluated on an annual basis by the City Manager or Deputy City Manager; and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of the City Manager or Deputy City Manager; and

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(c) In the event the self-insurance program will be discontinued, the actuarial soundness of its claims reserve fund, as determined by the City Manager or Deputy City Manager, will be maintained.

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Application of Net Proceeds

Deposit in Net Proceeds Fund. The City will remit promptly to the Trustee any Net Proceeds received by the City from its casualty and theft insurance and its title insurance and the Trustee, pursuant to the Trust Agreement, will deposit such Net Proceeds of insurance in the Net Proceeds Fund. The City and/or the Corporation will transfer to the Trustee any other Net Proceeds received by the City and/or Corporation in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Property, for deposit in the Net Proceeds Fund.

Disbursement for Replacement or Repair of the Property. Upon receipt of the prior written consent of the Insurer and the certification described in paragraph (a) below and the requisition described in paragraph (b) below, the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in the requisition as provided in the Lease.

(a) Certification. As a precondition to the disbursement of Net Proceeds the City Representative must certify to the Corporation and the Trustee within 45 days after the event causing receipt of the Net Proceeds (or such later date as is consented to by the Insurer) that:

(i) Sufficiency of Net Proceeds. The Net Proceeds available for such purpose, together with any other funds supplied by the City to the Trustee in a subaccount of the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair (or such lesser percentage as may be consented to by the Insurer), as demonstrated in an attached reconstruction budget, and

(ii) Timely Completion. In the event that damage, destruction or taking results or is expected to result in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds, as described in the Lease together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in an attached reconstruction schedule.

(b) Requisition. The City Representative must state with respect to each payment to be made (1) the requisition number, (2) the name and address of the person, firm or corporation to whom payment is due, (3) the amount to be paid and (4) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation.

Any balance of the Net Proceeds remaining after such replacement or repair has been completed and after payment or provision for payment of all Certificates as provided in the Trust Agreement will be paid to the City after payment of amounts due the Trustee pursuant to the Trust Agreement.

Disbursement for Prepayment. If the City Representative notifies the Trustee in writing of the City's determination that the certification provided above cannot be made or that replacement or repair of any portion of the Property is not economically feasible or in the best interest of the City, then the Trustee will promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of the Certificates as provided in the Trust Agreement and prepayment of Lease Payments as provided in the Lease; provided that in the event of damage or destruction in whole of the Property and in the

event such Net Proceeds, together with funds then on hand in the Lease Payment Fund and Reserve Fund are not sufficient to prepay all the Certificates then Outstanding, then the City will not be permitted to certify that repair, replacement or improvement of all of the Property is not economically feasible or in the best interest of the City. In such event, the City will proceed to repair, replace or improve the Property as described in the Lease from legally available funds in the then-current Fiscal Year and will make the required notification to the Trustee pursuant to the Trust Agreement and the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm, or corporation named in the Requisition as provided therein. Notwithstanding the foregoing, no partial prepayment of Lease Payments shall be permitted unless the resulting Lease Payments are sufficient to pay all remaining principal and interest due with respect to the Certificates

COVENANTS WITH RESPECT TO THE PROPERTY

Option to Purchase

The City may exercise an option to purchase the Corporation's interest under the Site Lease and the Lease in the Property by depositing with the Trustee cash and/or Government Obligations as provided in the Trust Agreement. In such event, all or a portion of the obligations of the City under the Lease, and the security provided by the Lease for said obligations or said portion of the obligations, will cease and terminate as provided in the Lease, excepting in the case all of the Corporation's interest has been purchased, only the obligation of the City to make, or cause to be made, such Lease Payments from such deposit. In the event Lease Payments and Additional Payments under the Lease have been paid in full, on the date of said deposit, the Corporation's interest in the Property will revert and transfer to the City automatically and without further action by the City or the Corporation, and the Corporation will execute and deliver such further instruments and take such further action as may reasonably be requested by the City for carrying out the reversion and transfer of the Corporation's interests in the Property. In the event Lease Payments under the Lease have been paid in part only, on the date of said deposit, the City will specify a discrete portion of the Corporation's interest in the Property for reversion and transfer to the City and the Corporation will execute and deliver such further instruments and take such further action as may reasonably be requested by the City for carrying out the reversion and transfer of such portion of the Corporation's interest in the Property; provided, that such portion will revert and transfer to the City only if (i) the reduction in the fair rental value of the Property effected by such reversion and transfer at the time of such reversion and transfer (as determined by an independent appraisal acceptable to the Corporation and the Insurer) is proportionately less than or equal to the reduction in the maximum annual Lease Payments under the Lease effected by such purchase and (ii) the Insurer will have provided its written consent to such reversion and transfer. Any such deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the Lease.

Maintenance, Utilities, Taxes and Assessments

(a) Maintenance; Repair and Replacement. Throughout the Term of the Lease, as part of the consideration for the rental of the Property, all repair and maintenance of the Property will be the responsibility of the City, and the City will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any sublessee thereof. In exchange for the Lease Payments provided in the Lease, the Corporation agrees to provide only the Property, as set forth in the Lease. The City waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms of the Lease.

(b) Tax and Assessments; Utility Charges. The City will also pay or cause to be paid all taxes and assessments, including but not limited to utility charges, of any type or nature charged to the Corporation or the City or levied, assessed or charged against any portion of the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City will be

obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

(c) Contests. The City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; provided that prior to such nonpayment it will furnish the Corporation and the Trustee with the opinion of an Independent Counsel acceptable to the Corporation, to the effect that, by nonpayment of any such items, the interest of the Corporation in such portion of the Property will not be materially endangered and that the Property will not be subject to loss or forfeiture. Otherwise, the City will promptly pay such taxes, assessments or charges or make provisions for the payment thereof in form satisfactory to the Corporation. The Corporation will cooperate fully in such contest, upon the request and at the expense of the City.

Modification of the Property

Additions, Modifications and Improvements. The City will, at its own expense, have the right to make additions, modifications, and improvements to any portion of the Property if such improvements are necessary or beneficial for the use of such portion of the Property. All such additions, modifications and improvements will thereafter comprise part of the Property and be subject to the provisions of the Lease. Such additions, modifications and improvements will not in any way damage any portion of the Property or cause it to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest components of the Lease Payments; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease, will be of a value which is not substantially less than the value of the Property immediately prior to the making of such additions, modifications and improvements.

No Liens. Except for Permitted Encumbrances, the City will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any additions, modifications or improvements made by the City pursuant to the Lease; provided that if any such lien is established and the City will first notify or cause to be notified the Corporation of the City's intention to do so, the City may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Trustee (as assignee of the Corporation). The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City.

Replacements, Redevelopment and Renovation. The City will, at its own expense, have the right to make replacements, redevelopment or renovation of all or a portion of the Property if the following conditions precedent are satisfied:

(a) The City receives an opinion of Special Counsel, a copy of which the City will furnish to the Corporation and the Trustee, that (1) such replacement does not adversely affect the federal income tax exclusion or the State tax-exempt status of the interest with respect to the Certificates, and (2) the Lease will remain the legal, valid, binding and enforceable obligation of the City;

(b) In the event such replacement, redevelopment or renovation would result in the temporary abatement of Lease Payments as provided in the Lease, the City will notify the Insurer and any rating agency then providing a rating on the Certificates and shall deposit moneys with the Trustee in advance for payment of Lease Payments from special funds of the City or other moneys,

the application of which would not, in the opinion of Special Counsel (a copy of which shall have been delivered to the Trustee), result in such Lease Payments constituting indebtedness of the City in contravention of the Constitution and laws of the State;

(c) The City will certify to the Trustee that it has sufficient funds to complete such replacement, redevelopment or renovation; and

(d) In the case of replacement or redevelopment, the City and the Trustee receive an independent appraisal from a California certified general appraiser that the annual fair rental value of the replacements will be at least equal to the annual fair rental value of the Property immediately prior to such replacement or redevelopment.

Encumbrances; Alternative Financing Methods

Encumbrances. Except as provided in the Lease, the City will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Property, other than Permitted Encumbrances and other than the respective rights of the Corporation and the City as provided in the Lease. Except as expressly provided in the Lease, the City will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same will arise at any time; provided that the City may contest such liens if it desires to do so. The City will reimburse the Corporation for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Alternative Financing Methods. Notwithstanding the foregoing, the City may create or suffer to create any mortgage, pledge, liens, charges, encumbrances or claims upon the Property or any improvements thereto, provided that (1) any such mortgage, pledge, liens, charges, encumbrances or claims will at any time while any of the Certificates remain Outstanding be and remain subordinate in all respects to the Site Lease and Lease and any security interest given to the Trustee for the benefit of the Owners and (2) the City will have first delivered to the Trustee an opinion of Special Counsel substantially to the effect that such mortgage, pledge, liens, charges, encumbrances or claims would not result in the inclusion of the interest with respect to the Certificates in the gross income of the owners of the Certificates for purposes of federal income taxation or impair the State tax-exempt status of such payments.

Substitution or Release of the Property

The City will have the right to substitute alternate real property for any portion of the Property described in the Lease or to release a portion of the Property from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form attached as Exhibit C to the Lease and by satisfying the conditions set forth in paragraphs (i) through (viii) below. All costs and expenses incurred in connection with such substitution or release will be borne by the City. Notwithstanding any substitution pursuant to the Lease, there will be no reduction in or abatement of the Lease Payments due from the City under the Lease as a result of such substitution. No substitution or release will be permitted under the Lease unless:

(i) the City provides prior written notice thereof to the Insurer, together with a certificate that the substituted real property has an equivalent or greater useful life as the Property to be released and that the useful life of the substituted real property exceeds the remaining term of the Lease Payments under the Lease;

(ii) an independent California Certified General Appraiser or equivalent certified real estate appraiser selected by the City finds (and delivers a certificate to the City and the Trustee setting forth its findings) that the substituted real property has a fair rental value greater than or equal to the

fair rental value of the Property to be released so that the Lease Payments payable by the City pursuant to the Lease will not be abated;

(iii) the City obtains or causes to be obtained an CLTA title insurance policy (with western regional exceptions) with endorsement so as to be payable to the Trustee for the benefit of the Owners showing no prior liens thereon other then Permitted Encumbrances. Such policy will comply with the Lease, will be in a form satisfactory to the Insurer, the Trustee and the Corporation, will be in the amount equal to the principal component of Lease Payments attributable to the substituted real property, and will insure the leasehold interest or the fee simple interest of the Corporation or the City, as applicable, to the substituted real property;

(iv) the City provides the Corporation and the Trustee with an opinion of Special Counsel that such substitution does not cause, in and of itself, the interest evidenced and represented by the Certificates to be included in gross income for federal income tax purposes;

(v) the City will give, or cause to be given, any notice of the occurrence of such substitution required to be given pursuant to the Continuing Disclosure Agreement;

(vi) upon the substitution of any real property and improvements thereon for all or a portion of the Property then existing, the City, the Corporation and the Trustee will execute and the City will record with the office of the County Recorder, County of San Diego, California, any document necessary to reconvey to the City the portion of the Property being substituted and to include the substituted real property and/or improvements thereon as all or a portion of the Property;

(vii) the City will certify to the Trustee and the Insurer that the substituted real property is of approximately the same degree of essentiality to the City as the portion of the Property being replaced; and

(viii) the Trustee will receive the Insurer's prior written consent to such substitution and shall proved a copy of such notice to S&P.

Condemnation of Property

The City has agreed, to the extent it may lawfully do so, that so long as any of the Certificates remain outstanding and unpaid, the City will not exercise the power of condemnation with respect to the Property. The City has agreed, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the City will fail or refuse to abide by such covenant and condemns the Property, then the appraised value of the Property will not be less than the greater of: (i) if the Certificates are then subject to optional prepayment, the principal and interest components of the Certificates outstanding through the date of their prepayment, or (ii) if the Certificates are not then subject to optional prepayment, the amount necessary to defease the Certificates to the first available prepayment date in accordance with the Trust Agreement.

ASSIGNMENT, SUBLEASING AND AMENDMENT

Assignment by the Corporation

Except as provided in the Lease, in the Trust Agreement and the Assignment Agreement, the Corporation will not assign the Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in the Lease.

Assignment and Subleasing by the City

Assignment. The Lease may be assigned by the City, with the consent of the Insurer, so long as such assignment does not, in the opinion of Special Counsel, adversely affect the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates or affect the validity of the Lease. In the event that the Lease is assigned by the City, the obligation to make Lease Payments under the Lease will remain the obligation of the City.

Sublease. The City may sublease all or any portion of the Property, with the consent of the Trustee (as assignee of the Corporation) and the Insurer, subject to (i) the Lease and the obligation of the City to make Lease Payments under the Lease will remain obligations of the City; (ii) the City will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation, the Trustee and the Insurer a true and complete copy of such sublease (iii) no sublease by the City will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; and (iv) no sublease will cause the interest due with respect to the Certificates to become includable in gross income for federal income tax purposes or subject to State personal income taxes.

Amendments and Modifications. The Lease may be amended or any of its terms modified with the written consent of the Insurer, the City and the Trustee (as assignee of the Corporation), in accordance with the Trust Agreement.

EVENTS OF DEFAULT AND REMEDIES

Events of Default Defined

The following will be "events of default" under the Lease and the terms "events of default" and "default" means, whenever they are used in the Lease, any one or more of the following events:

Payment Default. Failure by the City to pay any Lease Payment required to be paid under the Lease by the corresponding Lease Payment Date; and

Covenant Default. Failure by the City to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed in the Lease or otherwise with respect thereto or in the Trust Agreement or in the Site Lease, other than as referred to in the foregoing paragraph, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Insurer, the Trustee, or the Owners of not less than 20% in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation, the Insurer or such Owners, as the case may be, will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected, except that such grace period will not exceed 60 days without the prior written consent of the Insurer.

Bankruptcy or Insolvency. The filing by the City of a case in bankruptcy, or the subjection of any right or interest of the City under the Lease to any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may be enacted.

Remedies on Default

Whenever any event of default referred to in the Lease will have happened and be continuing, it will be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to

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the Lease. Notwithstanding anything in the Lease or in the Trust Agreement to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default under the Lease, the City will surrender possession of the Property to the Corporation, if requested to do so by the Corporation, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement. So long as the Insurer is not in default under the Insurance Policy, the Insurer will control all remedies upon an event of default under the Lease. The Owners' direction of remedies upon default are subject to the prior written consent of the Insurer. The Insurer, acting alone, will have the right to direct all remedies upon an event of default.

No Termination; Repossession and Re-Lease on Behalf of City. In the event the Corporation does not elect to terminate the Lease in the manner provided for in the Lease, the Corporation may, with the consent of the City, which consent has been irrevocably given, repossess the Property and re-lease it for the account of the City, in which event the City's obligation will accrue from year to year in accordance with the Lease and the City will continue to receive the value of the use of the Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the City will remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Corporation re-enters or not. The City will remain liable for the payment of all Lease Payments and Additional Payments and the performance of all conditions contained in the Lease and will reimburse the Corporation for any deficiency arising out of the releasing of the Property, or, in the event the Corporation is unable to re-lease the Property, then for the full amount of all Lease Payments and Additional Payments to the end of the Term of the Lease, but said Lease Payments and Additional Payments and/or deficiency will be payable only at the same time and in the same manner as provided for the payment of Lease Payments and Additional Payments under the Lease, notwithstanding such repossession by the Corporation or any suit brought by the Corporation for the purpose of effecting such repossession of the Property or the exercise of any other remedy by the Corporation.

The City has irrevocably appointed the Corporation as the agent and attorney-in-fact of the City to repossess and re-lease the Property in the event of default by the City in the performance of any covenants contained in the Lease to be performed by the City and to remove all personal property whatsoever situated upon the Property, to place such property in storage or other suitable place in the County of San Diego, for the account of and at the expense of the City, and the City has exempted and agreed to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Property.

The City will retain the portion of rental obtained by the Trustee, as assignee of the Corporation, that is in excess of the Lease Payments and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Property, and all amounts payable by the City under the Lease and the Trust Agreement.

In the event that the liability of the City under this subsection (a) is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Corporation, or the Trustee or the Owners, as assignees of the Corporation, shall not exercise the remedies provided in this subsection (a).

Termination; Repossession and Re-Lease. In the event of the termination of the Lease by the Corporation at its option and in the manner provided on account of default by the City (and notwithstanding any repossession of the Property by the Corporation in any manner whatsoever or the re-leasing of the Property), the City nevertheless has agreed to pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease in the case of payment of Lease Payments and Additional Payments. Any proceeds of the re-lease or other disposition of the Property by the Corporation will be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Trustee, as assignee of the Corporation, from such re-leasing over total Lease Payments will be remitted to the City. Additional Payments that would

have been due hereunder and the fees, expenses and costs of the Trustee as assignee of the Corporation on re-leasing the Property will be remitted to the City.

Opinion of Special Counsel. The re-leasing of the Property as provided in the Lease will be subject to the opinion of Special Counsel that such re-leasing will not cause the interest with respect to the Certificates to be subject to State personal income tax or adversely affect the exclusion from gross income for federal income tax purposes of such amounts.

No Termination by City

Under no circumstances may the City terminate the Lease as a remedy for a default by the Corporation in the performance of any obligation of the Corporation under the Lease.

No Remedy Exclusive

No remedy conferred in the Lease upon or reserved to the Corporation is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

No Additional Waiver Implied by One Waiver

In the event any agreement contained in the Lease should be breached by either party and thereafter waived by the other party; such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach under the Lease.

Application of the Proceeds from the Re-Lease of the Property

All amounts received by the Corporation under the Lease will, subject to the Trust Agreement, be deposited by the Trustee in the Lease Payment Fund and credited towards the Lease Payments in order of Lease Payment Dates.

Trustee and Owners to Exercise Rights

Such rights and remedies as are given to the Corporation under the Lease have been assigned by the Corporation to the Trustee under the Assignment Agreement, to which assignment the City has consented. Such rights and remedies will be exercised by the Trustee and the Owners as provided in the Trust Agreement.

PREPAYMENT OF LEASE PAYMENTS

Security Deposit

Notwithstanding any other provision of the Lease, the City may, on any date, secure the payment of Lease Payments and Additional Payments by a deposit by it with the Trustee of cash and/or Government Obligations as provided in the Trust Agreement. In such event, and provided that the City has paid any other amounts due and owing under the Lease and the Trust Agreement, all obligations of the City under the Lease, and all security provided by the Lease for said obligations, will cease and terminate, excepting only the obligation of the City to make, or cause to be made, Lease Payments and Additional Payments from such deposit. On the date of said deposit title to the Property will vest in the City automatically and without further action by the City or the Corporation (except as provided in the Lease). Said deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease.

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Extraordinary Prepayment

The City will be obligated to prepay the Lease Payments in whole or in part on any date, from and to the extent of any Net Proceeds or other moneys theretofore deposited in the Prepayment Fund (at least 45 days prior to the date fixed for prepayment of the Certificates) pursuant to the Trust Agreement. The City and the Corporation have agreed that such Net Proceeds or other moneys will be credited towards the City's obligations under the Lease (except in the case of such prepayment of the Lease Payments in whole) pro rata among Lease Payments so that following Prepayment, the remaining annual Lease Payments will be proportional to the initial annual Lease Payments.

Optional Prepayment

Subject to the terms and conditions of the Lease, the Corporation has granted an option to the City to prepay all or a portion of the Lease Payments to the extent and on the dates at the prepayment prices set forth in the Trust Agreement, provided that no amounts are owed to the Insurer under the Insurance Policy. The City and the Corporation have agreed that such prepayments will be credited toward City's obligations under the Lease corresponding to the resulting prepayment of the Certificates and Additional Certificates in accordance with the Trust Agreement on the dates and at the prepayment prices provided therein.

APPENDIX D

FORM OF LEGAL OPINION

[Closing Date]

City Council
City of San Diego
San Diego, California

Re: *$17,425,000 City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding)*

Dear Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the City of San Diego (the "City") in connection with the authorization, execution and delivery by the City of that certain Facilities Lease Agreement, dated as of June 1, 2003 (the "Lease Agreement"), by and between the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") and the City. We have also reviewed that certain Trust Agreement, dated as of June 1, 2003 (the "Trust Agreement"), by and among Wells Fargo Bank, National Association, as trustee (the "Trustee"), the Corporation and the City. All capitalized terms used herein shall have the meaning given them in the Trust Agreement unless otherwise defined.

Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver the $17,425,000 City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding Project) (the "Certificates") evidencing undivided proportionate interests of the owners of the Certificates in lease payments (the "Lease Payments") to be made by the City pursuant to the Lease Agreement. Pursuant to that certain Assignment Agreement, dated as of June 1, 2003, the Corporation has assigned to the Trustee the Corporation's right to receive Lease Payments from the City under the Lease Agreement.

The Certificates are dated their date of delivery. The Certificates are registered Certificates in the form set forth in the Trust Agreement and are subject to prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreement.

We have relied on the opinions of counsel to certain non-profit public benefit corporations (the "Nonprofit Corporations") regarding, among other matters, the current qualifications of such non-profit public benefit corporations as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinions are subject to a number of qualifications and limitations. Failure of such Nonprofit Corporations to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their respective status as an organization described in Section 501(c)(3) of the Code may result in the portion of the Lease Payments designated as and comprising interest (and original issue discount) being included in gross income for federal income tax purposes, possibly from the date of execution and delivery of the Certificates.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The obligation of the City to pay Lease Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefor, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies

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against municipalities in the State of California. The obligation of the City to make Lease Payments under the Lease Agreement does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease Agreement and the Trust Agreement have been duly authorized, executed and delivered by the City and constitute valid and legally binding agreements of the City enforceable against the City in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California, except that we express no opinion as to any provisions in the Lease Agreement or the Trust Agreement with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) with respect to the Certificates 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 (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations. The foregoing opinion is subject to the condition that the City and the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the delivery of the Certificates to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Certificates. The City and the Corporation have covenanted to comply with all such requirements.

(4) Interest (and original issue discount) with respect to the Certificates is exempt from personal income taxes imposed in the State of California.

(5) The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity are to be sold to the public) and the stated prepayment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues for the Certificate owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 3 above) and is exempt from State of California personal income tax.

(6) The amount by which a Certificate owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate owner realizing a taxable gain when a Certificate is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the owner.

Except as expressly set forth in paragraphs (3), (4), (5) and (6) we express no opinion regarding any tax consequences with respect to the Certificates.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate executed by the City and other documents related to the Certificates may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Certificate constituting interest if any such change occurs or action is taken or omitted upon advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the Corporation, the Nonprofit Corporations and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Certificates or other offering material relating to the Certificates and expressly disclaim any duty to advise the owners of the Certificates with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

SPECIMEN

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

SPECIMEN

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of June 1, 2003 (the "Disclosure Agreement") is executed and delivered by the City of San Diego (the "City" and the "Dissemination Agent") and Wells Fargo Bank, National Association (the "Trustee") in connection with the execution and delivery of $17,425,000 City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding) (the "Certificates"). The Certificates are being executed pursuant to a Trust Agreement, dated as of June 1, 2003, by and among the Trustee and the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"). The City covenants as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

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

"Annual Report" shall mean the information 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 (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Disclosure Representative" shall mean the City Manager of the City, the Deputy City Manager of the City or their designee, or such other officer or employee as the City shall designate in writing from time to time.

"Dissemination Agent" shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City 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.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated May 29, 2003.

"Participating Underwriter" shall mean the original underwriter of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

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

"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 repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than 285 days following the end of each fiscal year ending June 30, commencing April 11, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-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 they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) 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) (if the Dissemination Agent is other than the City), file a report with the City 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 contain or include by reference the following:

(a) The City's audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. 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) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, updates of Tables 7 and 11-23 and the information set forth under the captions "LABOR RELATIONS" and "PENSION PLAN" set forth in Appendix A to the Official Statement.

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) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Modifications to rights of Certificate holders.

(iv) Optional, contingent or unscheduled Certificate calls.

(v) Defeasances.

(vi) Rating changes.

(vii) Adverse tax opinions or events affecting the tax-exempt status of the Certificates.

(viii) Unscheduled draws on the debt service reserves reflecting financial difficulties.

(ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.

(x) Substitution of the credit or liquidity providers or their failure to perform.

(xi) Release, substitution or sale of property securing repayment of the Certificates.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. 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 Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. 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(c), and (ii) the Annual Report for the year in which the change is made shall 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 have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, 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 performance.

No Certificate holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if one is appointed by the City) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to tome and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the Certificate holders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

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

City:	City of San Diego 202 C Street, Mail Station 9B San Diego, California 92101 Attention: Deputy City Manager
Trustee:	Wells Fargo Bank, National Association 707 Wilshire Blvd., 17th Floor Los Angeles, CA 90017 Attention: Corporate Trust Department

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

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City to the undertaking herein provided.

CITY OF SAN DIEGO

By: _____
Its: Deputy City Manager

Wells Fargo Bank, National Association, as Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of San Diego
Name of Certificate Issue:	$17,425,000 City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding)
Date of Issuance:	June 17, 2003

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement executed by the City on the date of issuance of the Certificates. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SAN DIEGO

By:_____

APPENDIX G

DTC BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (the "Certificates"). The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates, each 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 Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Prepayment proceeds, distributions, and dividend payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Certificates by causing the Direct Participant to transfer the Participant's interest in the Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

FN0917-0000325

EXHIBIT 3

REPORT I - DRAFT

CITY OF SAN DIEGO
MEMORANDUM

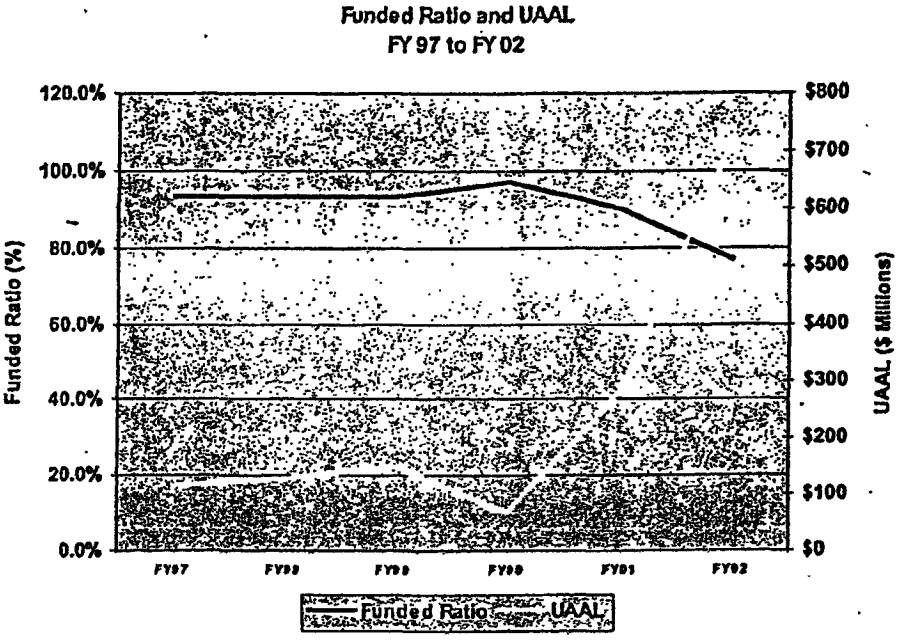
DATE:	June __, 2003
TO:	Honorable Mayor and City Council
FROM:	Michael T. Uberuaga, City Manager
SUBJECT:	Report on Issues and Options Related to City's Pension Funding Requirements
REFERENCE:	Rules Committee Meeting of February 12, 2003

At the February 12, 2003 meeting of the Rules Committee, the San Diego City Employees' Retirement System (SDCERS) presented a report to the Rules Committee commenting on the recommendations of the Mayor's Blue Ribbon Committee on City Finances and providing information on the current projections for the assets and liabilities of the system, including the present value of retiree health benefits. Following a discussion of the report, a motion was approved to request that the City Manager return to the Committee with a report providing a response to specific questions raised by the Committee during the discussion, and identifying potential options for meeting future funding requirements of the system. The following report is intended to serve as a response to that request. In addition to presenting options for meeting future funding needs, this report provides comparative data on the relative performance of SDCERS in comparison with other public retirement systems, and other information intended to provide insight, in terms of both historical perspective, and the perspective of the bond rating agencies.

As noted in the SDCERS' report to the Committee, based on the results of the Annual Actuarial Valuation as of June 30, 2002, the "funded ratio" (the ratio of Valuation Assets to Actuarial Accrued Liability) was 77.3%, down from 89.9% as of June 30, 2001. As of June 30, 2002, the SDCERS had an Unfunded Actuarial Accrued Liability (UAAL) of $720.7 million, which represents an increase of $436.8 million over the UAAL as of June 30, 2001. The UAAL, as of June 30, 2002, is the difference between the Actuarial Accrued Liability of $3.169 billion and Valuation Assets of $2.448 billion.

The UAAL has been increasing in recent years primarily due to declines in investment performance. For example, the UAAL of $284 million as of June 30, 2001 was expected to increase by $72 million by the end of the following year. Instead, the actual year to year increase of the UAAL was $436.7 million, resulting in an actual UAAL of

$720.7 million as of June 30, 2002. The additional increase in the UAAL was due primarily to investment losses, which accounted for 85% of increase. The following chart depicts the recent trend in Funded Ratio and UAAL.



As has been noted by the SDCERS' Actuary in correspondence to the SDCERS Board, the increase in existing UAAL and corresponding drop in the funded ratio cannot be made up in full in the short term by an actuarially determined increase in the City's contribution rates, but preferably through a more gradual increase in contribution rates.

Employer Contribution Rate Structure

1996 Employer Contribution Agreement - In 1996, the City and SDCERS entered into an agreement on a funding proposal (the "1996 Employer Contribution Agreement") to stabilize the City's annual employer contribution, providing greater budgetary controls. Under this funding agreement, annual contribution amounts for basic pension costs (i.e., actuarial present value of retirement benefits earned in the current year plus interest on any UAAL) were based on a fixed rate of increase each year. The objective of the scheduled increases was to steadily ramp up rates to the Entry Age Normal (EAN) rate at the end of a ten year period (2006), at which time the City would convert from its current Projected Unit Credit (PUC) structure to the EAN structure.

Prior to the investment downturn beginning in Fiscal Year 2000, the 1996 Employer Contribution Agreement provided adequate contribution amounts to maintain the City's

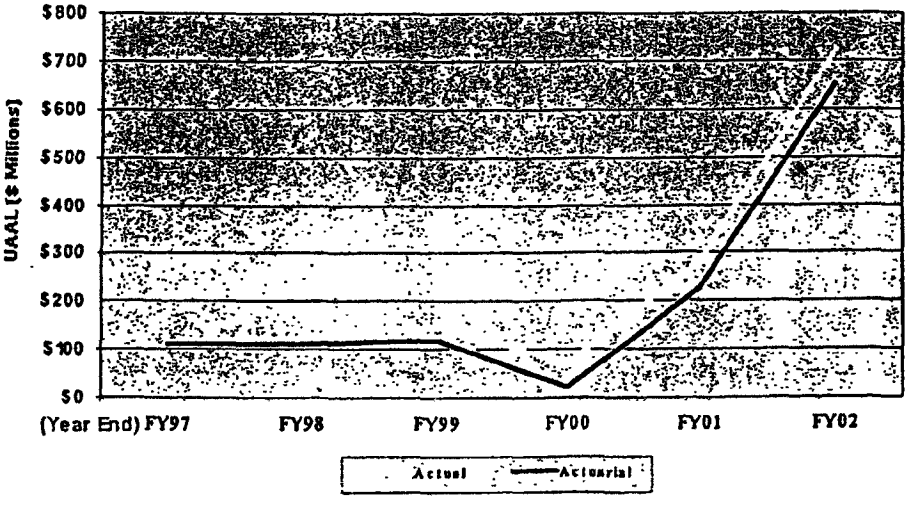
funded ratio at above, or near the 90% level. The following table provides a comparison of the contribution rates under the 1996 Employer Contribution Agreement with the actuarially determined rates for the period Fiscal Year 1997 to Fiscal Year 2003 and the funded ratios for those years.

Actual City Employer Contribution Rate vs. Actuarial Rate

Fiscal Year	City's Actual Rate	Actual Actuarial Rate	Funded Ratio
FY97	7.33%	9.55%	93.3%
FY98	7.83%	10.87%	93.6%
FY99	8.33%	10.86%	93.2%
FY00	8.83%	11.48%	97.3%
FY01	9.33%	11.96%	89.9%
FY02	9.83%	12.58%	77.3%
FY03	10.33%	15.59%	--

While the contribution rates under the 1996 Employer Contribution Agreement have been less than the full actuarial rate, they have not been the primary reason for the recent growth in the UAAL and the corresponding reduction in the funded ratio. The following chart shows the trend in UAAL under the 1996 Employer Contribution Agreement and what it would have been if the City had made contributions at the full actuarial rate.

Unfunded Actuarial Accrued Liability (UAAL)
Actual Contribution vs. Actuarial Contribution
FY97 to FY02



Overall, it is estimated that the below actuarial level contribution rate accounts for

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approximately ten percent of the increase in UAAL between June 30, 1996 and June 30, 2002.

2002 Employer Contribution Agreement - In November 2002, the City and SDCERS entered into a second agreement (the "2002 Employer Contribution Agreement") which was intended to provide a transition period for the City's contribution amounts with the contributions to be increased to the full actuarial rate by Fiscal Year 2009. The 2002 Employer Contribution Agreement also has a provision that if the funding ratio falls below 82.3% (the "trigger rate") an accelerated schedule of phased rate increases will come into effect sufficient to achieve full actuarial rates by Fiscal Year 2009 based on the actuarial assumptions as of that fiscal year. Since the results of the Actuarial Valuation Report as of June 30, 2002, which were released in January 2003, reflected a funding ratio of 77.3%, the trigger was activated with the higher contribution rates coming into effect beginning Fiscal Year 2004. The 2002 Employer Contribution Agreement also requires that the full actuarial costs of any subsequent benefits will be paid in full.

The following table provides a comparison of the contribution rates during the period Fiscal Year 2004 to Fiscal Year 2009 without the trigger and with the trigger in effect.

Contribution Rates Under the Contribution Agreement With and Without the Trigger

Fiscal Year	Assumed Actuarial Rate [1]	Without Trigger [2]	With Trigger
FY04	21.13%	11.89%	13.43%
FY05	25.30%	12.89%	15.80%
FY06	27.64%	13.89%	18.77%
FY07	30.25%	14.89%	22.60%
FY08	33.20%	15.89%	27.90%
FY09	35.27%	16.65%	35.27%

[1] Source: Gabriel, Roeder, Smith & Company (SDCERS Actuary)
[2] Per 2002 Employer Contribution Agreement; does not include DROP or Offset Contribution.

Total City Contributions

In addition to the basic pension costs, the City also pays a portion of the Employee Contribution (the "Offset") and makes contributions to DROP Accounts. The City's Offset contribution is negotiated each year between the City and its labor unions. The following table shows the projected total City contribution (including the Offset and DROP payments) under the 2002 Contribution Agreement for the period Fiscal Year 2004 to Fiscal Year 2009:

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Total Projected City Contribution
Fiscal Year 2004 to Fiscal Year 2009
(In $Millions)

Fiscal Year	Basic Costs (a)	Offset Contribution (b)	DROP (c)	Total
2004	13.43%	5.44%	0.23%	19.10%
2005	15.37%	5.65%	0.23%	21.25%
2006 (d)	17.33%	5.65%	0.23%	23.21%
2007	20.01%	5.65%	0.23%	25.89%
2008	24.54%	5.65%	0.23%	30.42%
2009	35.27%	5.65%	0.23%	41.15%

(a) Mid-year contribution rate of 12.02% of Active Payroll assumed.

(b) Actual offset rates paid by City range from 5.4% for General Member- represented to 7.3% for Safety Members. The rates in the Offset column reflect the percent of total City Payroll that Offset expenses represent.

(c) The City actually contributes 3.05% of employee's pay into the DROP accounts of employees in DROP. The 0.23% reflects the percent of total City payroll that DROP expense represents.

(d) An additional offset contribution is made out of a SDCERS Trust Fund Employee Contribution Rate Reserve. This reserve is projected to run out in FY 06, at which time it would have paid an estimated $16 million for employee offset in FY 06. The City has no commitment to pay the Reserve's Offset amount once the Reserve is depleted.

Please note that the focus of this analysis is on funding options for Basic Costs. An analysis of issues and options related to Offset Contributions, DROP, other retirement benefits and contingent benefits funded from "Undistributed Earnings of the SCERS Trust Fund" are discussed in companion report to this analysis.

Historical Trend in SDCERS Funding and Results of Comparison Survey

Some degree of volatility in the financial status of all pension funds is not unusual, given variations in the investment markets and the uneven additional growth in future liabilities, as benefit packages are modified over time. According to a recent survey by Wilshire Associates, Inc., a record 79% of U.S. public pension plans are currently underfunded. As indicated in the following table, the SDCERS funded ratio, has varied significantly over the twenty-three year period from Fiscal Year 1980 through Fiscal Year 2002, with the fluctuations appearing to correspond to a degree to market fluctuations in the investment market:

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History of Funded Ratios
6/30/80 to 6/30/02

Valuation Date	Funded Ratio	Valuation Date	Funded Ratio
6/30/80	72.7%	6/30/92	95.2%
6/30/81	72.9%	6/30/93	96.5%
6/30/82	75.6%	6/30/94	94.2%
6/30/83	78.7%	6/30/95	92.7%
6/30/84	81.8%	6/30/96	91.4%
6/30/85	86.6%	6/30/97	93.3%*
6/30/86	90.1%	6/30/98	93.6%
6/30/87	95.8%	6/30/99	93.2%
6/30/88	95.8%	6/30/00	105.0%
6/30/89	94.8%	6/30/00**	97.3%
6/30/90	95.1%	6/30/01	89.9%
6/30/91	94.6%	6/30/02	77.3%

* Manager's Proposal in effect.
** Reflects Corbett non-contingent benefit increases.
Source: San Diego City Employees' Retirement System Annual Actuarial Valuation

SDCERS Fund and Other Public Employee Retirement System Funds in California

Based on a recent survey conducted by SDCERS staff, of twenty-one comparable pension systems in California, all but one reported a decline in their funded ratio in Fiscal Year 2002. (Four systems did not report 2002 results, since their fiscal years ended on December 31, 2002). Funded ratios were also down in 2001, with sixteen systems reporting declining ratios; four reporting increases, and one not responding. Ten of the systems surveyed indicated that they had previously issued Pension Obligation Bonds (POBs) and five indicated they are considering issuing POBs in the future.

Almost all of the funds surveyed reported negative investment returns in 2001 and 2002, with 18 of 20 respondents reporting negative returns in 2001 and 15 of 16 respondents reporting negative returns in 2002. All of the systems reported using smoothing techniques in developing the actuarial value of system assets, with most using a 5-year smoothing period, which is the method used by SDCERS.[1]

Approximately one-half (9 out of 21) of the survey respondents indicated that their system pays for retiree health benefits, with four indicating that they actuarially fund the requirement, and the remaining five indicating a pay-as-you-go approach, which is in accordance with current government accounting standards.

[1] Asset smoothing is used to estimate the current year's market value of plan assets, by calculating the average percentage difference between book value and market value of plan assets over the preceding five year period and applying that factor to the current year's book value of plan assets.

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Eleven of the twenty-one respondents indicated that they do not pay for contingent benefits, such as a STAR COLA (Supplemented Targeted Adjustment for Retirees, Cost-of-Living Adjustment) or 13th Check. *Attachment 1* provides the full detail of the survey results.

County of San Diego - In Fiscal Year 2001, prior to the issuance of its Pension Obligation Bonds (POBs), the County's required contribution rate was at 0.0%, since the County's Retirement Fund funded ratio was above 100%. For example, in Fiscal Year 2001, the funded ratio was at 106.8%. By the end of Fiscal Year 2002 (6/30/02), the funded ratio had declined to 75.4% due to enhanced benefits and investment losses. It is estimated that had the County not issued the 2002 POBs beginning in Fiscal Year 2003, it would have had to increase its contribution rate to provide an additional $100 million to cover the costs of enhanced benefits that came into effect in FY 2002.

A comparison of key data on the City of San Diego and San Diego County Retirement Systems is provided in *Attachment 2*.

Credit Rating Agency Perspective on Pension Fund Performance - The rating agencies view pension fund requirements as among a municipality's highest priority obligations. While the rating agencies prefer that pension funds be fully funded, they recognize that funding levels are subject to a degree of volatility over time. For systems that have experienced significant declines in funding levels, the ratings agencies look for indications that a plan is in place to ensure progress toward full funding. The components of the plan may include increases in contribution rates, a restructuring of the investment portfolio, the issuance of POBs, or some combination of these strategies (See the following page for an analysis of alternative methods to meet future funding requirements).

> *"The existence of unfunded long-term liabilities is not necessarily negative, but it is important the plan move toward closing the funding gap over time."...Standard & Poor's.*

As discussed in the above review of the SDCERS survey results, funded ratios for the pension funds surveyed trended lower during the period 2001 to 2002 with 18 of 20 respondents showing negative investment returns in 2000. As also noted above, almost all plans realized negative investment returns in 2001 and 2002, suggesting that investment losses were primary contributors to the reductions in plan funded ratios. The volatility in funded ratios shown by the survey results highlights the exposure of all pension funds to market fluctuations. While the rating agencies factor this volatility into their assessment, their credit concerns can increase if the plan does not demonstrate a corrective action plan in response to these negative market conditions.

> *According to Fitch Ratings' published list of Worst Practices, a funding ratio at less than 60% is a cause for a significant rating concern.*

> *"The creditworthiness of a pension fund will depend to a large extent on the creditworthiness of its sponsor"...Standard & Poor's*

While the funded ratio is the most visible indicator of a pension plan's performance, it is not the only indicator. In addition to the trend in funded ratios, other factors used by the rating agencies to assess a system's capacity to fund future liabilities, include: the trend in benefit levels, flexibility to adjust contribution rates, and the overall financial strength of the municipality sponsoring the plan.

Options for funding future pension obligations

In order to quantify future funding requirements and identify potential options for meeting those requirements, Luce, Forward, Hamilton, and Scripps, the City's outside counsel, on behalf of the City, contracted with Public Financial Management, Inc. (PFM), a financial and investment advisory firm with special expertise in the area of pension fund financing, to prepare an analysis of the City's future pension obligations, not including Health and other contingent benefits discussed below.

In addition to the analysis provided by PFM, the City also contracted with Towers Perrin, an actuarial consulting firm, to review the assumptions used by the SDCERS' current actuary in calculating the system experience gains and losses, and projecting future actuarial liabilities, with the goal of confirming their relative validity, and identifying any areas where the assumptions could be revised to yield a more accurate actuarial valuation. Towers Perrin completed its review and concluded that the methods used in determining the actuarial accrued liability and the increases in actuarially required contributions were reasonable and appropriate based on asset losses, liability losses, plan improvements, and levels/timing of contributions made. It was also concluded that the resulting changes to the actuarial assumptions based on the experience study and likely asset losses since the most recent actuarial valuation would be expected to generate higher costs and liabilities than those developed to date.

The overall objective of the funding analysis was to quantify the relative impact of different financing methods on the following factors related to funding of basic pension obligations (net of Health and various contingent benefits):

- Annual Employer Contribution Requirement (i.e., how much will the City have to contribute annually); and

- Reduction in the UAAL and corresponding increase in the funded ratio.

Following are the salient assumptions made in developing the Funding Options.

Rolling Amortization - Based on the PFM analysis and in consultation with City staff, four alternatives have been identified as potential options to address the funding of pension requirements, as defined above. Although each option offers a different approach they also have a common feature in the form of an assumption of a rolling amortization of the UAAL over a 15 year period. Under the current assumptions used by the SDCERS Actuary to calculate the future actuarial costs, the UAAL is assumed to be amortized over a 30-year period beginning July 1, 1991, with each year's amortization payment reflected as a level (principal and interest combined) percent of payroll. Under the "rolling amortization" assumption, the annual contribution payments would be less

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volatile than under the current 30 year fixed amortization, and the actuarial contribution amounts would be less. The use of the "rolling amortization" is a widely used option on the part of retirement systems faced with relatively large UAALs. A majority of public actuaries in the nation support this method. Adoption of a 15 year rolling amortization method is viewed as a more realistic and viable option for the City by both the System Actuary and Towers Perrin. The change in amortization methodology, from fixed to rolling amortization, must be approved by the Retirement Board.

Expense Assumptions - In order to establish a framework for analyzing the impact of various funding options, the following assumptions as to the costs (as a percent of payroll) of certain pension related expenses were used:

Pension Related Expense	Percent of Payroll
Employer Contribution Costs	
Normal Costs* (Rate as June 30, 2002)	12.02%
UAAL Amortization	Varies
Other Costs	
DROP Contribution	0.23%
Employer Offset**	5.65%

*Actuarially determined contribution necessary to cover the present value of benefits earned in the current year.
** Actual offset rates paid by City range from 5.4% for General Member- represented to 7.3% for Safety Members. The Offset rate assumption reflects the percent of total City Payroll that Offset expenses represent.

Other Assumptions - Analysis assumes that annual return on system assets (rate of return on investment) is 8% and average annual pay is assumed to grow by 4.25% through Fiscal Year 2010, and by 4.00% thereafter.

In general, in the event the actual amount of the UAAL amortization payment is less than the actuarial rate, or if the return on investment is less than the assumed rate, there will be an increase in the UAAL and reverse, if return on investment is more than the assumed rate. It should be noted that the assumed rate of 8% return on investment is the historical actuarial assumed growth rate that is used merely for the purpose of performing long term actuarial analyses. The use of this assumption should not be interpreted as a sign of a potential recovery of the investment markets or with a potential recovery the prior losses will be fully recovered in a short term period.

As discussed above, there are alternative approaches available for amortizing UAAL, which can have an impact on annual contribution costs and the trend in future UAAL. It should be noted that UAAL by and of itself is not necessarily a negative factor. Since UAAL is not payable immediately, the total amount is less critical than the ability to amortize this debt over a reasonable period of time. Uncontrolled growth in UAAL over an extended period of time should be the primary concern, as opposed to short-term fluctuations.

It should also be noted that the above assumptions are based on a snap shot in time, and while the assumptions used in other analyses conducted at various times by various consultants may be slightly different the basic trends tend to correspond.

Funding Option 1 Cont

Since Fiscal Year 1997, the City's Non-Governmental Funds (Enterprise, Internal Service, and Fiduciary Funds) have been expensing contribution payments at the full actuarial rate, with the amount actually contributed to the SDCERS' asset base occurring at the less than actuarial rate in accordance with the 1996 Employer Contribution Agreement. Under Option 1, beginning in Fiscal Year 2004, the full amount from the Non-Governmental Funds (the "actuarial amount") would be contributed to the system beginning in Fiscal Year 2004, resulting in an effective annual increase of $9 million over the total amount contributed under the 2002 Employer Contribution Agreement. An additional contribution amount of $15 million related to accrued Non-Governmental Fund payments during Fiscal Years 1997 to 2002, would be contributed in Fiscal Year 2004, resulting in additional payments from Non-Governmental Funds totaling $24 million.

Net Impact – The net impact of Option 1 is a moderate reduction in pension contribution costs through 2011 of approximately $3.3 million compared to the contribution agreement. As indicated in *Table 1*, although UAAL continues to increase under Option 1 through 2011, the rate of increase is slightly less than under the 2002 Employer Contribution Agreement, with the Fiscal Year 2011 UAAL projected to be $2.057 billion, compared with $2.128 billion under the 2002 Employer Contribution Agreement. The funded ratio as of Fiscal Year 2011 is projected to be 68.80%, slightly higher than the 2002 Employer Contribution Agreement rate of 67.71 percent. The total net present value benefit of additional contributions associated with the Non-Governmental Fund through Fiscal Year 2011 and the resulting lower UAAL is estimated at $74.8 million.

Funding Option 2

Under this option, the City would begin to make contributions to the system at the full actuarial level beginning in Fiscal Year 2005, rather than the phased series of increases provided for in the 2002 Employer Contribution Agreement. This Option would also reflect the increased Fiscal Year 2004 Non-Governmental Fund related contributions included in Option 1. By making payments at the actuarial level beginning in Fiscal Year 2005, this option avoids the build-up in UAAL due to the contribution shortfalls under the 2002 Employer Contribution Agreement.

Net Impact – With contributions made at the actuarial rate beginning in Fiscal Year 2005 combined with the Non-Governmental Fund actuarial contributions totaling $24 million in Fiscal Year 2004, Option 2 results in higher total contribution payments of $221 million through Fiscal Year 2008 when compared with the 2002 Employer Contribution Agreement. In aggregate, the City's total pension costs through Fiscal Year 2011 will be higher by approximately $130 million versus the 2002 Employer Contribution Agreement due to the contributions made at full actuarial rate beginning Fiscal Year 2005. Total UAAL under Option 2 is projected at $1.820 billion in 2011, compared with $2.128

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billion under the 2002 Employer Contribution Agreement. As a result of the shift to actuarial rates as of Fiscal Year 2005, the funded ratio as of Fiscal Year 2011 is projected to be 72.40%, compared the 2002 Employer Contribution Agreement ratio of 67.71%, and 68.80% under Option 1. The total net present value benefit from adopting Option 2 through Fiscal Year 2011 is estimated at $92 million, compared with $74.8 million under Option 1.

Funding Option 3

Beginning in Fiscal Year 2004, the City would begin contributing to the retirement system the full amount paid by the Non-Governmental Funds (same as Option 1) and additionally issues Pension Obligation Bonds to generate approximately $720 million to essentially extinguish the outstanding UAAL as of June 30, 2002.

Net Impact – The major benefit of Option 3 is an immediate reduction in UAAL from $720 million in Fiscal Year end 2002 to $228 million in Fiscal Year end 2004. With the drop in UAAL, the funded ratio increases from 77.30% to 93.50 percent. While the lower UAAL results in lower UAAL amortization costs, total contributions through Fiscal Year 2008 are above the 2002 Employer Contribution Agreement rates, due to the debt service on the POBs. As indicated in *Table 1*, beginning in Fiscal Year 2009, annual contribution costs fall below the 2002 Employer Contribution Agreement rate, resulting in total net pension costs savings of $16 million for the period Fiscal Year 2004 through Fiscal Year 2011. After declining to $228 million in Fiscal Year 2004, UAAL trends higher beginning in Fiscal Year 2005, increasing to $1.158 billion in Fiscal Year 2011, compared with $2.128 billion under the 2002 Employer Contribution Agreement. The total net present value benefit of higher contributions and the resulting lower UAAL through Fiscal Year 2011 is estimated at $286 million, compared with $74.8 million under Option 1 and $92 million under Option 2.

Based on the current market expectations, the estimated POB term is projected to match with SDCERS' projected fixed UAAL amortization term ending in FY 2021. The estimated issuance size of the POB is $729 million, with the annual debt service beginning at $12.9 million and gradually ramping to a high $84.2 million by 2021, the final year of the amortization.

Funding Option 4

Option 4 would implement the contribution rate structure provided for in Option 2 (Non-Governmental Fund contribution, including $15 million accrual payment, in Fiscal Year 2004 and full actuarial payments for all other funds beginning in Fiscal Year 2005) combined with the issuance of Pension Obligation Bonds (POBs) sufficient to generate approximately $720 million to essentially extinguish the UAAL as of June 30, 2002.

Net Impact – As with Option 3, the major benefit of Option 4 is an immediate reduction in UAAL from $720 million in Fiscal Year 2003 to $228 million in Fiscal Year 2004 and a corresponding increase in the funded ratio from77.30% to 93.50 percent. Since contribution costs include high contributions related to the shift to full actuarial rates in Fiscal Year 2005, total annual contributions are relatively higher than under Option 3. Through Fiscal Year 2008, total contribution costs are $158 million higher than under the

Contribution Agreement. Beginning in Fiscal Year 2009, projected annual contribution costs are below the 2002 Employer Contribution Agreement rates, reducing the cost differential to $28 million by Fiscal Year 2011. Projected UAAL as of 2011 is $1.135 billion, compared with $2.128 billion under the 2002 Employer Contribution Agreement. The total net present value benefit of higher contribution payments and lower UAAL through Fiscal Year 2011 are estimated at $262 million, compared with $74.8 million under Option 1; $92 million under Option 2, and $286 million under Option 3.

Based on the current market expectations, the estimated POB term is projected to match with SDCERS' projected fixed UAAL amortization term ending in FY 2021. The estimated issuance size of the POB is $729 million, with the annual debt service beginning at $12.9 million and gradually ramping to a high $84.2 million by 2021, the final year of the amortization.

Table 1 on the following page provides the comparative detail on the four funding options.

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Summary of Projected Impacts of Alternative Options
Fiscal Year 2004 - 2011

	Option 1 ($ Mil)[1]				Option 2 ($ Mil)[2]			
Fiscal Year	Contribution[5] Rate[6]	Contribution[5] Amount	Funded Ratio	UAAL[7]	Contribution[5] Rate[6]	Contribution[5] Amount	Funded Ratio	UAAL[7]
2004	13.20%	$75	73.00%	$ 949	13.20%	$75	73.00%	$949
2005	15.13%	$90	71.50%	$1,095	25.06%	$149	71.50%	$1,095
2006	17.02%	$105	69.90%	$1,270	27.08%	$168	71.20%	$1,213
2007	19.62%	$127	68.30%	$1,462	28.74%	$186	71.00%	$1,340
2008	23.98%	$161	67.00%	$1,669	30.61%	$206	70.70%	$1,481
2009	34.14%	$240	66.90%	$1,830	31.74%	$223	71.30%	$1,587
2010	35.39%	$259	67.70%	$1,956	32.30%	$236	71.70%	$1,714
2011	35.99%	$274	68.80%	$2,057	33.02%	$251	72.40%	$1,820

	Option 3 ($ Mil)[3]					
Fiscal Year	Contribution[5] Rate[6]	Contribution[5] Amount	Debt Service	Contribution[5] + POB Debt Service	Funded Ratio	UAAL[7]
2004	13.20%	$75	$13	$ 88	93.50%	$228
2005	13.15%	$78	$44	$122	91.80%	$317
2006	14.34%	$89	$46	$135	89.50%	$442
2007	15.82%	$102	$48	$150	87.30%	$582
2008	17.91%	$121	$50	$171	85.10%	$751
2009	22.47%	$158	$52	$210	84.00%	$885
2010	23.34%	$171	$55	$225	83.00%	$1,032
2011	24.68%	$188	$57	$245	81.80%	$1,158

	Option 4 ($ Mil)[4]					
Fiscal Year	Contribution[5] Rate[6]	Contribution[5] Amount	Debt Service	Contribution[5] + POB Debt Service	Funded Ratio	UAAL[7]
2004	13.20%	$75	$13	$ 88	93.50%	$228
2005	15.17%	$90	$44	$134	91.80%	$317
2006	16.40%	$102	$46	$148	89.60%	$439
2007	18.08%	$117	$48	$165	87.50%	$578
2008	20.05%	$135	$50	$185	85.40%	$736
2009	21.83%	$153	$52	$205	84.40%	$863
2010	23.05%	$169	$55	$223	83.30%	$1,010
2011	24.40%	$186	$57	$243	82.80%	$1,135

[1] Option 1: City pays for Non-Governmental Funds at actuarial rate for FY 2004-2008; the City pays actuarial rate in 2009.
[2] Option 2: Option 1 plus City pays full actuarial rate beginning FY 2005.
[3] Option 3: Option 1 plus POB Issue to provide $720 million to fund UAAL.
[4] Option 4: Option 2 plus POB Issue to provide $720 million to fund UAAL.
[5] Does not include DROP or Employer Offset Contribution.
[6] As a percent of projected payroll.
[7] UAAL estimated at $720.7 million as of June 30, 2002.

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Pension Obligation Bonds (POBs)

With interest rates at 40 year lows, there is a renewed interest on the part of states and local governments in the use of POBs to fund or refinance their UAALs. In California, POBs were recently issued by Marin County ($113 million) and Contra Costa County ($137 million), and the State of California is actively developing plans for a possible POB issuance. Under existing law, POBs are almost always issued on a taxable basis over a term of 30-40 years. Most POBs issued to date have been general obligation or general fund backed, capitalizing on the credit of the sponsoring entity of the pension system.

The issuance of POBs can often be viewed as involving a series of tradeoffs, including: exchanging one type of debt for another; reducing the short-run need to allocate an increasing share of discretionary revenues to provide for UAAL amortization, while increasing pressures for increased employee benefits and increasing the probability of a future UAAL. Since these tradeoffs are expected to often balance out in the long-term, the rating agencies perceive them to be neutral in terms of their net impact on a municipality's credit.

Essentially, POBs replace a "soft liability" (the unfunded pension liability) with a "hard liability" (the debt service on the taxable pension bonds). Once POBs are issued, the bond proceeds are deposited in the pension fund with the objective that the fund will earn a higher return than the interest cost on the bonds. Critics of the POB instrument believe that the government, by issuing a POB, would be bonding out costs that would otherwise be paid out of current period revenues thereby increasing the total cost to the government. Proponents note that unfunded pension liability represents a general obligation anyway and that the POB represents a true commitment to fund the pension. The ultimate risk is that the pension fund loses a portion of the new capital infusion due to lower or negative return on pension fund investments, while still having to make its required future debt payments and pay the unfunded pension liability.

Most municipal pension funds, including SDCERS, assume a long-term rate of return on their investments of 8.0%, and the current interest rate on taxable POBs is less than 8.0%, by using POBs, there is a potential for lowering the interest costs incurred in paying off the UAAL. With POBs, timing of the issuance is very important and many issuers in the early and mid-1990s realized investment returns on the POB proceeds at well above the historical levels and above the average investment return assumptions for pension systems which has been typically at 8%.

A significant POB issuance will result in a sudden increase in the retirement system's assets increasing exposure during a market downturn with below average investment returns or even negative returns as in the past 2-3 years. An investment underperformance over an extended period of time will lead to actuarial losses and new unfunded liabilities, resulting in the need to increase contribution levels to bring the pension systems into balance. While POBs can be viewed as either a positive or negative option in the light of short term market fluctuations, a final assessment of a POB performance can only be made following the full amortization of the issuance and as its

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final maturity is approached. If there are net savings after full amortization of the POB obligation, the POB strategy is considered successful.

POB Structure

Under the conventional structure for a POB, the municipality issues its POBs and simultaneously issues a debenture (essentially a promissory note) to the pension system equal to the amount of the bonds, which is equal to all, or a portion of the UAAL. Upon the sale of the bonds, the proceeds of the bonds are deposited with a Trustee, who transfers an amount equal to the debenture to the retirement system to retire all, or a portion of the UAAL. In effect, the UAAL, which is an internal statutory obligation of the municipality, is replaced by an external debt.

In California, since 1993, local governments have issued approximately $9.9 billion in POBs, including various refundings. The issuers have included 18 counties, 11 cities and 1 special district. Three counties (Los Angeles, Orange and San Diego) accounted for approximately one-half of the total. Cities accounted for 17% of the total, with three cities (Oakland, Fresno and Long Beach) accounting for 75% of cities' share. Los Angeles County had the largest single issuance ($1.1 billion) in 1994, followed by the County of San Diego's issuance of $737 million in 2002.

Revenue Options to Fund System Contributions

A. Special Tax

Under Article 7, Section 76, of the City Charter, adopted in 1931, the City Council was authorized to levy annually an ad valorem tax in an amount sufficient to meet the requirements of the City's Public Safety and City Employees' Retirement Funds. The City previously levied a tax under this Charter section between 1961 and 1978. Subject to further analysis, the City Attorney's Office preliminary review indicates that the Council has the authority to levy the tax as authorized by the City Charter.

Based on an estimated total Assessed Valuation for real property in the City of San Diego of approximately $105.8 billion for Fiscal Year 2004, an ad valorem tax sufficient to generate $10 million in revenues would be levied at a rate of $9.45 per $100,000 of assessed valuation, decreasing to a rate of $7.64 per $100,000 of assessed valuation if Fiscal Year 2008, assuming a conservative annual growth rate of 5.48% in assessed valuation (See *Attachment 3*).

A special ad valorem tax levy for the specific purpose of funding its pension obligation requirements is currently in effect in the City of Oakland. Revenues from this special tax are the primary revenue source used to pay debt service on Oakland's Pension Obligation Bonds issued in 2001. In 1982, a taxpayer filed a lawsuit challenging the "Tax Override" on the grounds that it did not qualify as pre-1978 voter approved indebtedness. The Court rejected the challenge on the basis that the requirement to fund the City's pension obligations, imposed by 1976 Propositions authorizing the annual levy, did constitute pre-1978 voter approved indebtedness.

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B. Real Estate Transaction
(Will or Bruce to field questions on this transaction)

Under this proposed structure, appropriate City real property assets would be identified that are not needed for collateral for other purposes. These assets totaling no more than $25 million would then be deeded to the retirement system. The City would, through a lease-back arrangement, then lease back the asset for its use and make lease payment/rental payment to the retirement fund for a fixed term at an amount equal to an estimated 8-8.5% return on investment. At the end of the term, the City would have the right to repurchase. Through this lease arrangement, the retirement system would benefit by getting a rate of return higher than it receives on most other fixed asset investments, and the City would benefit by paying a below market rent, plus having the one time reduction in unfunded liability of the Retirement Fund. The lower UAAL would result in future savings to the City, in terms of lower contribution requirements for UAAL amortization. The Retirement System investment guidelines would have to be amended in order to affect this type of transaction.

C. Structural and Legislative Funding Options

As noted earlier, the composition and level of the City's Employer Contributions, over and above those related to normal costs and UAAL amortization, are the result of one, or more of the following: legislative action; a negotiated agreement between the City and one its labor unions; or the result of a court ruling. In the case of those costs related to legislative action or labor negotiations, the potential exists to lower or amend the City's Employer Contribution levels as they apply to new benefits or benefits associated with future employees.

<u>Conclusions</u>

- Like the vast majority of pension funds, the City's fund has seen a recent sharp increase in its UAAL and a corresponding decline in its funded ratio due primarily to the sharp downturn in the investment market.

- The health of the City's pension fund remains strong and there is not a near term risk of the City not meeting its non-contingent pension obligations.

- Employer contributions at less than the actuarial rate under the Manager's Proposal between Fiscal Year 1997 and Fiscal Year 2002 accounted for approximately 10% of the increase in UAAL during that period.

- With the activation of the "trigger" provision of the Contribution Agreement adopted in November 2002, the City is committed to implementing a phased schedule of contribution rates intended to achieve full actuarial funding of its pension obligations by Fiscal Year 2009.

- Any concerns the bond credit rating agencies may have regarding the status of the City's pension fund can most likely be alleviated by the adoption of a plan for meeting its obligations over the long-term.

- There are various funding options available to the City which can be included as elements in an overall strategy to fund its future pension obligations.

- The City is not limited to selecting a single option from among the alternatives available.

Recommendations

To be determined

Michael T. Uberuaga
City Manager

Attachments:

1. Survey of Other Public Employee Retirement Systems in California
2. Comparison of City and County Pension Funds
3. Impact of Ad Valorem tax per $100 of Assessed Valuation

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PENSION FUNDING SURVEY
Funding Ratio/Investment Return

SYSTEM	Fiscal Year End	Actuarial Funding Method[1]	1997		1998		1999		2000		2001		2002	
			Funding Ratio	Investment Return	Funding Ratio	Investment Return	Funding Ratio	Investment Return	Funding Ratio	Investment Return	Funding Ratio	Investment Return	Funding Ratio	Investment Return
alPERS	6/30	EAN	110.90%	20.10%	120.50%	19.50%	128.40%	12.50%	119.50%	10.50%	111.90%	-7.20%	N/A	-6.10%
alSTRS	6/30	EAN	97.00%	17.40%	104.00%	17.05%	104.00%	13.35%	110.00%	12.69%	98.00%	-9.12%	N/A	-5.95%
ontra Costa	12/31	EAN	87.80%	21.80%	80.50%	16.20%	87.80%	16.30%	89.10%	2.20%	87.60%	-2.40%	N/A	N/A
ast Bay Muni.	6/30	EAN	86.60%	18.40%	88.35%	17.20%	96.07%	12.20%	91.06%	9.90%	91.43%	-0.70%	87.78%	-5.80%
resno City	6/30	PUC	133.70%	19.00%	152.80%	17.90%	164.70%	12.70%	163.50%	11.60%	156.20%	-4.10%	141.30%	-5.80%
resno Fire & Police	6/30	EAN	145.30%	19.00%	142.50%	17.90%	155.50%	12.70%	163.10%	11.60%	152.80%	-4.10%	137.90%	-5.80%
mperial County	6/30	EAN	103.00%	N/A	126.50%	N/A	126.50%	N/A	133.30%	N/A	110.60%	N/A	98.40%	N/A
ern County	6/30	EAN	97.70%	20.24%	102.00%	14.19%	100.10%	10.65%	103.30%	9.43%	93.60%	-5.23%	N/A	-5.97%
A City Fire & Police	6/30	EAN	81.30%	13.92%	94.20%	14.84%	104.70%	16.54%	114.40%	16.58%	118.90%	10.63%	108.30%	0.33%
A County	6/30	EAN	101.30%	17.70%	99.50%	15.80%	103.30%	12.90%	102.90%	15.20%	100.00%	-5.20%	N/A	-5.60%
lendocino County	6/30	EAN	88.30%	7.90%	87.40%	10.40%	82.40%	6.40%	80.90%	14.30%	77.00%	9.50%	69.70%	N/A
asadena Fire & Police	6/30	EAN	28.00%	16.75%	30.00%	15.64%	32.00%	9.22%	87.00%	-10.19%	79.00%	-1.35%	65.00%	-7.33%
acramento County	6/30	EAN	100.50%	19.90%	107.90%	18.20%	110.40%	12.20%	110.10%	9.80%	107.70%	-4.90%	107.10%	-5.20%
an Francisco City	6/30	EAN	118.00%	18.10%	125.10%	16.48%	137.80%	11.57%	138.80%	23.00%	129.00%	-10.37%	118.00%	-4.50%
an Joaquin County	12/31	EAN	101.25%	17.90%	104.91%	10.30%	107.73%	14.30%	108.11%	3.70%	108.30%	0.50%	107.20%	-5.20%
an Jose City	6/30	EAN	92.00%	15.50%	93.00%	16.50%	93.00%	10.60%	96.00%	7.60%	99.00%	-0.16%	N/A	-1.68%
an Luis Obispo County	12/31	EAN	97.10%	9.20%	96.90%	11.50%	97.50%	11.10%	83.30%	9.40%	82.10%	7.39%	N/A	N/A
an Mateo County	6/30	EAN	82.60%	18.60%	89.90%	16.80%	92.00%	5.70%	98.40%	6.80%	98.60%	-4.30%	91.90%	-5.90%
ulare County	6/30	EAN	101.50%	17.10%	102.10%	17.40%	104.80%	11.30%	110.00%	22.70%	116.90%	-3.30%	109.10%	-3.80%
niversity of California	6/30	EAN	119.00%	25.80%	132.00%	21.60%	145.00%	12.30%	154.00%	12.70%	148.00%	-5.50%	138.00%	-9.00%
entura County	6/30	EAN	112.20%	20.00%	120.80%	19.10%	123.00%	12.60%	122.50%	7.20%	119.30%	-0.40%	110.90%	-7.20%
an Diego City	6/30	PUC	93.30%	16.88%	93.60%	14.62%	93.20%	9.53%	97.30%	14.93%	89.90%	-0.45%	77.30%	-2.48%
an Diego County	6/30	EAN	108.00%	28.90%	105.90%	15.80%	107.40%	12.30%	109.80%	15.80%	106.80%	-8.40%	75.40%	-4.60%

) PUC Method: The Projected Unit Credit (PUC) funding method evaluates the future actuarial liability of the covered population as a total group based on certain funding objectives, calculations, and assumptions.
EAN Method: The Entry Age Normal (EAN) method evaluates the projected benefit of each individual in the covered population based on the individual's entry age and assumed exit age.
The EAN method is recognized as a more conservative means of funding future actuarial liability.

/A: Not Available
ource: Survey Compiled by SDCERS Staff

ATTACHMENT 2

I. CITY OF SAN DIEGO

		Fiscal Year 2002	Fiscal Year 2003
1	Funded Ratio	77.30%[1]	73.00%[2]
2	Employer's Contribution	$49,743,747[3]	$54,000,000[3,4]
3	POB Debt Service*	$0	$0
4	Employer's pick-up of Employee Contributions	$25,896,431	$28,752,442
5	Total (2 +3+4)	$75,640,178	$82,752,442
6	Employer's Contribution as a percent of Payroll	9.83%[5]	10.33%[5]
7	Employer's Actuarial Contribution as a percent of Payroll	12.58%[6]	15.59%[6]

* N/A for City

Source:
1. San Diego City Employees' Retirement System's (SDCERS) Executive Summary, June 30, 2002.
2. SDCERS' Staff.
3. SDCERS' Comprehensive Financial Annual Report 2002.
4. Retirement System's Staff Report to Rules Committee, Feb 5, 2003.
5. 2002 Contribution Agreement.
6. SDCERS' Executive Summary, June 30, 2002.

II. COUNTY OF SAN DIEGO

		Fiscal Year 2002	Fiscal Year 2003
1	Funded Ratio with Enhanced Benefits	75.40%[1]	82.50% [†††,3]
2	Employer's Contribution	$5,300,000[1]	$184,000,000[†,3]
3	POB Debt Service[††]	$54,000,000[2]	$54,000,000[2] (estimate)
4	Employer's pick-up of Employee Contributions	$45,000,000[1]	$65,000,000[3]
5	Total (2 +3 +4)	$104,300,000	$303,000,000
6	Employer's Actuarial Contribution as a percent of Payroll	7.75%[1] (before benefits) 32.06%[1] (after benefits)	22.51%[3]

† On May 1, 2003, SDCERA Board approved a measure to reduce the required contributions to $180 million, $80 million lower than the prior actuarial estimate of $260 million (see ††† below).

†† Variable rate structure, debt service varies year to year. Combined debt service on Series 1994 and 2002 POBs escalates from $54 million in FY 2002 to approximately $68 million in FY 2007, falling to an average annual debt service of $50 - $55 million per year.

††† On May 1, 2003, SDCERA Board approved a special valuation as of October 3, 2002, changing the UAAL amortization period to 15 years and allowing the System to recognize $550 million in Series 2002 Pension Obligation proceeds. These changes resulted in a Funded Ratio of 82.5%.

Source:
1. San Diego County Employees' Retirement Association's (SDCERA) FY 2002 Annual Actuarial Valuation Report.
2. Derived from the County's Series 2002 POB Official Statement and SDCERA FY 2002 Actuarial Valuation Report.
3. SDCERA staff.

ATTACHMENT 3

AD VALOREM TAX RATE SCENARIOS

	Net Assessed Value[1] (AV)	Tax %	Amount	Tax per $100,000 in AV	Tax %	Amount	Tax per $100,000 in AV	Tax %	Amount	Tax per $100,000 in AV	Tax %	Amount	Tax per $100,000 in AV
FY 2004	$105,001,176,052	0.03781%	$40,000,000	$37.807	0.02836%	$30,000,000	$28.355	0.01890%	$20,000,000	$18.903	0.00945%	$10,000,000	$9.452
FY 2005	$111,599,080,500	0.03584%	$40,000,000	$35.843	0.02688%	$30,000,000	$26.882	0.01792%	$20,000,000	$17.921	0.00896%	$10,000,000	$8.961
FY 2006	$117,714,710,111	0.03398%	$40,000,000	$33.980	0.02549%	$30,000,000	$25.485	0.01699%	$20,000,000	$16.990	0.00850%	$10,000,000	$8.495
FY 2007	$124,165,476,225	0.03222%	$40,000,000	$32.215	0.02416%	$30,000,000	$24.161	0.01611%	$20,000,000	$16.108	0.00805%	$10,000,000	$8.054
FY 2008	$130,969,744,322	0.03054%	$40,000,000	$30.541	0.02291%	$30,000,000	$22.906	0.01527%	$20,000,000	$15.271	0.00764%	$10,000,000	$7.635

[1] Projected growth of Net Assessed Value of 5.48% is based on average growth from 1993 to 2002 (Source: CAFR 2002)

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EXHIBIT 4

REPORT II - DRAFT

CITY OF SAN DIEGO
MEMORANDUM

DATE:	June __, 2003
TO:	Honorable Mayor and City Council
FROM:	Michael T. Uberuaga, City Manager
SUBJECT:	Companion Report to "Report on Issues and Options Related to City's Pension Funding Requirements" analyzing issues and options regarding Undistributed Earnings of the SDCERS Trust Fund and the funding of Contingent benefits.
REFERENCE:	Report on Issues and Options Related to City's Pension Funding Requirements Rules Committee Meeting of February 12, 2003

I UNDISTRIBUTED EARNINGS

Some retirement expenses and contingent benefits are funded from "Undistributed Earnings of the SDCERS Trust Fund." Total investment earnings available for distribution have taken a sharp decline in the last four years as shown below.

Total Investment Earnings Available for Distribution

Fiscal Year 2000 $ 416 million
Fiscal Year 2001 $168 million
Fiscal Year 2002 $ 51 million
Fiscal Year 2003 $(51 million) (negative earnings as of April 30, 2003)

A misconception is that if the City and SDCERS had not entered into the Manager's Proposal I, then there would have been sufficient earnings in FY 02 and FY 03 to pay the 13th Check and Corbett payments. That is absolutely not true.

SDCERS as of June 30, 2002 would have had approximately an additional $70 million if the Manager's Proposal never existed. Assets would have been $2.63 Billion instead of $2.56 Billion at June 30, 2002. The additional $70 million could not possibly have generated the additional $XX needed in FY 02 to pay the 13th Check and Corbett. And in

Background - The Municipal Code states the Surplus Undistributed Earnings shall be comprised of investment earnings received during the previous fiscal year less:

1. An amount sufficient to credit interest to the contribution accounts of the active and DROP Members, City, Unified Port District (UPD), and ??Airport Authority at an interest rate determined by the SDCERS Board

2. An amount sufficient to fund the SDCERS operating budget

3. An amount necessary to maintain such reserves as the SDCERS Board deems appropriate on the advice of its investment counselor and /or actuary.

4. An amount sufficient to credit the UPD with a proportional share of Surplus Undistributed Earnings as defined in this section.

5. An amount appropriate to provide health benefits to health eligible and non-health eligible retirees

6. An amount to fund the 13th Check

7. An amount sufficient to increase the base retirement benefit by seven percent for all cities retired members of the SDCERS system who are covered by the Corbett Settlement.

   a. The right to receive this increase each year shall accrue monthly. The increase, however, shall be paid annually at the time the 13th check is normally distributed.

   b. To the extent this increase is not paid in any year because there are insufficient Surplus Undistributed Earnings, the liability for this increase shall be carried forward as a contingent liability which will be paid in future years in which there are sufficient surplus Undistributed Earnings to pay for the increase.

   c. Liabilities carried forward shall be paid in the order in which they accrued.

8. An amount sufficient to credit interest to the reserves created for the supplemental COLA and employee contributions.

If there are any "surplus undistributed earnings" left after the distribution the balance is to be credited to the City, UPD and?? Airport Reserve for Employer Contributions for the sole and exclusive purpose of reducing the SDCERS system liability.

The process described is also being referred to as "the waterfall".

VE SUM 09735

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EXAMPLES (needed?)

Fiscal Year 2001 Earnings Distribution is an example of how the process works when earnings are sufficient to meet all the items listed in the Municipal Code.

(Duplicate copy of calculation)

Fiscal Year 2002 Earnings Distribution shows how the process works when earnings are insufficient to meet all the items. Earnings were not sufficient to cover the required items such as crediting accounts and funding the budget let alone the 13th Check or Corbett payments. However, the City Council did take action to pay the 13th check in 2002, not out of earnings, but out of reserves.

(Duplicate copy of calculation)

Fiscal Year 2003 earnings, which as of April 30, 2003 was negative ($51) million, are not going to be sufficient to fund anything and therefore the employer reserves will have to be charged for the full amount of crediting the accounts approximately $ and funding the FY 04 budget.

For FY 03 earnings of at least $$ would be required to pay the 13th check and the 2002 and 2003 Corbett payments.

Summary - Contingent benefits such as the 13th Check and Corbett are contingent on earnings of the SDCERS Trust Fund as defined in the Municipal Code. Heavy investment losses due to the world wide investment market declines have resulted earnings being insufficient to pay contingent benefits in FY 02 and FY 03. Paying these benefits out of Trust Fund reserves would harm the system by decreasing assets that are available to fund the defined benefits of SDCERS.

II PURCHASE OF SERVICE CREDIT

SDCERS members are allowed to purchase service credit for a variety of periods of service such as missed contribution periods due to absences while on LTD and for probationary periods. Members can also purchase up to 5 years for "air time". Since the final retirement benefit is based on years of service, a member's retirement allowance will increase if they purchase service.

The SDCERS Board is responsible for administering the program. The City's intent of the program is that full cost be charged for the time purchased under this program. The cost should represent both the employee and employer contribution.

In 2002 SDCER'S actuary advised the Board that the amount charged for the 5 years "air time" was not sufficient to cover the cost. The Board charges 15% of the employee's current salary for each year of service credit. The actual cost for the benefit is xx %.

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As of June 30, 2002 1,186 employees have purchased over 5,219 years of service under the "5 year air time" option.

If the employee is not paying the full cost of the benefit then the assets of the Trust Fund have to make up the difference. This negatively impacts the SDCERS Trust Fund by increasing the funding ratio and UAAL which therefore increases the Employer Contribution Rate. **(have Rick/Leslie price out the shortfall?)**

The City Management's Representatives on the Board, since 2002 have encouraged the Board to address this problem immediately. To date the Board is still charging only 15% for a year of service.

The City Manager recommends ?? the Council directs the Board to administer the PSC Program in a manner that fully recovers the cost of the benefit. ??(For discussion)

III SDCERS TRUST FUND EMPLOYEE CONTRIBUTION RATE RESERVE

An Employee Contribution Rate Reserve was created as part of the SDCERS Trust Fund with $35 million in "excess" earnings in 1998. The Reserve's purpose is to fund part of the City's portion of the Employees Contribution (the Offset) as negotiated each year between the City and its Labor Unions. The Reserve is credited with 8% interest of "excess" earnings, when available. It was not credited with interest in 2002 and 2003 due to a lack of earnings.

In 1998 this reserve offset 0.49% of payroll. This offset was then increased to 0.65% in 2000 and to 2.35% in 2002 for safety and will be increased to 3.35% for safety and 2.25% for general members in 2003.

This increasing demand on the Reserve coupled with no interest crediting in 2002 and 2003 results in the Reserve projecting to run out in FY 06. In FY 06, the demands on the reserve will be approximately $16,000,000. The City does not have a commitment to pay the Employee Offset amount funded by the Reserve after the Reserve is depleted.

IV DEFFERED RETIREMENT OPTION PLAN (DROP)

The City created and authorized the San Diego City Employees' Retirement System Board (Board) to administer a DROP program in 1997. DROP is an alternative way for eligible SDCERS members to earn retirement benefits in addition to their biweekly paycheck for up to five years and for Fire Members the five years can be extended with unused leave.

The DROP program operates similar to a defined contribution program, like SPSP; in that member's DROP accounts are their personal investment account. The assets in

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DROP accounts are not included as assets of the retirement system by the actuary. Funds are held in separate accounts only for distribution to the individual members.

While an employee is in DROP, their account accumulates retirement benefits which can only be withdrawn up actual termination/retirement from the City. DROP accounts receive member's monthly pension check; a 3.05% deposit from the member's biweekly paycheck which is matched by the City; and the 13th check and COLA when applicable. In addition these accounts earn 8% interest.

As of May 31, 2003 there was 690 DROP Active Members with funds totaling over $83,000,000 which at 8% interest earn over $6,640,000 in annual interest.

As currently administered, once DROP members terminate/retire they are allowed to leave their money on deposit with SDCERS and earn 8% interest. They also have the option to pull out their money in lump sum or as an annuity.

As of May 31, 200 there was 275 DROP Retired Members with funds left on deposit totaling over $48,000,000 which at 8% interest earn over $4,000,000 in annual interest.

The DROP program, as administered for the retired members, has since inception caused the assets of the system to decrease since it has not earned the interest at least equivalent to what it is paying out to the DROP accounts. For example, in Fiscal Year 2003 the SDCERS Trust Fund has earned negative interest while paying retirees an 8% interest rate on their DROP accounts. These results in a decrease of the assets held for future monthly payment to retirees for their basic defined benefit. This also decreases the funding ratio of the system, increases the UAAL which increases Employer Contributions. {Have Rick/Leslie price out?)

The increasing DROP balances below illustrate the interest expense growing at an alarming rate.

Date	Amounts Left On Deposit by Retirees no longer in DROP	Annualized 8% Interest
June 30, 2000	$ 3,800,000	$ 304,000
June 30, 2001	$ 8,100,000	$ 648,000
June 30, 2002	$ 31,000,000	$2,480,000
May 31, 2003	$ 48,400,000	$3,872,000

The City Auditor and Comptroller in January 2003 made recommendations to the SDCERS Board.

Recommendation 1: Contract out the DROP program with a third party administer in the manner in which the City does with its defined contribution programs like SPSP. Implicit in this recommendation would be that the invesument market would drive the

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rate of return on these monies, not a rate set by the Board. And if this recommendation is not adopted then he recommend:

Recommendation 2: Immediately change the 8% interest paid to DROP accounts for retirees who are no longer in DROP but who have left their funds on deposit with SDCERS. He believes market rates should be paid in good or bad years.

Recommendation 3: Review the practice of crediting DROP accounts 8% for members currently in DROP.

To date, the Retirement Board has not changed its practice of crediting 8% interest to the DROP accounts of the active members or the retired members. The City Manager and City Attorney are looking into options available to the City if the Board does not change its practice.

Michael T. Uberuaga
City Manager

VE SUM 09739

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EXHIBIT 5

FINAL REPORT

CITY OF SAN DIEGO PENSION REFORM COMMITTEE

SEPTEMBER 15, 2004

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EXECUTIVE SUMMARY

CITY OF SAN DIEGO PENSION REFORM COMMITTEE

SEPTEMBER 15, 2004

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CITY OF SAN DIEGO PENSION REFORM COMMITTEE

Ms. April Boling, CPA (Chairperson)
President
San Diego County Taxpayers Association

Mr. Stephen Austin, CPA
Managing Partner
Swenson Advisors, LLP

Mr. Robert Butterfield
Attorney
Butterfield Schechter LLP

Mr. Timothy Considine, CPA
Of Counsel
Considine & Considine

Mr. Stanley Elmore
Past President Retired Fire & Police Association
City Retiree

Ms. Judith Italiano
President and General Manager
San Diego Municipal Employees Association

Mr. William Sheffler
Consulting Actuary
Sheffler Consulting Actuaries, Inc.

Mr. Richard Vortmann
President
National Steel and Shipbuilding Company

Ms. Kathleen Walsh-Rotto
Senior Relationship Manager
Principal Financial Group

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OBJECTIVES OF THE COMMITTEE

- Report back to the City Council no later than 120 days from the date appointments are confirmed.
- After reviewing and considering the scope and depth of audit activity currently being conducted by SDCERS, conduct any additional or supplemental independent audits, studies, or investigations deemed necessary and appropriate.
- Provide recommendations to address any unfunded liability problems of the system.
- Examine how the existing pension system has performed compared to other similar systems, including examination of actions other systems have taken to address funding shortfall problems, such as issuance of pension obligation bonds.
- Examine whether changes should be made to the existing pension system. Examine whether the make-up and representative constitution of the Retirement Board should be restructured.
- Examine whether the system should be changed from a defined benefit plan to a defined contribution plan for new employees.
- Examine whether the City should join the California Public Employees Retirement System or any other retirement system.
- Make any other recommendations as appropriate.

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BACKGROUND – PENSION ISSUES

- Current employees and the pension plan sponsor (the City of San Diego) make annual contributions to the pension plan which is a trust. The annual contribution to the City of San Diego's pension plan (Plan) is computed by an actuary. (This annual contribution is typically expressed as a percentage of payroll.)

- When actual experience does not match the assumptions used, the shortfall is spread (amortized) over a period of time and payments are made to ultimately make up the difference.

- When there is a deficit, it means that those assets are not in the Plan's investment pool where they would be generating investment earnings (foregone earnings).

- The City Manager recommends and the City Council approves the Plan benefits. Employees bargain for those benefits through the "Meet and Confer" process.

- The San Diego City Employees' Retirement System (SDCERS) Trustees (the Retirement Board) administer the plan.

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THE CURRENT FUNDED STATUS OF THE SYSTEM

- The most recent formal Actuarial Valuation of the Plan is as of June 30, 2003. In that valuation, the Unfunded Accrued Actuarial Liability (UAAL) was calculated at $1.157 Billion and the Plan was determined to be 67.2% funded.

- At June 30, 2003, the Fair Market Value (FMV) of Plan assets was $2.329 Billion, while the Actuarial Value was $2.375 Billion. The difference of $46 Million will be recognized over future periods. *Note: Adjusted to exclude Port and Airport Assets.*

- The annual valuation does not consider the present value of the Plan's contingent benefits. Contingent benefits are primarily Corbett settlement, 13th check, COLA etc.

- The UAAL was updated to January 31, 2004. Rather than $1.157 Billion as was identified at June 30, 2003, the UAAL had increased to $1.167 Billion. The funded ratio, however, had increased slightly to 68.7%.

The Committee calculated the amount of contribution that would need to be transferred into the Plan during FY05 to keep the UAAL from growing as follows:

Contribution Components	(in millions) Contribution Amounts
Normal Cost	$76.01
Contingent Benefits	20. 30
Retiree Medical Benefits (current year premium only)	13.00
Interest (foregone earnings) on the UAAL	93.36
Total	$202.67*

(*Excludes the unfunded liability for medical costs)

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In FY04, the City's contribution to the Plan was $85 Million. The agreed-upon payment for the lawsuit in FY05 is $130 Million, ramping up to approximately $180 Million in FY08.

RETIREE HEALTH CARE

THE SECOND DEFICIT IN SDCERS RELATES TO RETIREE HEALTH CARE.

Current retirees' health care is being paid from a special reserve within the Pension Plan.

Currently, this is a "pay as you go" system. Based upon a 5% annual "Medflation" rate, the liability is estimated at $545 million.

	(in millions)
Normal Cost	$26.08
Amortization of Liability	$58.96
TOTAL	**$85.04**

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HOW DID ALL THIS HAPPEN?

MAJOR REASONS FOR THE UNDER-FUNDED PROBLEM
(From July 1, 1996 to June 30, 2003)

1. Investment performance	6%
2. Under-funding by City	10%
3. Use of Plan earnings for contingent benefits	12%
4. Net Actuarial losses	31%
5. Benefit improvements	41%
	100%

Note: This analysis of under-funding does not include future impact of contingent Corbett Settlement and 13th Check.

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DESCRIPTION OF CAUSES FOR UNDER-FUNDED STATUS

1. Investment Performance

The actual investment performance experience in fact has been 8% on average over the long-term.

2. Under-Funding by the City

The City purposely under-funded the Plan through MP I and II. Even if the City had not entered into MP I and II, the deficit would have grown due to the amortization system selected. This was exacerbated by the drain on Plan assets from the payment of contingent benefits and retiree medical benefits.

It appears that this and previous Mayors and City Councils did not understand all the implications of the foregoing and it is possible that many, if not most, of the Retirement Board trustees did not understand.

3 Use of Plan earnings for contingent benefits

The Plan is, in fact, experiencing 8% earnings on its assets. It does not, however, retain those earnings in order to pay future retirement benefits. Instead, a significant portion is siphoned off to pay contingent benefits such as:

13th Check
Corbett Settlement

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NET ACTUARIAL GAINS AND LOSSES

Major Drivers:

- Extremely low employee turnover
- Significant service purchase subsidies
- Pay increases above those assumed

Retirement/DROP elements

5. **Benefits Improvements**

A variety of retirement benefits have been granted since 1996. The past service element of these benefits has caused a significant portion of the increase to the Plan's UAAL. The long-term impact of these benefit improvements was not fully understood.

HOW DO WE REDUCE/ELIMINATE THE UAAL?

The UAAL has been treated as off balance sheet debt when in fact it is a full obligation of the City.

When assessing solutions to the Plan's under-funded status, there are two discreet components of the issue:

Recommendations with respect to reduction or elimination of the Unfunded Actuarial Accrued Liability (UAAL) and Recommendations regarding the ongoing annual costs of the basic plan and the contingent benefit.

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PENSION OBLIGATION BONDS (POBS)

Recommendation #1

$600 Million in assets should be infused into the plan over the next three fiscal years. Of that amount, no less than $200 Million should be placed in the Plan during FY05 (preferably by December 31, 2004) and that amount should be attained through the issuance of Pension Obligation Bonds. Subsequent infusions, bringing the total to $600 Million can be through POBs, or some form of real estate secured transactions.

The Pension Reform Committee does not support the idea of negative interest amortization and believes that the payment against the UAAL should always be set at a level that actually decreases the debt rather than adding to it.

Recommendation #2

The City Charter should be amended to require that when amortizing net actuarial gains or losses, a period of no longer than 15 years be used for the amortization of losses and that a period of no shorter than 5 years be used for the amortization of a surplus. This change should be effective for FY08 contributions.

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Recommendation #3

The City Charter should be amended to require that for all new pension benefit improvements to the currently existing plan, SDCERS will, when setting actuarial assumptions and methodologies, for funding purposes, use an amortization period no greater than straight-line 5 years fixed for any past service liability for each new benefit improvements. This change should be effective immediately.

Because they are not considered in the calculation of a Normal Cost, the net result is that the UAAL grows each year by the amount of the contingent benefits paid and the amount of the addition to the Plan's retiree "health care reserve". The Pension Reform Committee believes that an amount equal to the value of the contingent benefits siphoned from the Plan earnings should be replaced by the City annually based on an estimate calculated at the beginning of the fiscal year for that fiscal year.

Recommendation #4

The City's annual required contribution to the Plan for a given year should be defined as the total of Normal Cost, UAAL amortization (including interest), and an amount equivalent to the estimated contingent liabilities related to that year.

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TREATMENT OF RETIREE HEALTH CARE BENEFITS

Recommendation #5

Payments for retiree health care benefits should no longer be funded via the retirement plan. SDMC 24. 1502(a)(5) should be eliminated thereby removing health care benefits from the Plan's distribution waterfall.

REDUCTION OF NORMAL COST

The City's pension benefits are generous by almost any standard applied (24% of payroll.)

Recommended changes 6-10 will impact new hires only. The savings illustrated will only be fully realized only when all employees under the existing benefit structure have retired.

Recommendation #6

The normal retirement age should be raised by seven years for all employees and the early retirement age should be set at a number of years that are five years less than the normal retirement age. Any retirement earlier than normal age will be cost-neutral, actuarially reduced.

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This will result in a savings of 3.69% of pay, or based on current payroll, $22,342,000.

The above recommendation will result in the following normal and early retirement ages:

	Normal	Early
General members	62	57
Fire and Police	57	52
Legislative	62	57

REDUCTION OF NORMAL COST

Recommendation #7

The annual accrual rate for the percentage of the final base payroll to be used in calculating the pension benefit is reduced by 20%.

This will result in a savings of 2.61% of pay, or based on current payroll, $15,774,000.

The above recommendation will result in the following accrual rate percentages:

General Members	2.0%
Fire and Police	2.4%
Legislative	2.8%

Recommendation #8

The final base payroll should be based on an average of the employee's highest three years of salary rather than on the highest one year of salary.

This will result in a savings of 1.06% of pay, or based on current payroll, $6,413,000 annually.

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Recommendation #9

The final base payroll should exclude salary differentials such as second shift differential, bilingual differentials, etc.

This will result, conservatively, in a savings of 3.5% of pay, or based on current payroll, $21,175,000 annually.

Note: The cumulative effect of Recommendations 6-9 is substantial, but not additive.

RETIREE MEDICAL BENEFITS

Recommendation #10

Eliminate specific programs that permit DROP and purchase of years of service credits, except those that are federally protected.

Recommendation #11

The City should establish either a separate trust or a separate accounting within the pension trust to account for the assets and liabilities of the retiree medical benefit plan. Retiree Medical Plan assets may be commingled with Retirement Plan assets for investment purposes, but be accounted for separately for all other purposes. Annual contributions to the Retiree Medical Plan should be separately identified in the City budget and in no way be confused or commingled with Retirement Plan contributions.

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The Governmental Accounting Standards Board (GASB) has acknowledged this problem.

The newly-issued Statement 43 provides a framework for transparent financial reporting by governmental entities that have fiduciary responsibility for OPEB plan assets regarding their stewardship of plan assets, the funded status and funding progress of the plan, and employer contributions to the plan.

RETIREE MEDICAL BENEFITS

Recommendation #12

Adopt GASB Statement #43 (Financial Reporting for Participant Benefit Plans other than Pension Plans), effective July 1, 2005

The above recommendations deal with the accounting for the benefits, they do not address the ability or inability of the City to fund this already-existing liability.

Recommendation #13

When amortizing the unfunded liability for retiree medical benefits, a method should be used that does not create negative amortization of the liability.

The City Charter currently dictates the composition of the 13 member Board of Trustees as follows:

- 3 representatives from City management
- 2 representatives elected by police and fire members
- 3 representatives elected by General Members
- 1 representative elected by retired members
- 4 independent citizens nominated by the Mayor and appointed by Council

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At the heart of the concern is that, of the 13 members of the Retirement Board, 8 members (62%) can clearly benefit by enabling the City to fund its current operating budget at the expense of the retirement plans.

The second significant problem is the technical skill required to understand the complex issues may not be sufficient.

GOVERNANCE

Recommendation #14

Change the composition of the Retirement Board to seven members appointed by the City Council. These members will serve with staggered terms of four years each, with a two consecutive term maximum. Such appointees will have the professional qualifications of a college degree and/or relevant professional certifications, fifteen years experience in pension administration, pension actuarial practices, investment management (including real estate), banking, or certified public accounting. Such appointees will be US Citizens and resident of the City of San Diego, but cannot be City employees, participants (directly or indirectly through a direct family member) of the SDCERS, nor a union representative of employees or participants, nor can such appointees have any other personal interests which would be, or create the appearance of, a conflict of interest with the duties of a Trustee.

Recommendation #15

An additional provision should be made to the City Charter that would codify the current disability retirement determination process as it is now except that the hearing officer's decision would be final rather than a recommendation for the Board for approval.

Study disability retirement application process and systems.

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OTHER RECOMMENDATIONS

Recommendation #16

The City should establish a committee to review the entire disability retirement system. Representatives on this committee should include knowledgeable employees of both the City and SDCERS as well as outside professionals with experience in this area (Employee/Employer Sharing of Pension costs.)

Recommendation #17

The City Council Rules Committee should require a report (with recommendations) From SDCERS on the issue of the 50/50 employer/employee cost split by the end of the calendar year (Actuarial Assumptions).

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Committee Members

In September 2003, the Mayor nominated and the City Council approved appointment of a nine person Pension Reform Committee (the Committee) to address the growing public concern over the financial status of the City's pension system (the System). The Committee was to include a City retiree with pension experience, a City employee with union pension experience, a member of the Retirement Board, a taxpayer advocate and five citizens with experience in defined benefit pension plans.

Task Force Member	*Professional Background*
Ms. April Boling (Chairperson)	San Diego County Taxpayers Association (Taxpayer Advocate)
Mr. Stephen Austin	Swenson Advisors, LLP (Pension Plan Experience)
Mr. Robert Butterfield	Butterfield Schechter LLP (Pension Plan Experience)
Mr. Timothy Considine	Considine & Considine (Pension Plan Experience)
Mr. Stanley Elmore	City of San Diego Retiree with pension experience
Ms. Judith Italiano	San Diego Municipal Employees Association (City Employee/Union member with pension experience)
Mr. William Sheffler	Sheffler Consulting Actuaries, Inc. (Pension Plan Experience)
Mr. Richard Vortmann	San Diego City Employee Retirement System Board member/National Steel and Shipbuilding Company, NASSCO (Retirement Board Member)
Ms. Kathleen Walsh-Rotto	Principal Financial Group (Pension Plan Experience)

* Biographical information available in **Appendix A**

Objectives of the Committee

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1. Report back to the City Council no later than 120 days from the date appointments are confirmed.
2. After reviewing and considering the scope and depth of audit activity currently being conducted by CERS, conduct any additional or supplemental independent audits, studies, or investigations deemed necessary and appropriate.
3. Provide recommendations to address any unfunded liability problems of the system.
4. Examine how the existing pension system has performed compared to other similar systems, including examination of actions other systems have taken to address funding shortfall problems, such as issuance of pension obligation bonds.
5. Examine whether changes should be made to the existing pension system. Examine whether the make-up and representative constitution of the Retirement Board should be restructured.
6. Examine whether the system should be changed from a defined benefit plan to a defined contribution plan for new employees.
7. Examine whether the City should join the California Public Employees Retirement System or any other retirement system.
8. Make any other recommendations as appropriate.

Introduction

The Committee has met weekly since early October. The City Council received a report **(Appendix B)** from the Committee on January 22, 2004. Additional information was provided to the Council on April 19, 2004 **(Attachment 1.)**

Certain recommendations made by the Committee required changes to the City Charter. While the Committee would have preferred to make these recommendations in the context of the total report, time constraints surrounding the placing of changes to the Charter on the ballot required that these proposals be brought forward ahead of the body of the report. The Committee presented proposed Charter changes to the Council's Rules Committee and the City Council and actions have been taken by the Council on those proposals.

Since early October, the Committee has gathered data, interviewed staff and other knowledgeable individuals related to the plan, and analyzed the information presented. Specific individuals with interest or expertise in the System were invited to present their issues to the Committee (See Section XIII Bibliography – Item 97.) The extent of the problem was identified and various corrective actions were evaluated. This report summarizes the analysis the Committee performed and presents the Committee's corrective recommendations and the rationale therefore. The recommendations contained herein relate only to the City of San

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Diego's portion of the System.

I. BACKGROUND

Under a defined benefit pension plan, current employees and the pension plan sponsor (in this case, the City of San Diego) make annual contributions to the pension plan which is a trust. The theory is that these annual contributions, combined with the investment earnings of the pension plan, will ultimately provide sufficient funds to pay retirement benefits to all of the pension plan's participants who retire.

The annual contribution to the City of San Diego's pension plan (Plan) is computed by an actuary based upon the characteristics of the retirement commitment (e.g. age of retirement, percentage of replacement of base pay, etc.) and a variety of assumptions (e.g. rate of investment return, rate of inflation, mortality, etc.) This annual contribution is typically expressed as a percentage of payroll.

When actual experience does not exactly match the assumptions used by the Plan's actuary, it is possible to have either more or less assets in the Plan than needed to meet the projected liabilities. The shortfall is spread (amortized) over a period of time and annual payments are made to ultimately make-up the difference.

It should be noted that when there is a deficit, it means that those assets are not in the Plan's investment pool where they would be generating investment earnings. As a result, the payoff of the deficit must also account for the forgone earnings. This is analogous to principal and interest on a mortgage.

Because actual experience never perfectly matches the actuarial assumptions, the total annual contribution to any defined benefit plan will have two components: one is the cost of benefits earned during the year, and the other is the payment to close the deficit or surplus.

The City Manager recommends and the City Council approves the Plan benefits. Employees bargain for those benefits through the "Meet and Confer" process. In the opinion of the City Attorney's office, an employee becomes vested in the characteristics of the Plan as of the date he or she is hired. It is not possible, therefore, to change Plan benefits for either retirees or any current employee.

The San Diego City Employees' Retirement System (SDCERS) Trustees (the Retirement Board) administer the Plan. That includes managing the Plan's investment portfolio as well as ensuring the timely delivery of retirement benefits to the Plan's beneficiaries. The Trustee's primary fiduciary duty is to the beneficiaries of the Plan. Administration of the Plan includes approval of actuarial assumptions to be used in determining the annual contribution by the employees and

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the City. The composition of the Retirement Board is set by the City Charter.

II. THE CURRENT FUNDED STATUS OF THE SYSTEM

Note: Section XII of this report is a glossary of terms. We encourage the reader to review the glossary before continuing with this report. Two important terms are defined here as well to assist the reader in understanding the following section of the report.

Normal Cost is defined as that portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the actuarial cost method, excluding any payment in respect of an unfunded actuarial accrued liability.

The Unfunded Accrued Actuarial Liability or UAAL is defined as the excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

A critical task of the Committee was to determine the amount of the deficits present in the SDCERS system.

The Pension Plan

The most recent formal Actuarial Valuation of the Plan was as of June 30, 2003. In that valuation, the Unfunded Accrued Actuarial Liability (UAAL) was calculated at $1.157 Billion and the Plan was determined to be 67.2% funded.

It is important to understand that the Plan assets are not valued at Fair Market Value (FMV) for purposes of the Actuarial Valuation. As with other pension plans, unrealized gains and losses are smoothed over a period of time to mitigate the effects of dramatic swings in the stock market. In the SDCERS Valuation, a smoothing period of five years is used. At June 30, 2003 the FMV of Plan assets was $2.329 Billion, while the Actuarial Value was $2.375 Billion (adjusted to exclude Port and Airport assets.) The difference of $46 Million will be recognized over future periods.

The annual valuation does not consider the present value of the Plan's contingent benefits. Contingent benefits (Corbett settlement, 13th check, COLA etc.) paid to the beneficiaries out of Plan earnings, thereby reducing the amount of earnings that stay with the Plan to fund its future commitments to retirees. Because these costs are considered contingent, they are not part of Normal Costs and, therefore, are not included in the calculation of the City's annual payment to the Plan. The net result is that even if the investment earnings exactly match the actuarial assumption, the UAAL increases each year by the amount of the contingent benefits.

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Further, the current method and period being used for amortization of the UAAL does not generate a required payment that is high enough to cover even the forgone investment earnings, much less pay down any of the underlying UAAL.

Put another way, when one considers the drain on Plan earnings caused by payment of the retiree health costs and contingent benefits coupled with the fact that the UAAL amortization is applying nothing to the actual principal portion of the liability, it becomes clear that "full actuarial funding" is a misleading term at best.

In the spring of this year, the Committee requested and received an updated calculation of the UAAL from the Plan's actuary. The Committee was aware that there had been positive movement in the market but was also aware that there would be additional losses recognized from earlier periods due to asset smoothing. The UAAL was updated to January 31, 2004. Rather than $1.157 Billion as was identified at June 30, 2003, the UAAL had increased to $1.167 Billion. The funded ratio, however, had increased slightly to 68.7%.

Based on an assumption that the UAAL would still be at $1.167 Billion as of June 30, 2004 (meaning no further variances from the actuarial assumptions) and that there would also be no variances from the actuarial assumptions for FY05 (the year ended June, 2005), the Committee calculated the amount of contribution that would need to be transferred into the Plan during FY05 to keep the UAAL from growing as follows:

	(in millions)
Normal Cost	$76.01
Contingent Benefits	20.30
Retiree Medical Benefits (current year premium only)	13.00
Interest (foregone earnings) on the UAAL	93.36
Total	$202.67*

* Excludes the unfunded liability for medical costs discussed in paragraph B below

In FY04, the City's contribution to the Plan was $85 Million. Under the settlement, the lawsuit brought by the System's retirees, the agreed-upon payment for FY05 is $130 Million, ramping up to approximately $180 Million in FY08.

Retiree Health Care

The second deficit in SDCERS relates to retiree health care. Currently, the City itself is not making any payments on the liability. Current retirees' health care is being paid from a special reserve within the Plan. The reserve is funded by "siphoning off" earnings from the Plan as discussed above, thereby increasing the UAAL.

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The larger problem, however, is that this is a "pay as you go" system, meaning that there is no recognition of the long-term liability for the medical premiums of retirees in future years nor is there recognition that the City is also incurring a liability every year for the existing employees' right to a health benefit when they eventually retire.

In the opinion of the City Attorney, various groups of employees and retirees have different levels of vesting related to health care. Based on the assumption that current and future retirees will continue to receive this benefit at the same level as enjoyed currently, the Pension Reform Committee requested and received an analysis of the current liability associated with this commitment. Based upon a 5% annual "medflation" rate, the liability is estimated at $545 million. This is in addition to the $1.167 Billion UAAL identified above. The payment required to cover the Normal Cost associated with retiree health care and to eliminate the unfunded liability of $545 over 15 years is calculated as:

	(in millions)
Normal Cost	$26.08
Amortization of Liability	$58.96
Total:	$85.04

This payment is required in addition to any payment needed to fund the Plan itself.

III. HOW DID THIS HAPPEN?

In attempting to describe how we believe the current pension and retiree health problems came to be, the Pension Reform Committee's purpose is not to find fault or allocate blame. Rather it is to ensure a full understanding of the interrelated causes of the problem as a means to ensure they are not repeated in the future. In this section we will address causes. In subsequent sections we will address corrective recommendations.

Quantification of Causes

The Pension Reform Committee requested and received an analysis of the components of the increase in the Unfunded Actuarial Accrued Liability (UAAL) from July 1, 1996 to June 30, 2003. This analysis, prepared by the Plan's actuary, provided the following allocation:

Investment performance	6%
Under-funding by City	10%

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Use of Plan earnings for contingent benefits	12%
Net Actuarial losses	31%
Benefit improvements	41%
	100%

Note: This analysis of under-funding does not include future impact of contingent Corbett Settlement and 13th Check.

It should be noted that the Retirement Board commissioned a similar study that resulted in a significantly different allocation resulting from the interdependence of the various factors. The variance is currently being analyzed by the Retirement Board. The most insignificant variance, however, was in investment performance where the Retirement Board's study indicates an allocation factor of 7% rather than 6%.

Description of Causes

Investment performance

While this is the least significant factor mathematically, it warrants discussion because the market "bubble" of the late 1990s masked the other factors, providing an unwarranted sense of well-being by the Retirement Board and the City.

As discussed in the initial section, the City's annual contribution is calculated using a variety of actuarial assumptions. One of those assumptions is an 8% average rate of return on investment. Looking back over ten years, the experience has, in fact, been 8% on average over the long-term.

During the late 1990s, the City felt comfortable not only increasing benefits but also making lower contributions than it should have. When the market adjusted back to the investment rate of return originally anticipated in the actuarial assumptions, the fiscal impact of decisions made during the bubble became evident. As a result, there was an inclination to blame the declining funded status of the Plan on the decreasing market rather than acknowledging that the stabilization of the market was simply baring the results of ill-advised decisions.

Under-funding by the City

As previously discussed, the term "full actuarial funding" is misleading given the City's method of implementation. It implies that a Plan sponsor is paying an amount sufficient to cover not only current costs but also to pay an amortized portion of any unfunded liability. In the case of the City's Plan, the unfunded liability increases due to the drain on Plan earnings resulting from

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payments into the reserve for retiree medical benefits or any of the contingent liabilities. Additionally, because of the amortization method and schedule used to retire the deficit, the deficit actually grows.

Full actuarial funding as currently defined did not and does not result in a required payment large enough to keep the Plan's deficit from growing.

It appears that this and previous Mayors and Councils did not understand all the implications of the foregoing and it is possible that many, if not most, of the Retirement Board trustees did not understand it either. As a result, when the City Manager approached the Retirement Board in 1996 asking that it agree to contributions of less than "full actuarial funding", it did so. This action was perpetuated by a similar agreement entered into in 2002. Even at "full actuarial funding", the City would have been increasing its liability. By paying less than that, the problem was exacerbated.

Use of Plan earnings for contingent benefits

When determining the annual contribution, the actuary uses an 8% earnings assumption. The Plan is, in fact, experiencing 8% earnings on its assets. It does not, however, retain those earnings in order to pay future retirement benefits. Instead, a portion is siphoned off to pay contingent benefits. The most widely discussed of these contingent benefits are (described in layman's terms):

a. 13th Check - In 1980, when the Plan's investments were doing well, the Council created the 13th check to share the Plan's unexpectedly high rate of earnings with the retirees. In 1983, that policy generated potential 13th checks that were higher than the recipient's usual total annual benefit. As a result, the Retirement Board attempted to pass a Rule that would limit the amount of the 13th check to $30 per year of service. A lawsuit was filed against the City. The City lost and appealed. Before the appeal was completed, the City and the plaintiff reached a settlement which was approved by the court. Because of this settlement, the Retirement Board must make an additional payment to the employees in years where the Plan has earnings (the definition is complex and not particularly relevant), however those payments are capped at (with some variation) $30 per year of service. Thus, a retiree with thirty years of service will typically receive $900. In years where there are no earnings, the check is not payable and, in fact, cannot be paid. Each year stands on its own, and there is no forward accumulation if there are not earnings in a particular year. As this payment is made to all retirees, it is an expanding population. Currently, these payments are about $4 Million per year.

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b. Corbett Settlement - In another California jurisdiction, a question arose as to whether or not retirement benefits had been calculated using all pertinent elements of salary A lawsuit was brought and it was determined that they had not. Similar suits were brought in other jurisdictions including San Diego. A decision was made to settle the lawsuit. As a result, the City changed its methodology. In addition, it is now bound to make additional payments to a specific group of retirees. Those payments are made out of the Plan's earnings (again the complex definition). Unlike the 13th check, these payments accumulate. If a payment is not made in one year due to the Plan's earnings level, that payment is payable in the next year when there are earnings. The payment does not, however, accrue interest. Because these payments are made to a specific group of retirees, this is a decreasing population. These payments are currently about $5.5 Million per year. There was also a one-time retroactive payment of approximately $20 Million.

c. Other - There are other smaller contingent benefits including a reserve for the supplemental COLA.

Actuarial Gains and Losses

These represent deviations from the actuarial assumptions. Based upon the Plan actuary's analysis, these are:

- Extremely low employee turnover
- Significant service purchase subsidies
- Pay increases above those assumed
- Retirement/DROP incidence

Benefit Improvements

When a new or improved benefit is granted to existing employees with retroactive applicability for all prior years of service, not only does the "Normal Cost" of the Plan increase, but a "past service liability" is also created. This is most easily understood through the following example:

> Joe has worked for the City for 25 years. During those 25 years, the Plan called for retirement based on 2.5% benefit for every year of service. Joe was expecting to retire at 75% of base pay if he stayed for 30 years (30 years X 2.5% per year = 75% of base pay). The actuary also expected the same thing and the contribution into the plan was based upon that 75% assumption. But during Joe's 26th year of service, there was a plan improvement. Instead of receiving 2.5% for each year of service, he will now receive

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3.0% for each year. An option would have been to have Joe receive 2.5% for his first 25 years of service and 3.0% for the future 5 years, but that was not the way the benefit was granted. Because of the "retroactive element," Joe now will retire at a 90% of base pay (30 years X 3%). The actuary will adjust Normal Cost for the upcoming years to reflect the increase, but the shortfall related to Joe's first 25 years of service becomes a "past service liability".

A variety of such benefits have been granted since 1996. The past service element of these benefits has caused a significant portion of the increase to the Plan's UAAL.

IV. REDUCING/ELIMINATING THE UAAL

When assessing solutions to the Plan's under-funded status, there are two discreet components of the issue: 1) recommendations with respect to reduction or elimination of the Unfunded Actuarial Accrued Liability (UAAL), and 2) recommendations regarding the ongoing annual costs of the basic plan and the contingent benefits. This section deals with the first of these two items.

An ongoing theme among Pension Reform Committee members was concern that the UAAL is not treated as a real obligation of the City. It is referred to publicly as "soft debt" because it is not required to be disclosed as debt on the financial statements of the City. Since it is not included in the City's debt, it is (and this is subject to considerable debate) not considered by lenders when decisions are made as to other City bonded indebtedness including bonding capacity. One of the underlying goals of the Committee is to bring this debt onto the books of the City so that the full obligation is acknowledged and dealt with.

One strategy for reduction of the UAAL is to do nothing and hope that the market simply takes care of the problem. This is a naive and unrealistic strategy given that the actuarial expectation is an 8% investment return. For the UAAL to be permanently relieved through the market, the Plan would need to achieve (over many years) a consistent return of more than 8%. Further, since the $1.157 Billion in assets (the amount of the UAAL) is not in the Plan currently, the Plan now loses the benefit of <u>any</u> earnings those funds might realize.

The only real option is an infusion of assets into the Plan coupled with a ramp-up of annual contributions.

Pension Obligation Bonds (POBs) as an Option

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Assuming that the City has adequate bonding capacity and can borrow at interest rates below the Plan's investment rate of return (currently an 8% assumption), there is the potential benefit of interest arbitrage (i.e. borrow at 6.5% and invest at 8%) . The cash provided by the POB is contributed to the Plan to reduce the deficit thereby increasing the funded status of the plan. Such bonds are taxable and are generally looked upon more favorably by investors if they are part of an overall plan to reduce the deficit and control costs.

Using City Real Estate as a Funding Mechanism

It was recognized that there may be limits to the City's debt capacity or other pressing City needs for that capacity that would make the extensive use of POBs either not possible or not attractive. The City owns a considerable amount of real estate that could be used, in a variety of forms, to provide the needed cash infusion. The most straight-forward option would be for the City to sell City-owned real estate and transfer the cash into the plan. Another possibility would be to borrow against the real estate, using it as collateral.

The third possibility would be to transfer specific real estate into the Plan. The concern about this option was that this would put the Plan in the position of becoming an unintentional landlord and might also expose the Plan to any liabilities associated with the property. Assuming the Plan was willing to hold the real estate, the Council-adopted Investment Guidelines related to percentages of Plan assets invested in certain types of investments (in this case, real property) may need to be changed.

A fourth possibility would be to allow the Plan to hold a fully amortizing note carrying the actuarially assumed interest rate of 8% secured by specific City real estate. This would have the benefit of assuring the actuarial rate of return without the City losing the use of the real estate or its potential gain in value. As with the third possibility discussed above, this may require a change to the Council-approved Investment Guidelines. While it was determined that this is a viable possibility, it is clear that the Plan's investment advisors would prefer to have the City borrow against the real estate and place the cash into to the Plan.

Recommendation #1

$600 Million in assets should be infused into the plan over the next three fiscal years. Of that amount, no less than $200 Million should be placed in the plan during FY 05 (preferably by December 31, 2004) and that amount should be attained through the issuance of Pension Obligation Bonds. Subsequent infusions, bringing the total to $600 Million can be through POBs, or some form of real estate secured transaction.

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Implementation of this proposal should bring the Plan back to an 85% funded status by FY07.

To illustrate the impact of this recommendation on the funded ratio through fiscal year 2010, the following is a projection of the UAAL on 6/30/05 followed by a projected payment schedule.

PROJECTION OF UAAL @ 6/30/05

Projected 6/30/04 UAAL @ market	**$1,167.0**
Interest on UAAL $1,167 X 8%	**93.4**
Normal Cost '05 $605 active salary X 11.95%	**72.3**
Corbett (2 years past)	**5.5**
Corbett (1 year past)	**5.4**
Corbett (based on FY '04 earnings)	**5.3**
13th check (based on FY '04 earnings)	**4.1**
Supplemental COLA	**2.9**
FY '05 settlement payment	**(130.0)**
Projected UAAL @ 6/30/05	**$1,225.9**

$ expressed in millions

PROJECTED PAYMENT SCHEDULE (in millions)

Assumptions:
$200 POB 12/31/04
$200 TD or other secured loan 12/31/05
$200 TD or other secured loan 12/31/06
UAAL 30-yr for '06 & '07, reset to 15-yr in '08 (06/30/06 valuation)

Expressed in millions	**FY '05**	**FY '06**	**FY '07**	**FY '08**	**FY '09**	**FY '10**
Normal Cost ($605 active salary X 1.0425% inflation X 11.95%)		75.4	78.6	81.9	85.4	89.0
Corbett		5.3	5.2	5.1	5.1	5.0

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13th Check		4.1	4.2	4.3	4.3	4.4
Supplemental COLA		2.9	2.9	2.9	2.9	2.9
Annual contribution excluding medical and UAAL amortization		87.7	90.9	94.2	97.7	101.3
$200 POBs @ 6.36%/29 years/Issued 12/31/04		15.5	15.5	15.5	15.5	15.5
$200 Trust Deed @ 8%/30 years/Issued 12/31/05			17.9	17.9	17.9	17.9
$200 Trust Deed @ 8%/30 years/Issued 12/31/06				17.9	17.9	17.9
UAAL Amort / .965% per 100 / 30 years		(22.3)	(17.4)			
UAAL Amort / 1.59% per 100 / 15 years				10.8	14.4	18.5
Interest on remaining UAAL		82.4	68.2	53.6	52.7	51.5
		75.6	84.2	115.7	118.5	121.3
Total payment (excluding medical)		**163.3**	**175.0**	**209.9**	**216.2**	**222.6**
Estimated Plan Liabilities	4000	4400	4800	5400	6014	6600
UAAL		1029.9	852.2	669.6	658.7	644.3
$200 Each TD issued 12/31/05 & 12/31/06		-200.0	-200.0			
Principal amortization		22.3	17.4	-10.8	-14.4	-18.5
	1029.9	852.2	669.6	658.7	644.3	625.8
Funded Ratio	**74.25 %**	**80.63%**	**86.05%**	**87.80%**	**89.29%**	**90.52%**

Increased Annual Contributions

As discussed previously, the UAAL has been growing, in part, as a result of the use of a payment calculation mechanism that results in the unfunded balance increasing in the early years of the amortization schedule.

Under the current methodology (widely used in public pension plans), the payment is calculated as a fixed percentage of inflation adjusted payroll based upon a 30-year amortization schedule. Thus, rather than the payment remaining constant as with a home mortgage, the payment amount increases each year as payroll increases due to inflation. **(Appendix C)** Since the interest rate on the unpaid balance remains constant at 8%, the net result is a payment in the early years of the

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schedule that does not cover the interest. The unpaid interest is then added to the principal. In other words, a $1 Billion debt would increase to approximately $1.16 Billion before it would start decreasing.

While it is true that such a method will result in full payment of the UAAL by the end of year 30, the common practice among public plans is to start over on the amortization plan as soon as the ever-increasing payment level becomes uncomfortable.

The Pension Reform Committee does not support the idea of negative interest amortization and believes that the payment against the UAAL should always be set at a level that actually decreases the debt rather than adding to it. While there is certainly more than one way to eliminate negative amortization, the Pension Reform Committee sees no reason to believe that the Retirement Board will choose an amortization method other than the fixed percentage of inflation adjusted payroll. Assuming use of that method, the longest amortization period that will not result in negative amortization is fifteen years.

Conversely, the Committee was concerned that if there is a surplus, that surplus could be amortized over a one-year period, resulting in a contribution "holiday". Because actuarial methods consistently strive for the smoothest possible (within reason) payment schedule, the Committee believes that a period no shorter than five years should be used for the amortization of a surplus.

Recommendation #2

The City Charter should be amended to require that, when amortizing net actuarial gains or losses, a period of no longer than 15 years be used for the amortization of losses and that a period of no shorter than 5 years be used for the amortization of a surplus. This change should be effective for FY08 contributions.

As previously discussed, the retroactive granting of new or improved benefits to existing employees creates a past service element/cost. While this form of benefit enhancement is certainly the prerogative of the Mayor and Council, the Pension Reform Committee believes that the past service cost should be dealt with over a reasonably short period of time so that a more accurate comparison can be made between the impact of a current compensation enhancement (e.g. pay raise) and the current impact of a retroactive pension benefit increase.

Recommendation #3

The City Charter should be amended to require that for all new pension benefit improvements

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to the currently existing plan, SDCERS will, when setting actuarial assumptions and methodologies for funding purposes, use an amortization period no greater than straight -line 5 years fixed for any past service liability for each new benefit improvement. This change should be effective immediately.

V. TREATMENT OF CONTINGENT BENEFITS

As previously discussed, contingent benefits and retiree health care premiums are paid from Plan earnings. Because they are not considered in the calculation of "Normal Cost", the net result is that the UAAL grows each year by the amount of the contingent benefits paid and the amount of the addition to the Plan's health care reserve.

To make matters worse, the payment for any given fiscal year is paid in the subsequent year (usually November). For example, there are sufficient earnings in FY04 to trigger payment of the 13th check. Currently, that liability is not reflected in the June 30, 2004 actuarial valuation nor is there a reserve established for it at June 30, 2004 even though the fact of the liability is known. The payment is made in FY05 and because it was not considered in Normal Cost, adds to the UAAL at 6/30/05. The UAAL for 6/30/05 is quantified during FY06 and amortization of that liability begins in FY07.

The Pension Reform Committee believes that an amount equal to the value of the contingent benefits siphoned from the Plan earnings should be replaced by the City annually based on an estimate calculated at the beginning of the fiscal year for that fiscal year. For example, the amount of the 13th check related to FY06 should be calculated on the assumption that it will be paid. That amount should be added to the FY06 contribution for Normal Cost and the contribution for amortization of the UAAL. If, at the end of FY06, it is determined that there are not sufficient Plan earnings to trigger the 13th check, then additional City contribution to the Plan would become an actuarial gain.

In the case of the Corbett settlement, a reserve should be established for any amounts not paid due to lack of Plan earnings. The treatment is different because Corbett accumulates and the 13th check does not. Other contingent benefits should be replaced by the City in a similar manner to that discussed above.
It should be noted that the above funding mechanism affects only the calculation of the City's annual contribution to The Plan and does not affect the way in which the contingent benefits themselves are calculated or paid.

Recommendation #4

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The City's annual required contribution to the Plan for a given year should be defined as the total of Normal Cost, UAAL amortization (including interest), and an amount equivalent to the estimated contingent liabilities related to that year.

VI. TREATMENT OF RETIREE HEALTH CARE BENEFITS

While the liability related to retiree health care benefits is discussed in a later section, elimination of the current method of payment is more appropriately addressed at this juncture as it is akin to the treatment of contingent benefits.

Recommendation #5

Payments for retiree health care benefits should no longer be funded via the retirement plan. SDMC 24.1502(a)(5) should be eliminated thereby removing health care benefits from the Plan's distribution "waterfall".

VII. REDUCTION OF NORMAL COST

The City's pension benefits are generous by almost any standard applied. According to the latest actuarial valuation, the "Normal Cost" of the plan is approximately 24% of payroll. This amount is split nearly equally (to be discussed further in a later section) between the employer (the City) and the employee.

One rationale presented to us was that the employees are entitled to generous pension benefits because they are paid at a lower rate than the private sector during their working career. Evidence to support his assertion was primarily anecdotal. Other evidence indicated that the non-safety employees have been well represented through the collective bargaining process and that areas of significant under-compensation have been surfaced and corrected. After two meetings on this topic, we concluded that there was insufficient evidence to conclude that City employees are paid either better or worse than their counterparts.

Another rationale presented to us was that the pension benefits are generous because City

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employees do not participate in Social Security. This means that neither the employer nor the employee pay 6.2% FICA. The fact, however, is that as an offset to the absence of a Social Security benefit, the City was required to provide General Member employees a Supplemental Pension Savings Plan (SPSP). Safety members are not entitled to SPSP but are entitled to a higher pension factor than General Members. SPSP is a defined contribution plan that is in addition to the defined benefit plan. The City pays 3.05% of the employee's salary into this SPSP plan. The employee is required to contribute 3.05% also and can voluntarily contribute up to another 3% which the City will match. Thus, if the employee takes advantage of the full employer match, the City has to contribute up to 6.05% of the employee's salary.

The Committee determined that there is nothing inherently wrong with a defined benefit plan and that eliminating the defined benefit plan in favor of a defined contribution plan would not necessarily result in an improved situation. This is particularly true in light of the City Attorney's opinion that any Plan changes can only affect newly hired employees.

Furthermore, a conversion to a defined contribution plan for new hires could result in increased cost for all employees as a group. Applying the normal cost of the Plan of approximately 24% as a contribution percentage for the demographically younger group and new hires will have the actuarial effect of increasing the normal cost as a percentage of payroll for the group of employees remaining in the Plan. This is because the actual normal cost for younger employees is lower than the 24% average normal cost, and the actual normal cost for older than average employees is significantly more than the 24%. The newly hired, younger than average employees, under the current Plan in effect subsidize the older than average employees.

The Committee believes City employees overwhelmingly are seeking the long-term benefits of a defined benefit plan. The Committee believes, based on credible evidence, that the City would experience recruitment and retention difficulties in offering only a defined contribution plan in lieu of a defined benefit plan to its newly hired employees.

The Committee received credible evidence that the long-term investment performance of the existing Plan will significantly exceed the performance of individually directed contribution accounts, resulting in greater benefit for employees as a group per dollar of City/employee contribution. The Committee also recognized the difficulty of replicating current disability benefits without a defined benefit plan.

The Committee also concluded, based upon data obtained from the California Public Employees Retirement System (CalPERS), that it would not be fiscally prudent for the Plan to join CalPERS. There is no evidence to suggest that CalPERS is better managed than the City's system, nor that its investments are performing at a superior rate of return.

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The conclusion of the Pension Reform Committee was that the City should stay with a defined benefit plan but that benefits should be scaled back for new hires. We understand that these changes cannot be unilaterally dictated by the Mayor and Council, but will be negotiated through the "meet and confer" process. If, in the end, agreement cannot be reached, we believe the City will ultimately have no financial choice but to either require that the employees pay a larger share of the pension costs or else convert to a defined contribution plan. To this end, we are recommending a series of potential plan changes affecting new employees.

Recommendations 6-10 will impact new hires only. The savings illustrated will be fully realized only when all employees under the existing benefit structure have retired.

Recommendation #6

The normal retirement age should be raised by seven years for all employees and the early retirement age should be set at a number of years that are five years less than the normal retirement age. (See Appendix D) Any retirement earlier than normal age will be cost-neutral, actuarially reduced.

This will result in a savings of 3.69% of pay, or based on current payroll, $22,342,000.
The above recommendation will result in the following normal retirement ages:

General members	62
Fire and Police	57
Legislative	62

Early retirement ages would be:

General members	57
Fire and Police	52
Legislative	57

Recommendation #7

The annual accrual rate for the percentage of final base payroll to be used in calculating the pension benefit is reduced 20%. . (See Appendix D)

This will result in a savings of 2.61% of pay, or based on current payroll, $15,774,000.

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The above recommendation will result in the following accrual rate percentages:

General members	2.0%
Fire and Police	2.4%
Legislative	2.8%

Recommendation #8

The final base payroll should be based on an average of the employee's highest three years of salary rather than on the highest one year of salary.

This will result in a savings of 1.06% of pay, or based on current payroll, $6,413,000 annually.

Recommendation #9

The final base payroll should exclude salary differentials such as second shift differential, bilingual differential, etc.

This will result, conservatively, in a savings of 3.5% of pay, or based on current payroll, $21,175,000, annually.

Recommendation #10

Eliminate specific programs that permit DROP and purchase of years of service credit, except those that are federally protected.

The cost of DROP has not been projected due to technical issues. However, it is instructive to note that this benefit was created to alleviate a problem that was produced by poor judgment in plan design. Namely, that the current benefit structure encourages early retirement. In fact, some employees suffer a loss of benefits if they do not take early retirement. While focusing on the costs of various benefit improvement options, inadequate consideration has been devoted to the incentives of the current plan design and their effect on employment.

Simply stated, expensive early retirement benefits led to the additional costs of DROP. A more carefully crafted set of early retirement benefits would have reduced plan costs initially, and made DROP unnecessary.

Based on current employment levels, total losses of $22,000,000 to $25,000,000 would be

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avoided due to elimination of service purchase. That amount translates into savings on annual amortization payments of $2,380,000 to $2,705,000.

The SDCERS actuary, Gabriel, Roeder, Smith & Company, calculated the values and costs presented in Recommendations 6 through 10. Their complete analysis, including methods and assumptions are contained in **Appendix E.**

The pricing of each of these benefit changes was made independently of any other change. Due to the effect of overlapping changes, such as retirement ages, and benefit factors, the cost savings for the proposals will be less than the sum of the individual estimates. A more precise determination can be made once the components have been finally agreed upon.

VIII. RETIREE MEDICAL BENEFITS

The unfunded liability related to the City's retiree medical benefit commitment is arguably an even worse problem than the pension liability. This is not necessarily related to its size ($545 Million vs. $1.157 Billion for the pension) but is related to the fact that it is hidden and is being deferred out to future year's' taxpayers.

As was discussed under the funded status of the system, these benefits are currently being covered by a pay-as-you go basis out of earnings of the Plan. In a previous recommendation we have indicated that such a practice should stop.

Recommendation #11

The City should establish either a separate trust or a separate accounting within the pension trust to account for the assets and liabilities of the retiree medical benefit plan. Retiree Medical Plan assets may be commingled with Retirement Plan assets for investment purposes, but be accounted for separately for all other purposes. Annual contributions to the Retiree Medical Plan should be separately identified in the City budget and in no way be confused or commingled with Retirement Plan contributions.

The liability for the Retiree Medical Plan should be clearly stated on the books of the City. The Governmental Accounting Standards Board (GASB) has acknowledged the problem that is being created nationally by lack of accounting for the liabilities associated with these plans. This year it issued Statement 43 Financial Reporting for Post employment Benefit Plans Other Than

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Pension Plans. Other post employment benefits (OPEB) include healthcare and other non-pension benefits provided to employees as part of their compensation for services. In its news release of
May 11, 2004, Karl Johnson, the GASB project manager states:

> "Statement 43 provides a framework for transparent financial reporting by governmental entities that have fiduciary responsibility for OPEB plan assets regarding their stewardship of plan assets, the funded status and funding progress of the plan, and employer contributions to the plan."

While GASB #43 is not yet effective and the City is therefore not yet required to comply, the Pension Reform Committee urges its early adoption.

Recommendation #12

Adopt GASB #43 effective July 1, 2005

The above recommendations deal with the accounting for the benefits, they do not address the ability or inability of the City to fund this already-existing liability.

While an in-depth review of the retiree medical benefits is outside the "charter" of the Pension Reform Committee, we suggest that the City should conclude, as soon as possible, whether the current employees have a vested right to retiree health care. If the answer is no, the employees should be given that information. If the answer is yes, a plan for payment of the liability should be immediately developed.

Recommendation #13

When amortizing the unfunded liability for retiree medical benefits, a method should be used that does not create negative amortization of the liability.

IX. GOVERNANCE

The Pension Reform Committee discussed the basic component of governance of the pension system. The city ostensibly has created an independent Board, separate from the City, to manage the pension. However, the City Charter dictates the composition of the 13 member Board of

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Trustees as follows:

3 representatives from City management
2 representatives elected by police and fire members
3 representatives elected by General Members
1 representative elected by retired members
4 independent citizens nominated by the Mayor and appointed by the City Council

While contributions to the Plan are made by both the employees and the City, only the City acts as the final guarantor of all benefits paid by the Plan. This ultimate guarantee of the Plan's ability to pay the agreed-upon benefits means that the primary, if not the sole, stakeholder in the operation of the Plan itself are the citizens of the City of the San Diego.

At the heart of the concern is that, of the thirteen members of the Retirement Board, eight members can clearly benefit by enabling the City to fund its current operating budget at the expense of the retirement plan as long as the ramifications to the Plan are not severe over the short term. The notion that the Board is simply administrative, as some would argue, is countered by the fact that the intentional under-funding of the plan requested by the City Manager in both 1996 and 2002 had to be approved by the Board before it could even be heard by the City Council.

The second significant problem is the technical skills required to understand the complex issues that are present in the administration of the Plan. The combination of the highly technical rules for pension administration and the need to understand the use of arcane actuarial science in the measurement of present and future Plan liabilities requires an experienced and trained Board member to effectively govern the Plan. While some may argue that the purpose of the Board member is to set policy and that technical aspects are handled by trained professionals, lack of understanding of the finer points of administration means that a Board member may be unable to ask meaningful questions.

Finally, there is an issue in communication between the City Council and the Retirement Board. The City Council seems to view the Board as its eyes and ears in the retirement system. Councilmembers have repeatedly commented that if there are any problems in the retirement system, they depend on the Board to let them know. This includes any actions the Council might consider taking that could be potentially harmful, even in a minor way, to the Plan. The Board, on the other hand, views itself as strictly administrative and does not seem to feel that advisory input to the Council is appropriate.

For all of these reasons, the Pension Reform Committee believes that the Plan, the beneficiaries,

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and the City would be better served by a Board composed of qualified professionals who have no vested interest in the Plan.

Recommendation #14

Change the composition of the Retirement Board to seven members appointed by the City Council. These members will serve with staggered terms of four years each, with a two consecutive term maximum. Such appointees will have the professional qualifications of a college degree and/or relevant professional certifications, fifteen years experience in pension administration, pension actuarial practices, investment management (including real estate), banking, or certified public accounting. Such appointees will be U.S. Citizens and residents of the City of San Diego but cannot be City employees, participants (direct or indirectly through a direct family member) of the SDCERS, nor a union representative of employees or participants, nor can such appointees have any other personal interests which would be, or create the appearance of, a conflict of interest with the duties of a Trustee.

Another governance issue that was addressed related to applications for disability retirement. Currently, when an application is submitted for disability retirement, it is first reviewed by SDCERS staff. If the application is recommended for approval, it moves directly to the Board for action. If the application is not recommended for approval, it is forwarded to an outside adjudicator who hears from both parties, reviews documents, and renders a finding. That finding then returns to the Board where, more often than not, the whole application is heard again, though not under oath.

Again due to the possible conflicts of interest present when a Board member is asked to make these types of findings related to another employee who either was or is in the same bargaining unit, this process places Board members in an extraordinarily awkward position. The Pension Reform Committee felt it would be in the best interest of everyone concerned to create a process whereby applications forwarded to an adjudicator would not be returned to the Board. Instead, the finding of the adjudicator would be final.

Recommendation #15

An additional provision should be made to the City Charter that would codify the current disability retirement determination process as it is now except that the hearing officer's decision would be final rather than a recommendation to the Board for approval.

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X. OTHER RECOMMENDATIONS

A. Study disability retirement application process and system

In grappling with the issues surrounding the cost of the City's Plan, the Pension Reform Committee found that the complexities and nuances of the portion of the system related to disability retirement appear to have resulted not only in inconsistent treatment among employee groups but have created a system that appears ripe for abuse.

At one point the Committee attempted to recommend application of the Social Security definition to the City system, but determined that it could create unintended consequences. This area clearly needs additional study and should be reviewed by a team of individuals who have appropriate human resources and/or legal experience.

Recommendation #16

The City should establish a committee to review the entire disability retirement system. Representatives on this committee should include knowledgeable employees of both the City and SDCERS as well as outside professionals with experience in this area.

Employee/Employer Sharing of Pension Costs

Section 143 of the City Charter states:

> "The City shall contribute annually an amount substantially equal to that required of the employees for normal retirement allowances, as certified by the actuary, but shall not be required to contribute in excess of that amount, except in the case of financial liabilities accruing under any new retirement plan or revised retirement plan because of past service of the employees."

This section of the Charter has apparently been loosely interpreted to mean that the employees bear 50% of Normal Cost and that all other costs are borne by the City. Another reading would be that past service costs (discussed earlier) are the sole responsibility of the City, but that any other costs should be split 50/50. Even if one agrees that the 50/50 split applies to Normal Cost only, then it appears that the Charter may not be being followed.

The Pension Reform Committee attempted to get a full explanation of these issues, but was not able to do so. This issue was identified fairly late in the process and it appears that it will take a significant amount of investigation and possible legal interpretation.

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Even if it is determined that the employees have not been paying an amount consistent with the intent of the Charter, a question remains as to what can be done about that either retroactively or prospectively. It is our understanding that the Retirement Board is now investigating this matter.

Recommendation #17

The City Council Rules Committee should require a report (with recommendations) from SDCERS on the issue of the 50/50 employer/employee cost split by the end of the calendar year.

Actuarial Assumptions

The Plan's actuary has recommended several changes to the actuarial assumptions used to determine the employer and employee contribution rates. Recently the Retirement Board engaged a second firm to audit the June 30, 2003 actuarial valuation and to evaluate the assumptions being used and/or recommended.

The Committee supports the recommended changes to assumptions with the exception of the recommendation regarding investment return.

As discussed extensively in earlier sections, the Plan's assets generate investment earnings and increase in value due to both inflation and market forces. The problem is that a portion of those earnings are siphoned off to pay for other commitments such as retiree medical benefits and contingent benefits. The Committee has addressed this by recommending a change to the computation of the City's annual contribution that would require replacement of those "lost" earnings.

Both the Plan's actuary and the auditor chosen by the Retirement Board have recognized this same phenomenon and attempted to compensate for it by reducing the assumed investment return to acknowledge the fact that the entire investment return is not applied to Plan growth.

The Plan's assumed investment rate of return is 8%. The Plan has been experiencing 8%. Therefore the Committee believes that it is simply more straightforward to deal with the dilution of Plan assets annually rather than artificially adjusting the investment rate of return to compensate.

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XI. Appendices

A. Biographical information on Pension Reform Committee

B. Interim Report of Pension Reform Committee to Mayor and City Council
January 22, 2004

C. Example: 30-year Amortization Schedule – Fixed % of Inflation-Adjusted Salary

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D. Retirement Age Factors for Benefits

E. Study from Gabriel, Roeder, Smith & Company on Proposed New Benefit Structure

Appendix A

BIOGRAPHICAL INFORMATION
PENSION REFORM COMMITTEE

Mr. Stephen Austin, a certified public accountant, is the managing partner at Swenson Advisors, LLP in San Diego, where he specializes in auditing a wide variety of companies and their pension plans. Mr. Austin received a bachelor's degree in accounting from Bob Jones University and a master's of business administration from the University of Georgia.

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Ms. April Boling, president of the San Diego County Taxpayers Association, was nominated by that organization and serves on the Committee as the taxpayer advocate. She served on the Mayor's Blue Ribbon Committee on City Finances and the City of San Diego's Citizens' Budget Committee. Ms. Boling, a certified public account and owner of a private accounting practice, holds a bachelor's degree in accounting from the University of San Diego and also serves as the chair of this Committee.

Mr. Robert Butterfield is an attorney at Butterfield Schechter LLP, where he specializes in employee benefits, ERISA, executive compensation, retirement planning and taxation. Mr. Butterfield served on the San Diego City Employees Retirement System Board and on its Investment Committee from 1986 to 1991. He received his bachelor's degree in business from Boston University and his law degree from the University of San Diego.

Mr. Timothy Considine operates his own accounting business, Considine & Considine, which manages the affairs of various types of pension plans. Mr. Considine provides regular financial advice on the investment of retirement assets and understands the importance of proper fund allocation to maximize results for plan beneficiaries. He received a bachelor's degree in accounting from San Diego State University.

Mr. Stanley Elmore was nominated by the City of San Diego Retired Employees' Association and the San Diego Police Officers Association Inc. to serve on the Committee as the City retiree. He is a member and past president of the Retired Fire & Police Association and the San Diego City Employee Retirement System Health Advisory Committee. Mr. Elmore holds a degree in police science from San Diego City College.

Ms. Judith Italiano is the president and general manager of the San Diego Municipal Employees Association, (MEA), the City's largest labor union representing over 5,000 employees. As the lead negotiator for MEA, Ms. Italiano has developed extensive knowledge of the City of San Diego Employee Retirement System. She holds a degree in early childhood education from Fresno State University and serves on the Committee as the City employee representative.

Mr. William Sheffler, a consulting actuary for his own firm, provides actuarial services for defined benefit plan administrators and trustees. Mr. Sheffler provides actuarial testimony on valuation of employee benefits. He holds a bachelor's degree in economics and mathematics from Claremont Men's College and a master's degree in mathematics from the University of Arizona.

Mr. Richard Vortmann serves on the Committee as the San Diego City Employee Retirement System Board member and Vice Chair. Mr. Vortmann is president of National Steel and Shipbuilding Company, NASSCO. He has also served on the Mayor's Blue Ribbon Committee

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on City Finances. Mr. Vortmann holds a bachelor's degree in finance and a master's degree in business administration from the University of California, Berkeley.

Ms. Kathleen Walsh-Rotto has over fourteen years of experience in working with defined benefit plans. Ms. Walsh-Rotto is currently employed by the Principal Financial Group as a Senior Relationship Manager and has expertise in defined benefit plan design, IRS required testing, legislative issues, fiduciary due diligence and compliance. She holds a bachelor's degree in political science from Iowa State University.

Appendix B

Pension Reform Committee

Date: January 22, 2004

Attention: Honorable Mayor and Members of the City Council

Subject: Interim Report from the Pension Reform Committee

On September 9, 2003, the Mayor and City Council established the Pension Reform Committee

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(Committee) to address concerns about the current unfunded liability of San Diego City Employees Retirement System (SDCERS) and review the scope and depth of audits to be performed on SDCERS. On September 24, the nine Committee members were officially appointed by the Mayor and City Council.

The Committee held its first meeting on October 1, 2003 and established a weekly meeting schedule. A special web site was set-up on the City of San Diego's web site to provide the public with the minutes, agendas and background information on the Committee. Since inception, the Committee has had two primary areas of focus: a) education, b) scope of SDCERS' audits.

Education

The Committee has requested and received a number of formal presentations from City staff and consultants to educate them on various aspects of SDCERS. The educational presentations they have received to date were on the following topics:

1. **Retirement System Overview** – The Retirement System Administrator provided an overview of the System's Benefits, Actuarial Valuation and Investments.
2. **Laws and Regulations Relating to City Employee Benefits and Collective Bargaining** – A presentation on the meet and confer process was provided by an attorney from the City Attorney's Office, and a presentation on laws pertaining to SDCERS was provided by the general counsel to SDCERS.
3. **Actuarial Valuation** - The actuary for SDCERS provided an overview of actuarial analysis and how it applies to SDCERS.

4. **Distribution of Surplus Earnings** – The Retirement System Administrator provided an overview of the history of SDCERS' surplus earnings, how they are distributed and applicable municipal code provisions.
5. **401K, SPSP and Deferred Compensation** – The City's Risk Management Department provided a presentation on the City's three defined contribution plans including Supplement Pension Savings Plans SPSP, SPSP-M, SPSP-H, 401(k) and Deferred Compensation (457) Plan.

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6. **Pension Obligation Bonds (POBs)** – The City Manager's Office provided a presentation on what POBs are, why they are issued, the legal basis for POBs and their risks and benefits.
7. **Compensation Comparisons** – The City's Human Resources Manager provided a presentation comparing public sector compensation. The data compared the salary and compensation of the City's safety classifications with that of the County, the cities within the County, and the ten largest cities in California.
8. **City Employee Labor Organizations** – The following labor organizations provided input to the Committee on pension reform issues: Police Officers' Association (POA) and Municipal Employees Association (MEA). American Federation of State, County and Municipal Employees, Local 127 and International Association of Firefighters Local 145 are scheduled to provide a presentation at the January 27 meeting of the Committee.

Retirement System's Audits

The SDCERS Retirement Board has commissioned three audits on the Retirement System: a) actuarial, b) investment operations, and c) best practices. The Committee is hopeful that the findings from the audits will be available for review by April, 2004. The Committee has asked the Audit Committee of the SDCERS Retirement Board to utilize the audit process to confirm that the Committee can rely upon work of the SDCERS actuary. In addition, the Committee has asked to have the audit process confirm that the investment results for SDCERS are correctly placed in the top decile when compared to other organizations. Once these confirmations are complete, the Committee plans to contract the actuary for further studies the Committee needs to complete its work for the City. The Committee estimates the cost of these and other studies to be undertaken by the Committee will be approximately $100,000. This funding has been identified by the City.

Sincerely,

April Boling

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Chair, Pension Reform Committee

Appendix C

EXAMPLE - 30 YEAR AMORTIZATION SCHEDULE - FIXED % OF INFLATION-ADJUSTED SALARY

Salary (4.25% incr.)	UAAL Balance	Interest @ 8.0%	@9.667%	Apply to Prin.

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YEAR	1	605,000,000	1,000,000,000	80,000,000	58,485,350	(21,514,650)
YEAR	2	630,712,500	1,021,514,650	81,721,172	60,970,977	(20,750,195)
YEAR	3	657,517,781	1,042,264,845	83,381,188	63,562,244	(19,818,944)
YEAR	4	685,462,287	1,062,083,788	84,966,703	66,263,639	(18,703,064)
YEAR	5	714,594,434	1,080,786,852	86,462,948	69,079,844	(17,383,104)
YEAR	6	744,964,698	1,098,169,956	87,853,597	72,015,737	(15,837,859)
YEAR	7	776,625,697	1,114,007,815	89,120,625	75,076,406	(14,044,219)
YEAR	8	809,632,289	1,128,052,035	90,244,163	78,267,153	(11,977,009)
YEAR	9	844,041,662	1,140,029,044	91,202,324	81,593,507	(9,608,816)
YEAR	10	879,913,432	1,149,637,860	91,971,029	85,061,232	(6,909,797)
YEAR	11	917,309,753	1,156,547,657	92,523,813	88,676,334	(3,847,479)
YEAR	12	956,295,418	1,160,395,136	92,831,611	92,445,078	(386,533)
YEAR	13	996,937,973	1,160,781,669	92,862,534	96,373,994	3,511,460
YEAR	14	1,039,307,837	1,157,270,209	92,581,617	100,469,889	7,888,272
YEAR	15	1,083,478,420	1,149,381,937	91,950,555	104,739,859	12,789,304
YEAR	16	1,129,526,253	1,136,592,633	90,927,411	109,191,303	18,263,892
YEAR	17	1,177,531,118	1,118,328,740	89,466,299	113,831,933	24,365,634
YEAR	18	1,227,576,191	1,093,963,107	87,517,049	118,669,790	31,152,742
YEAR	19	1,279,748,179	1,062,810,365	85,024,829	123,713,256	38,688,427
YEAR	20	1,334,137,477	1,024,121,937	81,929,755	128,971,070	47,041,315
YEAR	21	1,390,838,319	977,080,622	78,166,450	134,452,340	56,285,891
YEAR	22	1,449,948,948	920,794,732	73,663,579	140,166,565	66,502,986
YEAR	23	1,511,571,778	854,291,746	68,343,340	146,123,644	77,780,304
YEAR	24	1,575,813,579	776,511,442	62,120,915	152,333,899	90,212,983
YEAR	25	1,642,785,656	686,298,458	54,903,877	158,808,089	103,904,213
YEAR	26	1,712,604,046	582,394,245	46,591,540	165,557,433	118,965,894
YEAR	27	1,785,389,718	463,428,352	37,074,268	172,593,624	135,519,356
YEAR	28	1,861,268,781	327,908,996	26,232,720	179,928,853	153,696,133
YEAR	29	1,940,372,705	174,212,863	13,937,029	187,575,829	173,638,800
YEAR	30	2,022,838,545	574,062	45,925	195,547,802	195,501,877

Appendix D

RETIREMENT AGE FACTORS FOR BENEFITS

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	General			Safety		
	Current	Recommendations		Current	Recommendations	
Age	Plan	#6	#7	Plan	#6	#7
50				3.00%		
51				3.00%		
52				3.00%	2.06%	2.40%
53				3.08%	2.30%	2.46%
54				3.19%	2.55%	2.55%
55	2.50%	1.35%	2.00%	3.29%	2.80%	2.63%
56	2.50%	1.54%	2.00%	3.29%	3.04%	2.63%
57	2.50%	1.72%	2.00%	3.29%	3.29%	2.63%
58	2.50%	1.91%	2.00%	3.29%	3.29%	2.63%
59	2.50%	2.09%	2.00%	3.29%	3.29%	2.63%
60	2.55%	2.28%	2.04%	3.29%	3.29%	2.63%
61	2.60%	2.46%	2.08%			
62	2.65%	2.65%	2.12%			
63	2.70%	2.70%	2.16%			
64	2.75%	2.75%	2.20%			
65	2.80%	2.80%	2.24%			

Recommendation #6: Early Retirement Factor Changes
Recommendation #7: Normal Retirement Factor 20% Reduction

Appendix E.

August 31, 2004

To: Pension Reform Commission

RE: Study to Isolate Impact of Elements of Pension Reform Commission's Proposed New Benefit Structure

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Dear Members of the Commission,

We are summarizing results of our actuarial analysis in regard to isolating elements of a revamped benefit structure you are proposing:

Since we have previously isolated the impact of various elements and have already isolated the impact of extending the final average compensation period from 1 to 3 years in May, all calculations in this report are based on the existing 1 year final average period for compensation determination.

All demographics and assumptions are the same as those used in the June 30, 2003 actuarial valuation except for lower service retirement incidence in Scenarios #1 and #2 at earlier retirement ages.

We assumed that 90% benefit caps would apply.

As was the case for our August 13 report, the Elected Officer group is so small that we have not done any analysis of any change so as to keep our fees to a minimum.

The summary of what we were asked to value follows:

Scenario #1: Isolate the impact of Early Retirement Reduction Factors

Future General hires will receive the same benefit of 2.65% per year of service at the deemed Normal Retirement Age of 62. Actuarially reduced early retirement factors will be available at age 55 for those with at least 20 years of service. The early retirement reduction factors are the same as we used in our August 13 study report and are reflected in the appendix.

Future Safety hires will receive a benefit of 3.29% (this is equal to the 2.99% benefit formula multiplied by 1.1 to reflect the 10% augmentation to final average compensation) per year of service at the deemed Normal Retirement Age of 57. Actuarially reduced early retirement factors will be available at age 52 for those with at least 20 years of service.

There is an element in this Scenario in which we asked for clarity: what level of employee contributions are to be used. As we were not given a definitive answer, we are using **unchanged** employee contributions for this Scenario. The rationale for using unchanged

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employee contribution rates is as follows: at the age which the PRC deems to be the Normal Retirement Age, there is no change in the benefit multiplier. In practice, **some adjustment** to the General employee rate could be considered to have a more equal sharing of normal costs between the City and the employee (unless pick ups are viewed in a different light than currently).

The following results do not have an amortization component of cost as it is presumed that new members enter the system with no accrued liability.

These are our results, expressed as percents of active member pay, under the Projected Unit Credit (PUC) funding method SDCERS uses:

SCENARIO #1: Isolating Impact of Early Retirement Factors

Future General Hires (Excluding Elected Officials)

	2003 Valuation	PUC
	(Mid-year contributions assumed)	
Gross Normal Cost	20.32%	17.38%
Less		
Employee Contributions (weighted)	10.54%	10.53%
Equals		
City Normal Cost	9.78%	6.85%
Valuation Pay	$356,055,141	

Future Safety Hires

	2003 Valuation	PUC
	(Mid-year contributions assumed)	
Gross Normal Cost	30.56%	25.33%

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Less		
Employee Contributions (weighted)	12.86%	12.86%
Equals		
City Normal Cost	17.70%	12.47%

SCENARIO #2: Impact of 20% Reduction in Multipliers

Future General Hires (Excluding Elected Officials)

	2003 Valuation	PUC
	(Mid-year contributions assumed)	
Gross Normal Cost	20.32%	16.15%
Less		
Employee Contributions (weighted)	10.54%	8.42%
Equals		
City Normal Cost	9.78%	7.73%
Valuation Pay	$356,055,141	

Future Safety Hires

	2003 Valuation	PUC
	(Mid-year contributions assumed)	
Gross Normal Cost	30.56%	24.26%
Less		

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Employee Contributions (weighted)	12.86%	10.29%
Equals		
City Normal Cost	17.70%	13.97%
Valuation Pay	$176,697,345	

In this instance, we believe it is clear to reduce the employee contribution rates by 20% to reflect the intent of the Municipal Code language on the "50/50" split on Normal Cost between the employee and the City. Thus, the net numbers will not be comparable between Scenarios #1 and #2 due to this differing treatment.

Scenario #3: Eliminating Performance Pay from Includable Pension Compensation

On August 19, Pat Frazier gave us base salaries of $583.6 million that correlate to the $605 million dollar figure they have been using for annual pension payroll. As there was no breakdown between Safety and General, we will assume a uniform 3.5% reduction in evaluating the impact.

The normal cost rates would be the same but they would apply to smaller amounts of payroll. We applied the weighted City normal cost rate of 12.42% in the 2003 valuation to projection valuation payroll (based on June 30, 2003 valuation payroll and the long-term inflation assumption of 4.25% per annum) and derived a reduction in the normal cost by roughly $2,370,000. Our sense is that this somewhat understates the true costs since most performance pay bonuses would likely be available to those in management and other more senior positions.

If this had always been excluded from payroll and active member accrued liabilities declined by 3.5% as a result, the impact on the accrued liabilities as of June 30, 2003 would have been roughly $60 million dollars.

As always, we look forward to answering your questions.

Sincerely,

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Rick Roeder

Rick Roeder, EA, FSA, MAAA

Cc: Larry Grissom
Paul Barnett
Lamont Ewell

GLOSSARY

TERM	DEFINITION
Accrued Benefit	The amount of an individual's benefit (whether or not invested) accrued as of a specified date, determined in accordance with the terms of a pension plan and based on compensation and service or participation to that date.

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Accrued Liability	see ACTUARIAL ACCRUED LIABILITY
Accumulated Benefit Obligation (ABO)	The ACTUARIAL PRESENT VALUE of pension benefits attributed by a pension benefit formula to employee service rendered before a specified date and based on service and compensation (if applicable) prior to that date; see also PROJECTED BENEFIT OBLIGATION
Accumulated Plan Benefit	see ACCRUED BENEFIT
Actuarial Accrued Liability	That portion, as determined by a particular ACTUARIAL COST METHOD, of the ACTUARIAL PRESENT VALUE of pension plan benefits and expenses which is not provided for by future NORMAL COSTS.
Actuarial Assumption	The value of a parameter, or other choice, having an impact on an estimate of a future cost, or other actuarial item, under evaluation.
Actuarial Calculations	Calculations that make use of ACTUARIAL ASSUMPTIONS and ACTUARIAL METHODS.
Actuarial Cost Method	A procedure for determining the ACTUARIAL PRESENT VALUE of pension plan benefits and expenses and for developing an ACTUARIALLY EQUIVALENT allocation of such value to time periods, usually in the form of a NORMAL COST and an ACTUARIAL LIABILITY; see also ACTUARIAL METHOD.
Actuarial Equivalent	see ACTUARIALLY EQUIVALENT
Actuarial Gain or Loss	A measure of the difference between actual experience and that expected based upon a set of ACTUARIAL ASSUMPTIONS, during the period between two ACTUARIAL VALUATION dates, as determined in accordance with a particular ACTUARIAL COST METHOD.
Actuarial Liability	see ACTUARIAL ACCRUED LIABILITY
Actuarial Method	A procedure by which DATA are analyzed and ACTUARIAL ASSUMPTIONS used to estimate a future cost or other actuarial item; see also ACTUARIAL COST METHOD.

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Actuarial Present Value	The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of ACTUARIAL ASSUMPTIONS; see also ACTUARIALLY EQUIVALENT, PRESNT VALUE.
Actuarial Report	A document, or other presentation, prepared as a formal means of conveying the actuary's professional conclusions and recommendations, of recording and communicating the methods and procedures, and of ensuring that the parties addressed are aware of the significance of the actuary's opinion or findings.
Actuarial Valuation	The determination, as of a VALUATION DATE, of the NORMAL COST, ACTUARIAL ACCRUED LIABILITY, ACTUARIAL VALUE OF ASSETS, and related ACTUARIAL PRESENT VALUES for a pension plan.
Actuarial Value of Assets	The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an ACTUARIAL VALUATION.
Actuarially Equivalent	Of equal ACTUARIAL PRESENT VALUE, determined as of a given date with on the basis of the same set of ACTUARIAL ASSUMPTIONS.
actuary	A person professionally trained in the technical and mathematical aspects of insurance, pensions and related fields. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future.
Amortization Payment	That portion of the pension plan contribution which is designed to pay interest on and to amortize the UNFUNDED ACTUARIAL ACCRUED LIABILITY, or other liability.
Ancillary Benefit	A benefit or coverage which is incidental to a larger program and the cost of which is not material to the total program cost.

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Asset Risk	The risk that the amount or timing of items of cash flow connected with assets will differ from expectations or assumptions as of the VALUATION DATE for reasons other than a change in investment rates of return. Asset risk includes the risk of default or other financial nonperformance; distinguished from CREDIT RISK, INVESTMENT-RATE-OF-RETURN RISK, MARKET RISK, and REINVESTMENT RISK.
Asset Valuation Basis	The method used to determine the stated value of a particular asset.
COLA	see COST OF LIVING ADJUSTMENT
Contingent Benefits	Indeterminate benefits as to either their amount or their occurrence, in the context of this report, these are benefits that are not part of the pension plan as originally conceived.
Contingent Liability	Indeterminate liabilities as to either their amount or their occurrence
Cost of Living Adjustment (COLA)	An increase or decrease in a benefit in the course of payment, that is intended to reflect a change in living costs since the last prior adjustment.
Credibility	Statistical reliability (of experience data) as a basis for making projections.
Credit Risk	Risk associated with the possibility of a loss on an investment security, either in whole or in part; distinguished from ASSET RISK, INVESTMENT-RATE-OF-RETURN RISK, MARKET RISK, REINVESTMENT RISK.
Data	Statistical or other information that is generally numerical in nature or susceptible to quantification.
Death Benefit	A benefit payable as a direct result of the death of an insured individual or a covered participant.
Defined Benefit Plan	A retirement plan with contributions dependent on benefits defined in the plan.
Defined Contribution Plan	A retirement plan with benefits dependent on contributions defined in the plan.

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EA	see ENROLLED ACTUARY
EANC	see ENTRY AGE NORMAL COST METHOD
Employee Retirement Security Act (ERISA)	A statute enacted in 1974, and amended subsequently, that established the Pension Benefit Guaranty Corporation and established limits and minimum standards for eligibility, vesting, benefit levels, and funding for qualified pension plans in the U.S.
Enrolled Actuary	A designation granted by the U.S. Joint Board for Enrollment of Actuaries to persons satisfying requirements established by ERISA for performing actuarial services for qualified defined-benefit pension plans.
Entry Age Normal Cost Method	A cost method under which the normal cost to fund the benefits under the plan is set as a level percentage of compensation from the date a participant becomes eligible to enter the plan until retirement.
ERISA	see EMPLOYEE RETIREMENT INCOME SECURITY ACT
Experience Factors	Those elements which reflect actual experience.
Experience Gain or Loss	see ACTUARIAL GAIN OR LOSS
Exposure	Extent of RISK and/or possibility of LOSS
Fair Market Value (FMV)	The value of property established between a willing buyer and a willing seller in an arm's length transaction.
FASB	Financial Accounting Standards Board
full actuarial funding	annual payment of NORMAL COST plus AMORTIZATION of UNFUNDED ACCRUED ACTUARIAL LIABILITY
Funding Method	see ACTUARIAL COST METHOD
GAAP	Generally Accepted Accounting Principles
GASB	Government Accounting Standards Board
Investment Risk	Uncertainty surrounding the realization of a specified investment income stream.

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Investment-Rate-Of-Return Risk	The risk that investment rates of return will depart from expectations or assumptions as of the VALUATION DATE, causing a change in the amount or timing of asset or obligation cash flows; distinguished from ASSET RISK, CREDIT RISK, MARKET RISK, and REINVESTMENT RISK.
Market Interest Rates	Yields that are available on new money invested at a particular time.
Market Risk	Uncertainty regarding the future market value of an asset; distinguished from ASSET RISK, CREDIT RISK, INVESTMENT-RATE-OF-RETURN RISK, and REINVESTMENT RISK.
Mortality Table	A statistical table showing the death rate of each age.
Normal Actuarial Cost	see NORMAL COST
Normal Cost	That portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the ACTUARIAL COST METHOD, excluding any payment in respect of an unfounded actuarial accrued liability.
Obligation	Any tangible or intangible commitment by, requirement of, or liability of a plan or an insurer that can reduce receipts or generate disbursements.
Open Group Cost Method	An Actuarial cost method under which ACTUARIAL PRESENT VALUES associated with expected future entrants are considered.
Participant	An individual covered by a benefit plan.
Pay-As-You-Go	A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.
PBO	see PROJECTED BENEFIT OBLIGATION
Pension Obligation Bonds	Public indebtness issued by the City that is used explicitly to fund pension plan obligations
POB	Pension Obligation Bond

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Present Value	The value today of an amount receivable or payable in the future, reflecting the TIME VALUE OF MONEY; see also ACTUARIAL PRESENT VALUE.
Projected Benefit Obligation	The ACTUARIAL PRESENT VALUE as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date, including recognition of changes in future compensation levels if appropriate; see also ACCUMULATED BENEFIT OBLIGATION.
Projected Benefits	Pension benefit amounts which are expected to be paid at various future times under a particular set of ACTUARIAL ASSUMPTIONS, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.
Projected Unit Credit Cost Method	A cost method under which the normal cost to fund the benefits under the plan is set as the present value of the benefit earned during the year, including an allowance for future salary increases. Under this method the cost of each member's benefit increases annually.
PUC	see PROJECTED UNIT CREDIT COST METHOD
Reserve	An amount determined as of a VALUATION DATE to provide for future payments.
service purchase	the practice of a member paying a fixed amount for additional pension benefits or credits, which were not earned during their term of service in the system.
Terminal Funding	A method of funding a pension plan under which the entire ACTUARIAL PRESENT VALUE of benefits for each individual is contributed to the plan's fund at the time of withdrawal, retirement, or benefit commencement.

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Time Value of Money	The principle that an amount of money available at an earlier point in time has different usefulness and value than the same amount of money at a later point in time.
UAAL	see UNFUNDED ACTUARIAL ACCRUED LIABILITY
Unfunded Accrued Liability	see UNFUNDED ACTUARIAL ACCRUED LIABILITY
Unfunded Actuarial Accrued Liability	The excess of the ACTUARIAL ACCRUED LIABILITY over the ACTUARIAL VALUE OF ASSETS. (UAAL)
Unfunded Actuarial Liability	see UNFUNDED ACTUARIAL ACCRUED LIABILITY
Valuation Assets	see ACTUARIAL VALUE OF ASSETS
VBO	Vested Benefit Obligation
Vested Benefit Obligation	vested portion of the ACCUMULATED BENEFIT OBLIGATION

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Formation		
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	Resolution 298359 establishing the Pension Reform Committee	09/09/2003
	Memo from Mayor Dick Murphy introducing the Pension Reform Committee members with biographies.	09/24/2003

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Interim Report		
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	Interim Report of Pension Reform Committee to City Council	04/19/2004
Resolution		
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Projections and Solutions		
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	UAAL - Projection	06/01/2004
	15 Year amortization v. 30 year amortization	06/01/2004
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	30 year UAAL amortization - baseline and different funding options	06/01/2004
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	Form of Report/Required Resources	12/02/2003
	Draft Outline of Final Report to Council	02/18/2004
	Draft Outline of Final Report to Council	04/21/2004
	Draft Outline of Final Report to Council	05/25/2004
	Draft Outline of Final Report to Council	06/01/2004
	Draft Outline of Final Report to Council	06/15/2004
Draft Final Report		
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	Draft Pension Reform Committee Report to the City of San Diego	07/28/2004
	Draft Pension Reform Committee Report to the City of San Diego	08/13/2004
	Draft Pension Reform Committee Report to the City of San Diego	08/17/2004
	Draft Pension Reform Committee Report to the City of San Diego - Draft Power Point Presentation	08/17/2004
	Draft Pension Reform Committee Report to the City of San Diego	09/07/2004
	Draft Pension Reform Committee Report to the City of San Diego - Draft Power Point Presentation	09/07/2004
Scope of work - Actuarial Studies		
	Pension Reform Committee Actuarial Task Considerations	01/20/2004
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	Letter from Rick Roeder regarding the scope and fee of actuarial work assignments.	02/19/2004
	Letter from Rick Roeder regarding the scope and fee of actuarial work assignments.	03/02/2004
	Letter from Rick Roeder regarding the scope and fee of actuarial work assignments.	03/04/2004
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	Retiree Medical Analysis - GRS Consultants and Actuaries	06/14/2004
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	Actuarial Gains (Losses) for Pay Increases and Further Analysis of Corbett Liabilities	08/17/2004
	Study to isolate impact of elements of Pension Reform Committee Proposed New Benefit Structure	08/31/2004
Retirement Board Audits		
	Request for proposals from the SDCERS Retirement Board for Audits	07/28/2003
	Interim Actuarial Audit Findings from Mercer Human Resource Consulting	02/13/2004
	Interim Investment Operations Audit Findings report form Mercer Investment Consulting	02/16/2004
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Retirement Board Investment Reports		
	Callan Associates Inc. Investment Measurement Service Quarterly Review - San Diego City Employees' Retirement System	09/30/2003
	Callan Associates Inc. Investment Measurement Service Quarterly Review - San Diego City Employees' Retirement System	12/31/2003
	Callan Associates Inc. Investment Measurement Service Quarterly Review - San Diego City Employees' Retirement System	06/30/2004
Presentations		
	Ralph M. Brown Act.	10/01/2003
	SDCERS - Overview	10/14/2003
	Meet and Confer	11/04/2003
	Actuarial 101 & SDCERS	11/18/2003
	Distribution of Earnings	12/02/2003
	Defined Contribution Savings Plans	12/09/2003
	SPSP and 401k plans plus average age, salary, age of new entrant, salary of new entrant and number of years served upon termination of employees.	12/18/2003
	Pension Obligation Bonds	01/06/2004
	Comparison of compensation packages between the City, the County and other Cities within the County.	01/13/2004
	Unfunded liability after the issuance of pension obligation bonds, comparison of different public entities	01/16/2004
	Inventory of City-owned property	02/17/2004
	Composition of retirement boards throughout California	02/17/2004
	Normal cost - comparison of for safety members of various California public agencies.	03/02/2004
	Normal Cost Survey - comparison of general members of various California public agencies.	03/09/2004
	Retiree Health Insurance	03/23/2004
	CalPERS - memo from Lawrence Grissom regarding system	04/06/2004
	SDCERS History of Investment Performance	04/20/2004
	Retirement Vested Interests	05/18/2004
	Pension Obligation Bonds	05/19/2004

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	Proposed Charter Changes/Amendments	06/07/2004
	Operating Budget FY 2005	07/29/2004
Background		
	Retirement Board role revisions -Memorandum of Law	07/30/1993
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/1995
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/1996
	City of San Diego 401(k) Plan	01/01/1997
	Ex-officio - letter from Frandzel and Share regarding authority of a member of the Retirement System Board to designate a staff member to sit in their place	05/06/1997
	Ex-officio member - letter from Arter & Hadden regarding authority of the Retirement System Board to designate a staff member to sit in their place	06/03/1997
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/1997
	Ex-Officio Board Members, designation of alternates	07/18/1997
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/1998
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/1999
	Corbett Settlement - Notice of entry of judgment of WILLIAM J CORBETT; DONALD B ALLEN; LEONARD LEE MOREHEAD; AND GORDON L WILSON; individually, and on behalf of all others similarly situated v. CITY EMPLOYEES' RETIREMENT SYSTEM	05/22/2000
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/2000
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/2001
	City of San Diego Supplemental Pension Savings Plan	07/01/2001
	San Diego City Employees' Retirement System Handbook	01/01/2002
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/2002
	Deferred Compensation Plan	07/11/2002
	Comprehensive Annual Financial Report - San Diego City Employees' Retirement System	11/01/2002
	Retirement System - Resolution 297336 regarding modifications	11/18/2002

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	Employer Contributions agreement between the City of San Diego and the San Diego City Employees' Retirement System	11/18/2002
	San Diego City Employees' Retirement System - The Report of an Experience Investigation covering the period 7/1/1997 to 6/30/2001	01/09/2003
	Blue Ribbon Committee Report - response - City Finances dated February 2002 Regarding Pension and Health Insurance Funding	02/05/2003
	San Diego City Employees' Retirement System Annual Actuarial Valuation	06/30/2003
	Blue Ribbon Committee on City Finances - San Diego City Employees Retirement System	10/24/2003
	San Diego Employees' Retirement System Executive Summary, June 30, 2003 Actuarial Valuation	12/18/2003
	Retirement System - Article 4 - City Employees' Retirement System	
	Retirement System - City Charter Articles - Article IX - City Employees' Retirement System	
Miscellaneous		
	State Retirement Systems: Funding Levels and Asset Allocation - 2003 Wilshire Report	03/12/2003
	Putnam Funds - correspondence with the SDCERS investment managers	10/27/2003
	Financial Accounting Series - Statement of Financial Accounting Standards No. 132 - Employers' Disclosure about Pensions and Other Postretirement Benefits	Dec-03
	Retirement Board's audits - List of questions that could be answered within the scope	12/02/2003
	Letter to SanFord Bernstein Co regarding scope of work for their analysis of the SDCERS investment fund performance	01/07/2004
	Letters to Keith Enerson, Phil LaVelle, Diann Shipione and Michelle Corbin to be invited to submit a factual presentation in writing of information that would be helpful to the Committee regarding SDCERS	01/27/2004
	Retirement Fund Financial Statements - memo to SDCER's Board of Administration from Cecilia San Pedro	02/05/2004
	Bonds - Standard and Poor's ratings of City of San Diego	03/02/2004
	Investment performance - Letter from SanFord Bernstien	03/02/2004
	State Retirement Systems: Funding Levels and Asset Allocation - report from Wilshire Research - 2004	03/12/2004
	City of San Francisco regarding recent labor contracts - e-mail from Alice Villagome, Deputy Director, Employee Relations Division	03/16/2004

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	State of California's Bonds, The - Report from Bernstein Municipal Bond Research	

ATTACHMENT 1

ADDITIONAL INFORMATION TO CITY COUNCIL

APRIL 19, 2004

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EXHIBIT 6

December 31, 2002

THE CITY OF SAN DIEGO

RECEIVED

JAN 6 2003

Asst. City Manager

Mr. P. Lamont Ewell
Assistant City Manager
City of San Diego
City Hall - 202 C Street
San Diego, CA 92101

RE: Your Memorandum of December 6th, 2002 Regarding City's Under-funded Pension Plan

Dear Mr. Ewell:

Thank you for sending me a copy of your December 6th Memorandum to the Council in response to my letter to the Council of November 18th.

I understand that you are relatively new to the City Manager's office and thus may not be familiar with some of the background on the City's under-funded pension plan. This will provide you with some information, in addition to responding to a few of the items in your memo[1].

BACKGROUND

SAN DIEGO IS ONE OF ONLY TWO CITIES IN THE STATE OF CALIFORNIA THAT INTENTIONALLY UNDER-FUNDS IT'S PENSION PLAN

The City of San Diego's Pension Plan is now among the ***lowest*** funded plans in the State of California[2]. In a recent report to SDCERS, the actuary confirmed that as of June 30, 2002, the fund had "crashed" to a low of approximately 68% with an ***unfunded*** accrued ***liability*** of ***$720 million***.[3] This is down from the mid-90% range just 6 years ago. By contrast, the following are some common benchmarks[4]:

- 125% funding is used under federal tax law to determine when sufficient funding exists to divert funds from a private sector retirement system;
- 99% funding is used under ERISA to determine when additional contributions must be made to certain private sector plans;
- 90% funding floor is used by the only other significant California public sector retirement system that intentionally under-funds its pension plan.

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[1] Regarding, your comment on my use of System stationary, I trust my letter was completely clear that I was writing as a voting Trustee. The Board's actions were described in full. I only mention this because there have been prior efforts by staff to limit official Trustee communication on important issues with the Council and Press to discourage Trustees from participating in their official capacity in matters such as this.

[2] See Actuary (Rick Roeder) materials presented to SDCERS June/July 2002.

[3] As measured by EAN with the "Corbett" contingent liability, and estimate for new benefits included. See SDCERS Annual Actuarial Preliminary Valuation. Executive Summary for June 2002 dated 12/20/02. p.8. The System reflects a funding ratio of about 77% as measured by PUC (+5%) excluding the Corbett liability (+2.5%) & the additional benefits (+1.06%) conferred as a result of the most recent amended Manager's Proposal

[4] See Financial Counsel Blum's June 2002 letter to SDCERS Board.

Contrary to recent reports, San Diego's pension plan did not drop to such a low value just because of negative financial markets. The Mayor's **Blue Ribbon Committee** noted this year that in the midst of one of the greatest bull-markets this plan was being under-funded warning, "*the City is not paying...the full cost...for their future pension and retiree health benefits...and after an unprecedented 9-year boom in the equity market when many pension plans became flush and actually over funded...the City still has an unfunded liability...*"[5]

Investment losses do not account for the more egregious funding deficit the plan has suffered from a decade of constant under-funding via several irregular funding strategies such as:

- A tortured interpretation of the Municipal Code used:
  - to hide unfunded liabilities so City contributions will be artificially reduced,[6]
  - to remove assets from the plan to pay contributions or benefits thus preventing assets from being reinvested in an actuarially sound manner.[7]
- Intentional "under-funding programs", such as the 1996 Manager's Proposal and the most recent November 18th, 2002 modifications to the Manager's Proposal.
- Substantial increases in benefits without necessary funding.

Unlike every other large public retirement system in the State of California[8], the City of San Diego has intentionally under-funded it's existing pension plan, while increasing benefits to current and retired workers and without making any additional contributions to fund these new commitments. This has created a one-two punch of financial deficiency for the Pension System.

THE CHRONOLGY OF INTENTIONAL UNDER-FUNDING STRATEGIES

TORTURED INTERPRETATION OF THE MUNICIPAL CODE

The Municipal Code states, "*Investment Earnings Received shall be determined on a cash basis...*"[9] *This* Code was written long ago when the primary investments used were fixed income securities such as bonds and interest bearing accounts. Asset volatility was small and annual interest income was received. The Retirement System portfolio has significantly changed over time adding equities and other standard and non-standard investments. These investments provide the opportunity capital appreciation over longer-term time horizons but have increased volatility on both the upside and downside. At some point, the words "*cash basis*" were inappropriately interpreted to include net realized gains and losses on stock transactions. This has had **serious negative impact on the funding status**. It drains off liquid assets and reduces future earnings power by

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[5] Blue Ribbon Committee Report, 2/2002, p. 6 & p. 23.
[6] Fiduciary Counsel letter dated 4/16/02 to SDCERS general counsel, p. 5.
[7] Fiduciary Counsel letter dated 4/16/02 to SDCERS general counsel, p. 5.
[8] See Actuary materials presented to SDCERS in June 2002, only one other large public retirement system intentionally under-funds it's pension plan but it requires the plan fall no lower than a 90% funded ratio.

removing assets in good investment years leaving no cushion behind for the bad years. It undercuts actuarial earnings assumptions based on averages over a long period of time.[10] As a result, actuarial assumed rates of returns are artificially high and unfunded liabilities are artificially low.

The Municipal Code has additionally been abused to allow "Funny Accounting" practices that hide liabilities labeling them as "contingent" and/or manipulating them off the books through "reserve accounts".[11] According to SDCERS independent Fiduciary Counsel, one remedy for this Municipal Code manipulation is:

- to eliminate the "reserve account" concept;
- to include all promised benefits as "liabilities";
- to include all assets in the total assets for funding determinations, and
- to require the City to include all benefits in the Municipal Code without the contingency of Surplus earnings.[12]

1991

The Persian Gulf Crisis in August of 1990 had a downward impact on the market and the economy. In 1991, the Retirement System did not have "surplus earnings" available to use as the City's required contribution. To avoid the required pension payment from the City budget, the City artificially inflated the plan's funding ratio about 5% by reverting from the preferred and more accurate measurement of "EAN" to an antiquated and less reliable funding measurement known as "PUC". The vast majority[13] of large public retirement systems in the State of California use EAN. Of those few that still use PUC, only two retirement systems intentionally under-fund their pension plans and of those two, **only San Diego allows it's pension plan funding status to free fall to any level.** (The other retirement system is San Luis Obispo, but it does not allow its plan to fall below 90%.[14])

1995

In 1994, a mild recession had a downward impact on the market again reducing the amount "surplus earnings" available for the City used to offset the City's required annual contribution. To avoid the paying the full pension contribution in that year, the City requested a one-year "holiday".[15] Actuary (Rick Roeder) stated that a one-time rate relief would not impact the status of the plan[16] assuming that "one-time" meant no plan for recurrence in the foreseeable future.[17] Attorney Joel Klevins, on behalf of Local 145, argued that the proposal conflicted with the City Charter requirement that the City annually contribute an amount substantially equal to that required for the normal

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[9] Section 24.1501.
[10] See 4/16/2002 to SDCERS Counsel from outside Fiduciary Counsel, Constance Hiatt, and p.5.
[11] Corbett retiree benefit, retiree health care benefit, 13th check & some COLA benefits.
[12] See 4/16/2002 to SDCERS Counsel from outside Fiduciary Counsel, Constance Hiatt, and p.6.
[13] See Actuary's list of "Independent Public Pension Systems In California Funding Methods" June 2002.
[14] See Actuary materials presented to SDCERS dated June & July 2002.
[15] Auditor Ed Ryan indicated that if the required pension contribution had to be made the money would be taken from various City departments and it would result in employee layoffs. See SDCERS Board Minutes 3/24/95, p.16
[16] SDCERS Board Minutes 3/24/95, p. 9
[17] SDCERS Board Minutes 3/24/95, p. 5.

retirement allowances for employees. He further stressed that the Municipal Code[18] required excess 'surplus earnings' be used to lessen the Retirement System's liability *not* the City's liability.[19] Notwithstanding, the City's requested "contribution holiday" was given with a Retirement Board vote of 7 in favor (Ann Burr, Jack Katz, Cruz Gonzalez, Keith Enerson, Paul Barnett, Conny Jamison, Ed Ryan) and 6 opposed (John Casey, Sharon Wilkinson, Chuck Woolever, Robert Scannell, Gary Kaku, Ron Saathoff).[20]

1996

In 1996, the City had "budgetary problems" nominally related to GOP convention costs.[21] Ironioally, in order to get contribution relief in 1991 the City converted to PUC. Now in 1996, City Manager Jack McGrory indicated that it was the volatility of PUC that made the City seek contribution relief (EAN was more stable).[22] The City desired yet more contribution relief due to the 'budget shortfall' and offered to exchange labor benefit improvements for a reduced contribution-funding schedule. This dangerous program was known as the "Manager's Proposal"[23]. It allowed the City to further intentionally under-fund the pension plan by contributing far less than the required actuarially determined amount for a period of 10 years.[24] In exchange for Retirement Board approval of the Manager's Proposal, the City traded a 20% increase in labor benefits but did not fund them.

Actuary (Rick Roeder) stated the benefit increase could reduce the funded ratio by 5% causing it to drop to 83.5%[25] while creating an additional $80 million unfunded liability.[26] Trustee Ron Saathoff suggested actuarial assumptions be modified to inflate the funded ratio.[27] Trustee John Casey expressed concerns that this proposal conflicted with City Charter requirements that today's service credit be paid for by today's

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[18] Municipal Code Section 24.0907.01.

[19] SDCERS Board Minutes 3/24/95, p. 5.

[20] SDCERS Board Minutes, 3/24/95, p. 10.

[21] Gleason letter to Mayor Murphy dated 8/26/02, p.2.

[22] SDCERS Board Minutes 5/2/96, p. 2.

[23] The proposal terminated City-sponsored retiree health insurance benefits; eliminated disability offset; added 5-year purchase of service credit at no additional cost to the City; increased 13th check for pre-10/6/80 retirees from $30/creditable year of service to $60; and to $75 for pre-12/31/71 retirees; increased benefits to general members (disability retirement from 33 1/3 to 50%); improved lifeguard, police and fire member formula; created Drop (similar to a deferred retirement); and reduced City contributions by allowing under-funding for multiple years.

[24] SDCERS Board Minutes, 6/11/96, p. 7, Mr. McGrory indicated City Manager's fiduciary counsel had reviewed the proposal and given the go-ahead and said he was hopeful SDCERS' fiduciary counsel would do the same.

[25] 83.5% is at EAN. It would be 88.5% at PUC.

[26] SDCERS Board Minutes. 6/11/96, p. 17.

[27] SDCERS Board Minutes, 6/11/96, p. 16. reference to lowering attained age as result of DROP. The assumption that average age for non-DROP actives would decline has not proven to be accurate even though it was assumed when DROP was instituted as part of the 1997 Manager's Proposal. SDCERS Annual Actuarial Valuation, June 30, 2001.

taxpayers.[28] According to the actuary the lower contribution rate was not prudent and some costs would be borne by the future generation.[29]

Part of the Manager's Proposal required the Retirement System to pay for Retiree Health Insurance as a "contingent" benefit. Fiduciary Counsel (Dwight Hamilton) advised that a Charter Amendment would be required if the Retirement System was now going to assume responsibility for paying retiree health insurance and fund it out of undistributed surplus earnings rather than the more actuarially sound City contributions[30]. He reminded the Board of its exclusive fiduciary duty of loyalty was to protect the integrity of the fund consistent with annual valuations,[31] and further stated it was an aberration of basic law to take surplus funds to pay health insurance benefits[32]. Other Trustees and members of the system raised additional concerns.[33]

In the end, both the Actuary and Fiduciary Counsel were pressured to not oppose the 1996 Manager's Proposal under-funding program and (in retrospect foolishly) did so with the assurance that an **absolute floor of 82.3%** would be maintained and the fund would be converted to full EAN no later than 2009.[34] Fiduciary counsel wrote in a 6/21/96 letter to SDCERS that, *"Provided...the City-paid rate...is not less than an amount substantially equal to that required of employees for normal retirement allowances as certified by the actuary, the Board will be acting with the discretion granted...and discharging its fiduciary duties as set forth in Article XVI, Sec. 17 of the California Constitution."* The motion passed with 8 in favor (Terri Webster, Bruce Herring, Sharon Wilkinson, Robert Scannell, Keith Enerson, Ron Saathoff, John Torres, Conny Jamison) and 3 opposed (Jack Katz, Ann Parode, Paul Barnett).[35] Fiduciary counsel did not recommend approval of this proposal. The only opinion he would provide regarding conflict of interest issues relating to the Manager's Proposal[36] was to quote the California Constitution stating, "*...those Board members who voted in favor of the proposal solely in the interest of, and for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system, did not have a conflict of interest sufficient to bar*

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[28] SDCERS Board Minutes, 6/11/96, p. 16.
[29] SDCER Board Minutes, 6/11/96, p. 16.
[30] SDCERS Board Minutes, 6/21/96, p. 16.
[31] SDCERS Board Minutes, 6/21/96, p. 17.
[32] SDCERS Board Minutes, 6/21/96, p.18-19.
[33] Ms. Parode expressed concerns the City is proposing a $70 million benefit improvement package at a benefited return of $30 million over 10 years. Mr. Jim Gleason spoke on behalf of the Retired Police and Fire Association stating that this proposal did not benefit those who retired after 10/6/80. He stated that it would possibly damage their benefits as the earnings pie became smaller and any cost of living allowance aimed in their direction would be reduced.
[34] See 7/23/96 City Manager's Retirement Proposal, p. 7, item B, "In the event the funded ratio...falls to a level 10% below the funded ratio calculated...June 30, 1996 (about 92.3%)...the City-paid rate will be the amount...necessary to restore a funded ratio no more than the level that is 10% below the funded ratio calculated at the June 30, 1996 actuarial valuation (about 82.3%). Fiduciary counsel stated funding at EAN could not be extended past 2009, SDCERS Board Minutes, 6/21/96, p. 23. Mr. McGrory ensured the City's goal was to revert back to EAN no later than 2009 and Mr. Bruce Herring amended the motion to include this language. SDCERS Board Minutes, 6/21/96, p. 23-24.
[35] Mr. Casey had departed the meeting and was not present for the vote.
[36] D. Hamilton letter to SDCERS dated 9/18/95

him or her from functioning as a trustee." He further stated, *"If a Board member fulfills this duty in making decisions, he or she will not be violating his or her duties under Government Code section 87100, the Code of Ethics of the City of San Diego, California, or Council Policy000-4."*[37] In November, Proposition D, which gave City Council the authority to make retiree health insurance a SDCERS' benefit, was put on the ballot and passed.

1997

City Council introduced and approved the ordinance approving the Manager's Proposal retroactive to 1/1/97. All employee groups were invited to a SDCERS Board meeting to comment on election materials related to the Manager's Proposal on which they were to vote. In 1997 the Board then approved, retroactively, the distribution of capital gains (and other surplus earnings) from 1995 and 1996 per the Manager's Proposal thus retroactively applying the terms of the under-funding agreement to 1995 and 1996.[38]

2000

In 2000, labor benefits were again further increased by another 12% with the Corbett Settlement[39]. **To mask the enormous financial impact of this additional benefit the liability was labeled "contingent"**, on the theory that benefits would only be paid if there were "surplus earnings" in the System on an annual basis. The Corbett liability would, perhaps be contingent if the liability were eliminated in any year in which "surplus earnings" were not available; however, it has never been treated in this fashion. If earnings are not available in any one year the liability simply accrues into the succeeding years until funds are available. It thus never has been "contingent" and the City and Board have always known this.[40]

2002

In 2002, the plan fell below the "absolute floor of 82.3%" and the City was required to make a balloon payment in the tens of millions of dollars. The City now desperately desired more contribution relief to avoid the balloon payment. Not surprisingly, a new deal was cut which "modified" the 1996 Manager's Proposal and not only allowed the City to avoid the 2002 balloon payment obligation, but also reduced future contributions. **Most dangerously it eliminated the "82.3% absolute floor"** allowing for the possibility of a funding freefall. As in 1996 benefits were traded for the approval from the Retirement Board to allow the City to yet again further under-fund the plan.

Actuary Rick Roeder opposed the modifications because it would leave the system even more under-funded as the plan fell below 82.3% (which both the Board and the City knew was going to happen). In a November 4th, 2002 letter to the Board the Actuary

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[37] The SDCERS Board has replaced a number of outside fiduciary counsels that took issue with the growth of this funding deferral process.

[38] SDCERS Board Minutes. 6/20/97, p. 7.

[39] See Mayor's Blue Ribbon Committee Report. 2/02, p. 20

[40] See "Comments" in SDCERS Annual Actuarial Valuations such as 6/30/01

wrote, "*it would be best to hold the City to the existing Manager's Proposal.*"[41]. The Board's current Fiduciary Counsel (Bob Blum) also expressed many concerns about the ongoing under-funded status of the pension plan and has written, *"We recognize as does the Board's actuary, that higher City contribution levels than required under the Agreement would provide better financial protection to SDCERS"*[42] and that the **current funding integrity and security had been adversely impacted by the application of the City's intentional under-funding program** instituted with the 1997 Manager's Proposal.[43]

Nevertheless, the Retirement Board approved the most recent intentional under-funding strategy on November 15th, 2002 by a vote of 10 in favor (Ron Saathoff, Ray Garnica, John Casey, Mary Vattimo, Dave Crow, Fred Pierce, Sharon Wilkenson, John Torres, Terri Webster, Dick Vortmann) and 2 opposed (Tom Rhodes, Diann Shipione). On November 18th, 2002 the City Council approved this under-funding modification to the 1996 Manager's Proposal by a vote of 8-1 with only Council Member Donna Frye in opposition.

SPECIFIC CONCERNS REGARDING THE 2002 MODIFICATIONS TO THE MANAGER'S PROPOSAL

The following list highlights three major problems with the most recent modification to the "Manager's Proposal" approved by City Council November 18th 2002[44]:

1. **First, it removes the 82.3% safeguard requirement to true up to 82.3%.** The plan can now freefall as low as the City wants. According to the Actuary it may be only 52% by 2009.
2. **Second, it removes the requirement to be fully funded at EAN by 2007/2009.**[45]
3. **Third, it excludes significant unfunded liabilities to falsely inflate the** funded ratio declaring that, "*SDCERS' contingent liabilities to retirees under the 'Corbett Settlement' will not be taken into account in determining the funded ratio.*"[46] (The Corbett Liability would reduce the funded ratio by about 2.5%.)

The net result is that all other public retirement systems in the State of California adhere to a more fiscally responsible pension plan contribution program. By 2009 this may have a disastrous impact on the City budget as the pension plan falls to an

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[41] Fiduciary Counsel Bob Blum did not recommend it but opined that it would be defensible. He wrote to the Board, *"We recognize as does the Board's actuary, that higher City contribution levels than required under the Agreement would provide better financial protection to SDCERS."* 11/4/02 letter to SDCERS.
[42] Fiduciary Counsel, Bob Blum, 11/4/02 letter to SDCERS Board.
[43] See Fiduciary Counsel Blum's 11/4/02 letter to SDCERS.
[44] The 11/18/02 Council Agenda Item 50 amends the Municipal Code Section 24.0801 to include an MOU that is further detailed in Agenda Item 133.
[45] See "Agreement Regarding Employer Contributions Between the City & SDCERS", 11/2002, Section 4, Item b.
[46] See "Agreement Regarding Employer Contributions Between the City & SDCERS", 11/2002, Section 3, Item c

alarming 52% funding ratio, the City is required to pay $257 million in annual contributions, and the City is required to pay 8% annual interest payments on the unfunded accrued liability that will have grown to an astonishing $2.8 billion[47], and the annual contributions will comprise as much as 35-40% of payroll.[48]

There is no reason to assume that by 2009 the City will suddenly reverse this decade long pattern of irresponsible behavior. **What was once a nominally under-funded condition in 1991, grew to an $8 million unfunded liability by 1995, then ballooned to an $80 million unfunded liability in 1997, and is now a $720 million unfunded liability in 2002. By 2009, the unfunded liability is estimated to be at $2.8 Billion.** Similarly, what was once a pension plan contribution equal to 5.2% of payroll in 1992 has now become a contribution equal to 21.13% of payroll in 2002. By 2009 the contribution is estimated to be 40% of payroll. Virtually every expert that has reviewed this situation has confirmed it is very serious, very substantial and potentially very dangerous. Particularly given the City's financial situation will likely worsen in the coming years due to:

- State budget cuts (in the past this resulted in about $30 million cut from $70 million in revenues the City received annually),[49]
- An estimated $300+ million in unfunded deferred infrastructure maintenance;
- An estimated $170 million in unfunded Information Technology needs;
- Potential new State mandates re: storm water run-off decontamination that may result in $40 million a year from the General fund;
- Financial impact of MSCP (Multiple Species Conservation Program) estimated to be $334-$411 million (1996 dollars) with estimated cost of $75 million to achieve the Mayor's goal Number 10, "Complete MSCP Open Space Acquisitions";
- Estimated $41 million increase for City's current General Reserve for emergencies/risk management.

My concerns about the condition of the City pension plan stem from 16 years of experience in the financial services industry and the knowledge that under-funded pension plans are often the precursors of economic disaster. Both TWA and Bethlehem Steel collapsed under the weight of their pension obligations. General Motors has been infamously described as a company that exists primarily to fund its pension obligations, but they are far from singular. The State of Illinois failed to make its actuarially required contributions to 5 State Employees' Pension Plan, due to "budget constraints". This

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[47] Actuary materials provided to Board in June & July 2002 confirm about a 59% funded ratio at PUC that drops to about 52% at EAN with Corbett liability – thus equating to about $2.8 Billion in unfunded liabilities. The SDCERS Annual Actuarial Valuation dated 6/30/01, p.2: "Contribution rates must total at least the following: Current Cost plus Interest on Unfunded Accrued Liabilities."

[48] See Actuary materials to SDCERS June & July 2002

[49] See City Manager Comment in 5/29/02 SDCERS minutes

caused the State of Illinois Pension Plans funding ratio to fall to 56% in 1994. The State Legislature then made the pension plan contribution an "automatic appropriation" which means it comes right off the top of the revenue stream before any other allocations. For the plan to reach 90% funding now it will have to be replenished over the next 50 years (according to Michael Mory, Executive Secretary of the Sate Employee Retirement System at the time).

Even the **Mayor's Blue Ribbon Committee** expressed concerns about the City's unfunded pension obligations[50] *in a report issued in February 2002.*[51]

YOUR DECEMBER 6TH MEMORANDUM

THE LINK BETWEEN "BENEFIT ENHANCEMENTS" AND THE "REDUCED EMPLOYER'S CONTRIBUTION AGREEMENT"

Your memorandum attempts to distinguish between the 2002 labor "benefit improvements" and the impairment of the pension fund under the most recent "Employer Contribution Agreement". The problem with this approach is that it fails to recognize that these labor benefit improvements were actually "conditioned" upon the separate vote of SDCERS fiduciaries to waive the overdue City capital payment to the System. So here, your suggested distinction is consumed by the conditional trade.[52]

The City's description of Agenda Item 50 misleads by omission the true scope of the City's action to dangerously **delete protective language** requiring contributions to be "*pursuant to the annual actuarial evaluation required...*" and **replace it** with language that allows **actuarially unsound** contributions "**pursuant to an MOU**". This MOU, in Agenda Item 50, is also detailed in Agenda Item 133 as the "Employer Contribution Agreement".

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[50] See Mayor's Blue Ribbon Committee Report On San Diego City Finances, 2/02, pgs. 6,23. "*The Committee is very concerned that the City is not paying... the full cost... for their future pension and retiree health benefits... and after an unprecedented 9-year boom in the equity market when many pension plans became flush and actually over funded... the City still has an unfunded liability...*"

[51] The Committee took no action to prevent this most recent modification to the Manager's Proposal that severely increases the City's unfunded pension obligations. One Blue Ribbon Committee member, who is also a Trustee on the SDCERS Retirement Board, voted in support of the most recent under-funding deal. Blue Ribbon Committee member and SDCERS Retirement Board Trustee Dick Vortmann voted in support of the most recent under-funding deal. Vortmann was reappointed to a second 6-year term on the Retirement Board in December 2002.

[52] I understand the City's official position is that there was no direct relationship between the "Employer Contribution Agreement" in Item 133 and the "benefit improvements" in the Ordinances of Items 50 and 51 (this was suggested in your memorandum and also in the City Council Docket and in the information given to all members and retirees of the Retirement System prior to voting on this issue.) However, the Municipal Code amendments contained in Agenda Item 50 amend both the "benefit improvements" and the "City's pension plan contributions" so that the pension plan can now fall as low as possible to actuarially unsound levels. see Council meeting Agenda 11/18/02, Item 50, Ordinance 2003-67 amending Chapter D, Article 4, Division 8, Section 24.0801, City's Contribution.

(It appears the removal of the protective language was only done on municipal code affecting employees hired *before* 9/3/82. Employees governed by the Pension Act of 1981 (*those hired after 9/3/82*)[53] apparently still have protective language.)[54]

The altered Municipal Code now appears to be in conflict with the City Charter,[55] which still requires contributions set per annual actuarial valuations. Thus the vote by the system, as well as the **Council approval of the Agenda 50, attempts to amend the City Charter in an unauthorized manner.**[56] Additionally, the omission of material information regarding the full scope of Agenda Item 50 may be deemed in violation of the Municipal Code[57] and State law. Finally, the "trading" process used may be in violation of the City's Ethics Ordinance.[58]

The MOU now referred to in the Municipal Code has no specific date and no specific requirement to fund in any manner, whether actuarially sound or otherwise. This provides for easy future violations when, for example in 2009, the City again decides not to make the required pension fund balloon payments. Now the City no longer needs to amend the municipal code to further under-fund the plan.

CONFLICTS OF INTEREST

We disagree on the appearance versus the reality of conflict. The conflict here exists and has not been proven otherwise. Your citation to the remarks of some "outside counsel in the past" is itself condemning in that the Board's vote cannot be "solely and exclusively" for the benefit of the System, when a separate benefit to third parties is admittedly conditioned on the pension vote "going the right way" and relieving the City of its obligation to contribute to the fund per the City Charter.

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[53] See Municipal Code, Chapter 2, Article 4, Division 11, Section 24.1111 "The City shall contribute to the retirement fund...as determined by the System's Actuary pursuant to the annual actuarial valuation."

[54] I presume this was intentional but it seems odd to so adversely affect a subset of employees.

[55] Article IX, Section 143: Contributions, "The City shall contribute annually an amount certified by the actuary, but shall not be required to contribute in excess of that amount, except in the case of financial liabilities accruing under any new retirement plan or revised retirement plan."

[56] The Fourth District Court of Appeal held that Charter Section 146 "gives no authority to pass any enactment that conflicts with the charter provisions...we must hold that it is only an ordinance that puts into effect charter provisions that is to have the same force and effect as though a part of and included in the charter, that the section (146) does not empower the city council to pass any ordinance conflicting with the charter or that may have the effect of amending it...If section 146 of the charter must be construed as giving authority to city council...by ordinance to add to or subtract from the charter provisions...it must be held to be unconstitutional as attempting to permit the amendment of the charter in an unauthorized manner." 34 Cal.App.2d 521 (1939)

[57] Article 1, Division 4, 11.0401, (b) "No person willfully shall make a false statement or fail to report any material in any...City action."

[58] SDCERS Staff Report 4/9/02, SDCERS General Counsel – "It is important to note that pursuant to both the state and proposed local laws, if any individual member of a legislative body (including City Boards and Commissions) has a financial interest in a contract, the entire Board, commission or legislative body is precluded by law from entering into the contract, even if the interested member abstains..." Section 27.3561 of Ethics Ordinance – "A City official may not knowingly influence municipal decisions if it is reasonably foreseeable that the municipal decision will have a material effect on the official or an economic interests connected with that official."

Mr. Blum's conflict warnings and fiduciary responsibility advice proved so alarming, a hold harmless and indemnity agreement[59] was required before the Board could be convinced to vote in favor of the most current under-funding proposal. In fact, in a letter written to the Board, Mr. Blum writes directly to the conflict issue, ***"Under the proposal, benefits increases are 'conditioned' on the Board accepting the proposed amendment to the Manager's Proposal...we are concerned that this puts the Retirement Board into the middle of the bargaining and benefit process...and suggests that sound actuarial principles should be modified to accommodate benefit increases...the Board must act solely in the interest of participants and an act to protect the City from difficult budget issues is arguable not in furtherance of the Board's fiduciary duty."***[60] Sound actuarial principles *were* modified to accommodate benefit increases and *to give the City a false financial condition.* In the end Mr. Blum did not recommend the action taken, and would only opine after the fact that the vote was defensible.

EXPERT OPINIONS

Experts agree that a sound pension plan is only accomplished by timely, actuarially determined contributions and that "*The annual actuarial valuation acts as a governor,* enforcing the primary goal of the plan through required contributions."[61] According to SDCERS independent Fiduciary Counsel Blum, the most recent California Court decision opined, ***"There is a vested right to 'integrity and security' in the course of funding for the payment of benefits...The willingness and ability of the sponsor (CITY)...to maintain this 'orderly schedule' (of contributions well in advance of benefit requirements) is the major factor in the assurance of benefit security for retirees...The importance of timing stems from the fact that a large portion of a member's benefit is funded by the investment earnings which are generated by the plan contributions. When monies are contributed later than expected, reduced earnings result – thus creating a shortfall.***[62]"

Regarding our outside professional advice, it is clear the actuary had grave misgivings about the new back ending program and continued to recommend compliance with the existing contribution agreement. He has told the City the plan will fall below 82.3% and very clearly stated in a letter to the Board that under those circumstances "***it would be best to hold the City to the existing Manager's Proposal.***"[63] As anticipated, it has been confirmed that the plan was only 68% as of June 30, 2002. In matters of System funding, the opinion of the Actuary is dispositive.

The actuary has written, ***"The short-term mindset of politicians...is in direct conflict with the long-term view necessary for any responsible fiduciary"*** and further warns of the negative impact on tax-payers that result "***as long as the political powers are not***

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[59] Council Meeting 11/18/02. Agenda Item 133, Two actions related to Approval of Agreements on SDCERS Board Indemnification & City of SDCERS Employer Contributions.
[60] Fiduciary Counsel. Bob Blum. 6/12/02 letter to SDCERS Board.
[61] See the SDCERS' Asset Allocation & Liability Study, August 2002, p. 5 prepared by Callan & Assoc.
[62] See Fiduciary Counsel Blum's 11/4/02 letter to SDCERS.
[63] Actuary Rick Roeder 11/5/02 letter to SDCERS Board.

fully prepared to deal with the long-term financial implications of benefit increases they confer."[64]

The Board's current Fiduciary Counsel (Bob Blum) expressed many concerns as cited above and did not recommend the modifications but opined only that the approval of the current under-funding program may be defensible.[65]

ADDITIONAL COMMENTS

Your subjective characterization of my remarks is misguided. I am a representative of the general public with no personal interest on a Board populated with an overwhelming majority of interested representative members. I do not object to the enhanced benefits package negotiated by labor and the City. I only object to the City having conditioned the granting of these benefits on an action to be taken by City employees and labor representatives, sitting in their fiduciary capacity as Trustees on the SDCERS Board, which is not in the best interest of the System. In my opinion such a vote would never have been successful had the labor benefit package not been used as leverage.

The fact that this funding delay approach follows the earlier 1996 funding delay program does not make either one right. Just the opposite, the 1996 agreement has proven itself unworkable in that it back-loaded balloon amounts (you refer to them as funding "spikes") must be paid in difficult times (like now). The new extension of this approach just makes the problem exponentially worse in the future. The new agreement is not a "safeguard" any more that its predecessor, the 1996 agreement, was a "safeguard", although I suspect is was sold as one at the time.

The City currently has funds available to pay the *non-discretionary* pension plan contribution and balloon payment obligation to keep the pension plan financially sound; it just chooses not to do so. Instead, the City wants to spend revenues on *discretionary* items such as a new library (annual interested payments estimated to be $14 million in 2008) and a new ballpark (annual interest payments estimated to be $12 million in 2005), to name a few.

Your observations regarding PUC funding methodology are not correct. The Actuary is very clear in the preference of EAN methodology. This is why the conversion to EAN was a part of the 1996 agreement. Postponing EAN funding methodology further just continues the "Funny Accounting" and false funding status and provides no benefit.

Finally, regarding the safety of the System, we cannot be certain that the unfunded accrued liability is only $720 million. We say it is even though we know there are hundreds of millions of dollars in large unfunded liabilities that are not carried on the books (such as the Corbett settlement obligation of over $105 million, the unfunded retiree health care obligation estimated to be in excess of $100 million, the purchased service credit for active members, 13th check, certain COLA benefits, to name a few);

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[64] Pensions & Investments, 4/1/02, Letters to the Editor, Rick Roeder

[65] Fiduciary Counsel, Bob Blum, SDCERS Board minutes, 11/15/02, pg 19

that SDCERS does not use one of six GASB approved actuarial funding methods for pension expensing; that the PUC methodology presents a favorably distorted picture of the Plan's financial condition; and that the System has never been comprehensively audited by an outside agency as I advised the Mayor in my letter dated May 2002 (see attached).

The fact that the 1996 agreement requires a "spike" payment this year is just the cost of this type of inappropriate approach in the first place. Avoiding the payment and delaying the implementation of best practices accounting and funding methodologies will only make matters infinitely worse. Taking a page out of history, the City this year threatened to sue the Retirement System[66] to seek a delay in the balloon payment that had accrued under the 1996 agreement. This is very similar the position taken by the State of California when it earlier refused to make the required benefit contributions to PERS, which nonpayment gave rise to the seminal *Wilson* case.[67] The City has a history of deferring contributions to future taxpayers lured by a politically convenient lower contribution rate now. Left unresolved, the pension system is at great risk and a tremendous negative economic burden for future taxpayers will be the true legacy of this administration.

I am committed to the integrity of the System and ask that you view my efforts in the constructive manner they are intended.

Sincerely,

Diann Shipione Shea

Diann Shipione Shea
Trustee, SDCERS Board of Directors

cc: Honorable Mayor and City Council

SDCERS Board of Directors

Mayor's Blue Ribbon Committee

Mr. Charles Walker

Attachments: Your December 6th Memorandum

My Letter of May 23, 2002 to Honorable Mayor Murphy re: *Recommendation for Comprehensive Audit of Retirement System*

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[66] Fiduciary Counsel, Bob Blum, 11/4/02 letter to SDCERS Board & 11/15/02 Board minutes p. 24.
[67] Fiduciary Counsel, Bob Blum, 11/4/02 letter to SDCERS Board.

EXHIBIT 7

THE CITY OF SAN DIEGO

MANAGER'S REPORT

DATE ISSUED: June 2, 2004 **REPORT NO.** 04-112

ATTENTION: Honorable Mayor and City Council, Docket of June 8, 2004

SUBJECT: Wastewater Fees and Charges

REFERENCES: Summary of Revised Sewer Rates (Attachment A)

SUMMARY

Issue: Should the City Council adopt a resolution which would revise presently existing wastewater fees and charges to bring the City into full compliance with the ratesetting requirements of the State Water Resources Control Board?

Manager's Recommendation: Adopt the resolution.

Other Recommendations – Public Utilities Advisory Commission Resolution Number PUAC-2004-04, adopted April 19, 2004 (Attachment B)

Fiscal Impact – There would be no fiscal impact from the revisions to the wastewater fees and charges since they are designed to be revenue neutral in the aggregate.

BACKGROUND

Wastewater-Related Proposition 218 Issues

In November 1996, California voters adopted Proposition 218, the Right to Vote on Taxes Act, which added articles XIII C and XIII D to the California Constitution. Article XIII D of the state Constitution specifies various restrictions and requirements for assessments, fees, and charges that local governments impose on real property or on persons as an incident of property ownership. This initiative changed the way the public is notified of proposed fee increases. Specifically, it requires that notices be mailed to all property owners of record at least 45 days in advance of the date on which a proposed property related fee increase may be adopted. Consistent with current Proposition 218 case law, approximately 345,400 notices of today's

hearing were mailed to every affected property owner of record during the week of April 19, 2004.

The Wastewater System's user charge system may also have implications with respect to other issues under Article XIII B and Article XIII D of the Constitution of the State of California. Whether the Wastewater System's sewer service charges are property-related fees and charges for purposes of Article XIII D of the California Constitution has been the subject of considerable uncertainty. To the extent that the Wastewater System's sewer service charges are property-related fees and charges they must meet the requirements of Article XIII D of the California Constitution, including a proportionality requirement. The City's current rate structure allocates costs on the basis of total suspended solids and flow. Employing this methodology, the City believes its current sewer service charges meet that requirement.

SWRCB Grant And Loan Compliance Issues

The City has been an ongoing participant in the Federal Clean Water Grant program since the early 1970's, and in the State of California State Revolving Fund low-interest loan program ("SRF") since its inception, receiving 17 separate federal and state Clean Water Grants and a total of eight SRF loans. The value of these grants and loans currently aggregates to approximately $266 million. As a condition to receipt of these Clean Water Grants and as a covenant in the SRF loan agreements, the City must implement and maintain an approved wastewater user charge system that meets certain requirements. Currently, the Wastewater System's retail user charge system has not been approved by the State and has been found not to be in compliance with these requirements. The City has received two letters, one dated November 26, 2003 and another dated March 17, 2004, from the State Water Resources Control Board (the "SWRCB"), which, collectively, require the City to provide the SWRCB with evidence of City Council approval of a SWRCB-approved retail user charge system by July 1, 2004, and to implement such a system for Fiscal Year 2004-2005. If the City does not bring the Wastewater System's user charge system into compliance, the City could be forced to repay the aggregate amount of the Clean Water Grants and repay the outstanding principal amount of the SRF loans.

The possibility that the City may fail to adopt a SWRCB-approved sewer rate structure by July 1, 2004 and may, as a result, be forced to return $266 million in grant and loan funds which have already been spent, represents a major risk to the investment community. This risk, which was disclosed as a part of the City's annual financial market disclosures in March of 2004, adversely affects the credit quality of the Sewer Enterprise Fund, which is the source for repayment of bond debt used for wastewater system capital construction.

DISCUSSION

Revisions To Sewer Fees And Charges Pursuant To Requirements of the SWRCB

As a condition of eligibility to receive and retain both federal and state Clean Water Grants and State of California SRF loans, the City must implement and maintain an approved user charge system that conforms to the requirements of Clean Water Grant regulations for the useful life of the grant funded facilities and until such time as all SRF loans are discharged. These regulations generally require that, to receive approval, user charge systems must recover all costs of

operation and maintenance from system users on a basis proportionate to use. That is, users must pay for their use of the Wastewater System based on their relative contributions to overall system handling and processing requirements, measured in terms of factors such as flow volumes and solids and organics loadings. The SWRCB administers these regulations and must approve the Wastewater System's user charge system. Failure to implement and maintain an approved user charge system may result in a demand that Clean Water Grant monies received be repaid, accelerated repayment of SRF loans including the imposition of market-rate interest, and ineligibility for further participation in the program.

Currently, the City's municipal user charge system does not include any specific cost recovery component for organics. Pursuant to the general regulations and permits under which the Wastewater System operates, the Wastewater System must ensure that the wastewater discharged into the Pacific Ocean does not contain organic materials in excess of a certain level, which requires the Wastewater System to incur certain costs to comply with that limit. Since certain commercial and industrial customers of the Wastewater System discharge wastewater with relatively high concentrations of organic matter, it is the view of the SWRCB that, absent an organics component in the billing structure, residential customers and other commercial and industrial customers of the Wastewater System discharging lower levels of organics and other materials pay a disproportionately higher percentage of the overall costs of the Wastewater System than is appropriate.

Pursuant to the requirements of the SWRCB as outlined in its letter of March 17, 2004 (See Attachment C), the City must adopt a compliant, proportionate-to-use user charge system by July 1, 2004. In prior recognition of that obligation, the City initiated a cost-of-service study to develop a wastewater user charge system that would be acceptable to the SWRCB. In October 2003, the consulting engineering firm of Black & Veatch completed an update of a cost-of-service study (the "Study") initially prepared in 2001. Such studies are the vehicle by which system-wide costs are identified, allocated and apportioned to user classes and individual system users consistent with SWRCB approval guidelines. The Study, which detailed the proposed compliant wastewater user charge system, was transmitted by the Mayor and City Council to the City's Public Utilities Advisory Committee (the "PUAC") for review, public input and recommendations on October 20, 2003.

The Study contained several suggestions, including: 1.) that the City employ the SWRCB-approved functional-design cost allocation methodology, including the chemical oxygen demand (COD) organics parameter, to allocate costs to all City of San Diego user classes; 2.) that the City establish a uniform fixed monthly fee for all user classes; and 3.) that the City increase the single family residential billing cap from 10 to 14 HCF of winter months water use since this class generates higher flow volumes than previously assumed. It was determined that incorporating the COD parameter would result in a cost shift among some user classes. Specifically, costs would shift from the single family residential user class to commercial/industrial user classes which discharge larger amounts of organic material to the wastewater system.

Listed in Table 2 below, are the current and revised fees and charges:

TABLE 2: SEWER FEES AND CHARGES		
	CURRENT	REVISED
Single-Family Residential		
Base Fee	$10.90	$10.53
Rate per HCF *	$3.625	$2.563
Multi-Family Residential		
Base Fee	$0.63	$10.53
Rate per HCF	$3.366	$3.461
Commercial/Industrial**		
Base Fee	$0.63	$10.53
Unit Rates		
Flow ($/HCF)	$2.61	$2.5613
TSS ($/lb)	$.54	$0.3994
COD ($/lb)	n/a	$0.1436

** 1 HCF (Hundred Cubic Feet) = 748 gallons. These rates may change due to the Winter Months Water Usage Adjustment effective July 1, 2004.*
*** Commercial/Industrial customers with average flow < 25,000 gallons per day would be billed via a rate matrix based upon the unit rates shown.*

The actual implementation of the revised fees and charges would occur in October 2004.

Future Cost Of Service Studies – Frequency and Rationale

Wastewater Cost of Service studies should be conducted periodically or when there are physical changes in the system or its operation that materially impact the allocation of operation, maintenance and replacement costs between each utility's applicable cost centers. For example, the City is currently conducting a pilot test of a new secondary treatment technology (biological aerated filtration) at the Point Loma Wastewater Treatment Facility which should be completed in approximately one year. If the results of this test are positive, leading to a change in the treatment process at Point Loma, the Wastewater Cost of Service study should be updated to reflect the changes in costs and their allocation to the flow, total suspended solids and chemical oxygen demand parameters that would result.

CONCLUSION

Adoption of the revisions to the existing sewer fees and charges will bring the City into full compliance with the ratesetting requirements of the SWRCB. This action would also eliminate the significant financial risk of possibly having to repay $266 million in grants and low interest loans, which will improve the credit quality of the Sewer Enterprise Fund.

EXHIBIT 8

ATTORNEY TO CLIENT CORRESPONDENCE

FOR CONFIDENTIAL USE ONLY

Office of
The City Attorney
City of San Diego

MEMORANDUM
MS 59

(619) 236-6220

DATE: March 26, 2004

TO: Honorable Mayor and City Council

FROM: Leslie J. Girard

SUBJECT: *Continuing Disclosure Reports for Metropolitan Wastewater Utility and Water Utility*

As part of the process of issuing bonds, in order to enable the underwriters of the bonds to comply with SEC required continuing disclosure rules the City annually files a report updating the City's financial condition and the condition of the fund which provides the credit for the issued bonds. In the case of Wastewater Utility bonds that is the sewer enterprise fund, and in the case of Water Utility bonds it is the water enterprise fund. In addition, the City is obligated to provide any new, material information arising since the filing of the last report. These disclosures are covered by the federal securities laws and are commonly referred to as "Continuing Disclosure Reports."

The Continuing Disclosure Reports for the Wastewater Utility and Water Utility are due to be filed today. As with other disclosures recently filed by the City, these disclosures will be filed electronically, but will be publicly available at that time. We anticipate filing in the early afternoon. Copies of the disclosures are enclosed for your review.

There are a couple of matters to bring to your attention in the disclosures. First, the disclosures acknowledge that the audited financial statements of the City and the funds, normally included with these reports, are not being provided at this time. The reports indicate that the City has retained KPMG to provide the audits of the financial statements, and that the statements will be filed when available. Second, the reports disclose the tentative settlement of the *Gleason* case and indicate that projections based on the settlement are being performed but are not yet available. The reader is cautioned to no longer rely upon the projections of pension liability set forth in the January 27, 2004, filing in light of the potential settlement. Finally, in the Wastewater disclosure there is a discussion of the status of the cost of service study, which is currently in progress. As the disclosure outlines, the State Water Resources Control Board has

informed the City that it must implement a revised rate and charge system that meets certain criteria beginning in fiscal year 2005 (which commences on July 1, 2004). The cost of service study, upon which the new charge system would be based, is anticipated to be before you for consideration in early June to meet this deadline. The disclosure goes on to point out that if the revised system is not in place the City may risk having to refund some or all of the approximately $266 million in grants and loans provided by the state for the system.

There are other matters of interest in the disclosures, and we urge you to read them carefully. I have attempted to outline the more significant issues. A similar report for the General Fund must be filed in the next few weeks and we will provide you a copy of that disclosure when it is finalized. We anticipate that it will be very similar in most respects to these disclosures, but may contain more information regarding the impact of the *Gleason* settlement.

If you have any questions, please do not hesitate to call me or Deputy City Manager Pat Frazier.

Leslie J. Girard
Assistant City Attorney

LJG:ljg:km
Enclosures (2)
cc: Michael Uberuaga, City Manager
Lamont Ewell, Assistant City Manager
Mary Vattimo, City Treasurer
Pat Frazier, Deputy City Manager
Terri Webster, Acting City Auditor & Comptroller