This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 24, 2016

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:
S&P: "AA+" (Stable Outlook)
Fitch: "AA" (Stable Outlook)
(See "RATINGS" herein.)

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Series 2016A Bonds is exempt from present State of California personal income taxes. For a more complete description, see "TAX MATTERS" herein.

$401,485,000*
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE REFUNDING BONDS, SERIES 2016A
(Payable Solely From Installment Payments Secured by Wastewater System Net Revenues)

Dated: Date of Delivery **Due: May 15, as shown on the inside cover page**

The $401,485,000* Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2016A (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the "Series 2016A Bonds"), are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the "State") and an Indenture, dated as of May 1, 2009 (the "Original Indenture"), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of April 1, 2010, a Third Supplemental Indenture, dated as of September 1, 2015, and a Fourth Supplemental Indenture, to be dated as of March 1, 2016 (the Original Indenture, as so amended and supplemented, is referred to herein as the "Indenture"), each by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The proceeds of the Series 2016A Bonds will be used to refund all or a portion of the Authority's outstanding Senior Sewer Revenue Bonds, Series 2009A, Senior Sewer Revenue Refunding Bonds, Series 2009B, and/or Senior Sewer Revenue Refunding Bonds, Series 2010A, and pay costs of issuance with respect to the Series 2016A Bonds.

THE SERIES 2016A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE REVENUES OF THE AUTHORITY PLEDGED FOR SUCH PURPOSE, AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED, UNDER THE INDENTURE. EXCEPT AS AFORESAID, THE SERIES 2016A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OF SAN DIEGO (THE "CITY") OR THE STATE AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2016A BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Series 2016A Bonds are limited obligations of the Authority primarily secured by Revenues of the Authority, which consist primarily of 2016A-1 Installment Payments to be made by the City to the Authority, pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the "Master Installment Purchase Agreement"), including as supplemented by the 2016A-1 Supplement to the Master Installment Purchase Agreement, to be dated as of March 1, 2016 (the "2016A-1 Supplement" and, together with the Master Installment Purchase Agreement, the "Installment Purchase Agreement"), each by and between the City and the Authority, and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Installment Payments, including the 2016A-1 Installment Payments. The City's pledge and assignment of and lien on the Net System Revenues securing the 2016A-1 Installment Payments are, in all respects, on parity with the City's pledge and assignment of and lien on the Net System Revenues securing the other Parity Obligations under the Installment Purchase Agreement. The principal of and interest on the Series 2016A Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues but are secured by and payable solely from the Revenues of the Authority and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund).

Pursuant to the Installment Purchase Agreement, the City may incur additional obligations, payments with respect to which will be on parity with or subordinate in priority to the City's obligation to make 2016A-1 Installment Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement. Upon the incurrence of the 2016A-1 Installment Payments and the refundings described herein, there will be Outstanding Parity Obligations in the aggregate principal amount of $_____, and Subordinated Obligations in the aggregate principal amount of $_____. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Outstanding Obligations" herein.

The Series 2016A Bonds will accrue interest from their date of delivery and interest thereon will be payable on May 15 and November 15 of each year, commencing on May 15, 2016. The Series 2016A Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See "DESCRIPTION OF THE SERIES 2016A BONDS—General" herein and "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

The Series 2016A Bonds will be issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2016A Bonds. Ownership interests in the Series 2016A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2016A Bonds, principal of and interest on the Series 2016A Bonds will be made as described in "APPENDIX F—INFORMATION REGARDING THE BOOK-ENTRY-ONLY SYSTEM" attached hereto.

The Series 2016A Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2016A BONDS—Redemption" herein.

Purchasers of the Series 2016A Bonds will be deemed to have consented to certain amendments to the Indenture. See "INTRODUCTION—Amendments to Indenture" herein.

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used on this cover page and not otherwise defined have the meanings set forth herein.

The Series 2016A Bonds are offered when, as and if issued, subject to the legal opinion of Kutak Rock LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by Kutak Rock LLP, acting as Disclosure Counsel to the Authority for the Series 2016A Bonds, for the City by Jan I. Goldsmith, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. It is anticipated that the Series 2016A Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about _____, 2016.

Wells Fargo Securities

Academy Securities, Inc. **BofA Merrill Lynch** **Drexel Hamilton, LLC**

Date of Official Statement: _____

* Preliminary; subject to change.

$401,485,000*

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

SENIOR SEWER REVENUE REFUNDING BONDS, SERIES 2016A

(PAYABLE SOLELY FROM INSTALLMENT PAYMENTS SECURED BY WASTEWATER SYSTEM NET REVENUES)

MATURITY SCHEDULE

Maturity Date (May 15)*	Principal Amount*	Interest Rate	Yield†	Price†	CUSIP‡
2016	$ 6,915,000				
2020	60,020,000				
2021	63,020,000				
2022	1,490,000				
2027	28,850,000				
2028	27,055,000				
2029	28,410,000				
2030	14,770,000				
2031	15,505,000				
2032	16,280,000				
2033	17,095,000				
2034	17,945,000				
2035	18,845,000				
2036	19,785,000				
2037	20,780,000				
2038	21,815,000				
2039	22,905,000				

$_____ ____% Term Bonds due May 15, 20___ - Yield†: ____% - Price†: ____% - CUSIP‡:_____

$_____ ____% Term Bonds due May 15, 20___ - Yield†: ____% - Price†: ____% - CUSIP‡:_____

---

* Preliminary; subject to change.

† Reoffering yields/prices are furnished by the Underwriters. Neither the Authority nor the City takes any responsibility for the accuracy thereof.

‡ Copyright 2016, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Authority or the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Series 2016A Bonds. None of the Authority, the City or the Underwriters take responsibility for the accuracy of the CUSIP numbers.

CITY OF SAN DIEGO

Mayor
Kevin L. Faulconer

City Council
(Also serve as the Board of Commissioners of the
Public Facilities Financing Authority of the City of San Diego)

Sherri S. Lightner, City Council President (*District 1*)
Lorie Zapf (*District 2*)
Todd Gloria (*District 3*)
Myrtle Cole (*District 4*)
Mark Kersey (*District 5*)
Chris Cate (*District 6*)
Scott Sherman (*District 7*)
David Alvarez (*District 8*)
Marti Emerald, City Council President Pro Tem (*District 9*)

City Attorney
Jan I. Goldsmith

City Officials
Scott Chadwick, *Chief Operating Officer*
Mary Lewis, *Chief Financial Officer*
Gail R. Granewich, *City Treasurer*
Eduardo Luna, *City Auditor*
Rolando Charvel, City *Comptroller*
Andrea Tevlin, *Independent Budget Analyst*
Elizabeth S. Maland, *City Clerk*
Halla Razak, *Director of Public Utilities*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel
Kutak Rock LLP

Municipal Advisor
Montague DeRose and Associates, LLC

Trustee and Escrow Agent
U.S. Bank National Association

Verification Agent
Causey Demgen & Moore P.C.

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the Series 2016A Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2016A Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not a contract with the purchasers of the Series 2016A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive and are qualified in their entireties by reference to each such document, statute and constitutional provision.

The information set forth herein has been obtained from the City and by other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the Authority or any other parties described herein since the date hereof.

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

This Official Statement is submitted in connection with the issuance of the Series 2016A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The City maintains a website with investor information at http://www.sandiego.gov/investorinformation. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2016A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2016A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE SERIES 2016A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SECTION 3(A)(2) OF SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

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Wastewater Facilities
Existing Facility
Existing Pipelines
City of San Diego Metro System Area
Metro Wastewater Participating Agency Areas
Key: WRP - Water Reclamation Plant
Miles
0 1 2 4 6
N
W
E
S
DEL MAR
POWAY
SAN DIEGO
PADRE DAM MUNICIPAL WATER DISTRICT
LAKESIDE/ ALPINE
WINTERGARDENS
EL CAJON
OTAY WATER DISTRICT
LA MESA
LEMON GROVE
SPRING VALLEY
CORONADO
NATIONAL CITY
CHULA VISTA
OTAY WATER DISTRICT
IMPERIAL BEACH
SAN DIEGO
EAST OTAY MESA SEWER MAINTENANCE DISTRICT
MEXICO
Pacific Ocean
LAKE HODGES
LAKE MIRAMAR
SAN VICENTE RESERVOIR
LAKE MURRAY
SWEETWATER RESERVOIR
LOWER OTAY RESERVOIR
Penasquitos Pump Station
Old Penasquitos Trunk Sewer
Pump Station 65
Pump Station 65 Force Main
Pump Station 64
North City WRP
New Penasquitos Trunk Sewer Relief Pipeline
North City Raw Sludge and Reclaimed Water Pipelines
North City Tunnel Connector
Centrate Pipeline
Metro Biosolids Center
Rose Canyon Trunk Sewer
Metro Operations Complex
East Mission Gorge Pump Station
East Mission Beach Trunk Sewer
Digested Sludge Pipeline
Mission Gorge Trunk Sewer
North Mission Valley Interceptor
North Metro Interceptors
Pump Station 2
Digested Sludge Pipeline
Point Loma Ocean Outfall
Point Loma Wastewater Treatment Plant
Pump Station 1
South Metro Interceptor
OTAY RIVER PUMP STATION
Otay River Wastewater Pipeline
Grove Avenue Pump Station
South Bay Wastewater Pipeline
South Bay Land Outfall
South Bay Reclamation Sewers
South Bay WRP
South Bay Ocean Outfall

OFFICIAL STATEMENT

$401,485,000*
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE REFUNDING BONDS, SERIES 2016A
(Payable Solely From Installment Payments
Secured by Wastewater System Net Revenues)

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, inside cover page and appendices hereto, and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions of such laws and documents. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given to such terms in the Indenture and the Installment Purchase Agreement. See "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

General

The $401,485,000* Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2016A (Payable Solely From Installment Payments Secured by Wastewater System Net Revenues) (the "Series 2016A Bonds"), are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the "State") and an Indenture, dated as of May 1, 2009 (the "Original Indenture"), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009 (the "First Supplemental Indenture"), a Second Supplemental Indenture, dated as of April 1, 2010 (the "Second Supplemental Indenture"), a Third Supplemental Indenture, dated as of September 1, 2015 (the "Third Supplemental Indenture"), and a Fourth Supplemental Indenture, to be dated as of March 1, 2016 (the "Fourth Supplemental Indenture"), each by and between the Authority and U.S. Bank National Association, as trustee thereunder (the "Trustee"). The Original Indenture, as so amended and supplemented, is referred to herein as the "Indenture." The proceeds of the Series 2016A Bonds will be used to refund all or a portion of the Authority's outstanding Senior Sewer Revenue Bonds, Series 2009A (the "Series 2009A Bonds"), Senior Sewer Revenue Refunding Bonds, Series 2009B (the "Series 2009B Bonds"), and/or Senior Sewer Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds"), and to pay costs of issuance with respect to the Series 2016A Bonds. As of December 31, 2015, the Series 2009A Bonds were Outstanding in the aggregate principal amount of $307,540,000, the Series 2009B Bonds were Outstanding in the aggregate principal amount of $286,670,000, and the Series 2010A Bonds were Outstanding in the aggregate principal amount of $62,855,000.

The Series 2016A Bonds

The Series 2016A Bonds will accrue interest from their date of delivery and interest thereon will be payable on May 15 and November 15 of each year, commencing on May 15, 2016 (each, an "Interest Payment Date"). The Series 2016A Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See "DESCRIPTION OF THE SERIES 2016A BONDS—General."

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* Preliminary; subject to change.

The Series 2016A Bonds will be issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2016A Bonds. Ownership interests in the Series 2016A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2016A Bonds, the principal of and interest on the Series 2016A Bonds will be made as described in "APPENDIX F—INFORMATION REGARDING THE BOOK-ENTRY-ONLY SYSTEM."

Security and Sources of Payment for the Series 2016A Bonds

The City of San Diego (the "City") owns the Wastewater System and operates the system through its Public Utilities Department (the "Department"). The City has expanded the Wastewater System from time to time to satisfy its mission statement, which is to provide wastewater collection, treatment, discharge and disposal. See "THE WASTEWATER SYSTEM."

The Series 2016A Bonds are limited obligations of the Authority secured by a pledge of Revenues (herein defined) of the Authority, consisting primarily of 2016-1 Installment Payments (herein defined) to be made by the City pursuant to the Master Installment Purchase Agreement, dated as of September 1, 1993, as amended and supplemented (the "Master Installment Purchase Agreement"), including as supplemented by the 2016-1 Supplement to the Master Installment Purchase Agreement, to be dated as of March 1, 2016 (the "2016-1 Supplement" and, together with the Master Installment Purchase Agreement, the "Installment Purchase Agreement"), each by and between the City and the Authority, and amounts on deposit in certain funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The City has pledged Net System Revenues (herein defined) of the Wastewater System pursuant to the Installment Purchase Agreement to the payment of the Installment Payments, including the 2016-1 Installment Payments. The pledge and assignment of and lien on the Net System Revenues securing the payment of the 2016-1 Installment Payments are, in all respects, on parity with the pledge and assignment of and lien on the Net System Revenues securing the payment of the other Parity Obligations (as defined in the Installment Purchase Agreement; and the bonds secured by a pledge of the revenues from such Parity Obligations are referred to herein as "Parity Bonds") under the Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS."

THE SERIES 2016A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE REVENUES OF THE AUTHORITY PLEDGED FOR SUCH PURPOSE, AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED, UNDER THE INDENTURE. EXCEPT AS AFORESAID, THE SERIES 2016A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR THE STATE AND NEITHER THE FAITH NOR CREDIT OF THE AUTHORITY, THE CITY OR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2016A BONDS. THE AUTHORITY HAS NO TAXING POWER.

Redemption of the Series 2016A Bonds

The Series 2016A Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2016A BONDS—Redemption."

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater Service (defined in Appendix B under the caption "INSTALLMENT PURCHASE AGREEMENT—Selected Definitions") which will be at least sufficient (a) to pay during each Fiscal Year all Obligations (other than Parity Obligations) payable in such Fiscal Year; and (b) to yield during each Fiscal Year Net System Revenues equal to 120% of the Debt Service (defined in the Installment Purchase Agreement generally to mean the aggregate amount of principal, sinking fund payments and interest payable in respect of all Parity Obligations for the applicable Fiscal Year) for such Fiscal Year. The Wastewater Service rendered by the City includes services relating to the Metropolitan Sub-System (herein defined), of which the Participating Agencies (herein defined) are a part. See "THE WASTEWATER SYSTEM—Participating Agencies" for a description of the rates and charges paid and to be paid by the Participating Agencies. See also "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Rate Covenant," "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves," "RISK FACTORS—Rate-Setting Process Under Proposition 218" and "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID" and "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—Selected Covenants of the City—Amount of Rates and Charges; Rate Stabilization Fund."

Outstanding Obligations

As of December 31, 2015, there was $1,061,380,775 aggregate principal amount of Parity Obligations outstanding, consisting of Installment Payments relating to the Series 2009A Bonds, the Series 2009B Bonds, the Series 2010A Bonds, the Authority's Senior Sewer Revenue Refunding Bonds, Series 2015 (the "Series 2015 Bonds"), and the Existing Parity SRF Loans (herein defined) (collectively, the "Outstanding Parity Obligations"), and $41,160,351 aggregate principal amount of Subordinated Obligations, consisting of the Existing Subordinated SRF Loans (herein defined) (collectively, the "Outstanding Subordinated Obligations"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Outstanding Obligations." The Outstanding Parity Obligations and the Outstanding Subordinated Obligations were incurred to finance and refinance the costs of certain improvements relating to the Wastewater System.

Incurrence of Additional Obligations

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be on parity with or subordinate in priority to the City's obligation to make 2016-1 Installment Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement. In 2014, the Department applied to the State Water Resources Control Board (the "State Water Resources Board") for an approximately $43 million loan from the Clean Water State Revolving Fund (the "Additional Parity SRF Loan") to finance the installation of plant-based electrical generators for the Pump Station 2 Power Reliability and Surge Protection project at the Point Loma Plant (herein defined). The Additional Parity SRF Loan, which is pending final approval from the State Water Resources Board, is expected to have a term of twenty years following completion of the project financed by the loan and will constitute a Parity Obligation under the Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Incurrence of Additional Obligations." The City also expects to incur additional Obligations from time to time to finance a portion of the capital improvements to the Wastewater System, as described under the caption "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

Amendments to Indenture (No Debt Service Reserve Fund for Series 2016A Bonds)

Pursuant to the Third Supplemental Indenture, certain amendments were made to the Original Indenture (the "Proposed Amendments"), which are described in Appendix E hereto. The Proposed Amendments will not become effective until such time as the Owners of 51% in aggregate principal amount of the Bonds then Outstanding have consented to such Proposed Amendments (the "Amendment Effective Date"). ***By the purchase and acceptance of the Series 2016A Bonds, the Owners and Beneficial Owners of the Series 2016A Bonds will be deemed to have consented to the Proposed Amendments.*** Any Owners and Beneficial Owners of Bonds issued on and after September 24, 2015 (including the Series 2016A Bonds) will be deemed to have consented to and will be subject to the Proposed Amendments, but only after the Owners of 51% in aggregate principal amount of the Bonds then Outstanding have consented to the Proposed Amendments. On the date of issuance of the Series 2016A Bonds, the City expects that more than 51% of the Owners of the then-Outstanding Bonds will have consented to the Proposed Amendments and the Proposed Amendments will become effective.

The Proposed Amendments include, among other amendments, changes to the requirement under the Original Indenture that the Series 2016A Bonds, the Series 2015 Bonds and any Additional Bonds issued after September 24, 2015 must participate in and be secured by the Reserve Fund. The Proposed Amendments will allow the Series 2016A Bonds, the Series 2015 Bonds and any Additional Bonds issued after September 24, 2015 to (i) participate in and be secured by the Reserve Fund, or (ii) participate in and be secured by a separate debt service reserve fund, or (iii) not participate in or be secured by the Reserve Fund or any other debt service reserve fund. ***The City expects that upon the Amendment Effective Date (the date of issuance of the Series 2016A Bonds) it will elect that the Series 2016A Bonds will not participate in or be secured by, and the Series 2015 Bonds will no longer participate in or be secured by, the Reserve Fund or any other debt service reserve fund.*** At the time of issuance of the Series 2016A Bonds, the Reserve Requirement will be reduced and a portion of the moneys on deposit in the Reserve Fund will be released and deposited to the Escrow Funds (herein defined) and used to pay the principal of and interest on the Refunded Bonds (herein defined). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A—No Debt Service Reserve Fund for Series 2016A Bonds."

In the event that on the date of issuance of the Series 2016A Bonds the Proposed Amendments do not become effective, the Series 2016A Bonds will be, and the Series 2015 Bonds will continue to be, secured by the Reserve Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—No Debt Service Reserve Fund for Series 2016A Bonds." The City expects that upon the Amendment Effective Date (if other than the date of issuance of the Series 2016A Bonds) it will elect that the Series 2016A Bonds and the Series 2015 Bonds will no longer participate in or be secured by the Reserve Fund or any other debt service reserve fund. At the time the Series 2016A Bonds and the Series 2015 Bonds are no longer secured by the Reserve Fund (other than on the date of issuance of the Series 2016A Bonds), the City expects that the Reserve Requirement will be reduced and a portion of the moneys on deposit in the Reserve Fund will be released and applied by the City for any lawful purpose, including, among others, payment of costs of capital improvements to the Wastewater System. None of the Owners of the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds or the unrefunded Series 2010A Bonds have consented to the Proposed Amendments; and, as of the date of this Official Statement, the City has no plans to solicit the consent of the Owners of the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds or the unrefunded Series 2010A Bonds to the Proposed Amendments.

Continuing Disclosure

The City has agreed to provide, or cause to be provided, in accordance with Rule 15c2-12(b)(5), promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of

1934, as amended (the "Rule"), certain annual financial information and operating data and notice of certain enumerated events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "CONTINUING DISCLOSURE."

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "projected" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. Neither the City nor the Authority is obligated to issue any updates or revisions to the forward-looking statements if or when expectations, or events, conditions or circumstances on which such statements are based do or do not occur.

Tax Matters

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants made by the City and the Authority, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes. Bond Counsel also is of the opinion that interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses). Bond Counsel is further of the opinion that interest on the Series 2016A Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein regarding certain other tax considerations.

Miscellaneous

Brief descriptions of the Series 2016A Bonds, the Indenture, the Installment Purchase Agreement, and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, report or other instrument. Copies of such documents may be obtained upon written request to the Trustee at U.S. Bank National Association, 633 W. 5th Street, 24th Floor, Los Angeles, California 90071. The Trustee may charge for the duplication and mailing of documents.

THE AUTHORITY

The Authority is a California joint exercise of powers authority established pursuant to the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013 (the "JPA Agreement"), by and among the City, the City solely in its capacity as the designated successor agency (the "Successor Agency") to the former Redevelopment Agency of the City of San Diego (the "Former RDA"), and the Housing Authority of the City of San Diego (the "Housing Authority"). The Authority is

organized, in part, to finance certain public capital improvements of the City, the Successor Agency or the Housing Authority. See "RISK FACTORS—Litigation and Potential Regulatory Enforcement Actions" and "CHALLENGES TO OTHER AUTHORITY BONDS."

Except as provided in the Indenture, the Authority has no liability to the owners or Beneficial Owners of any of the Series 2016A Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the Series 2016A Bonds. The Authority is governed by its own Board of Commissioners consisting of the members of the San Diego City Council. The Authority is dependent upon the officers and employees of the City to administer its programs.

PLAN OF REFUNDING

The Series 2016A Bonds are being issued to (a) refund all or a portion of (i) the Series 2009A Bonds maturing on and after May 15, 2020* (the "Refunded Series 2009A Bonds"), (ii) the Series 2009B Bonds maturing on and after May 15, 2020* (the "Refunded Series 2009B Bonds"), and/or (iii) the Series 2010A Bonds maturing on and after May 15, 2027* (the "Refunded Series 2010A Bonds"), and (b) pay the costs of issuance of the Series 2016A Bonds.

The specific principal amount, if any, of each maturity of the Refunded Series 2009A Bonds, the Refunded Series 2009B Bonds and/or the Refunded Series 2010A Bonds that will be refunded (collectively, the "Refunded Bonds") will be determined by the City, at the time the Authority, the City and the Underwriters (herein defined) sign the Bond Purchase Agreement (herein defined). The issuance of the Series 2016A Bonds and the refunding of the Refunded Bonds are subject to market conditions, and the Series 2016A Bonds will only be issued to refund the Refunded Bonds if such issuance and refunding result in acceptable debt service savings to the City.

The Refunded Series 2009A Bonds, the Refunded Series 2009B Bonds and the Refunded Series 2010A Bonds are described in more detail in the following tables.

Refunded Series 2009A Bonds*[1]

Maturity Date (May 15)	Principal Amount	Interest Rate	CUSIP Number[2]
2020	$ 9,835,000	4.000%	79730AFQ6
2021	10,230,000	5.000	79730AGC6
2022	2,430,000	4.500	79730AFR4
2028	14,380,000	5.000	79730AGG7
2029	15,100,000	5.125	79730AFU7
2034	79,520,000	5.250	79730AGK8
2034	8,655,000	5.375	79730AFV5
2039	113,915,000	5.250	79730AGH5

* Preliminary; subject to change.

1 The Refunded Series 2009A Bonds will be redeemed on May 15, 2019 at a redemption price of 100%.

2 CUSIP numbers are provided only for the convenience of the reader. None of the Authority, the City or the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

* Preliminary; subject to change.

Refunded Series 2009B Bonds[*1]

Maturity Date (May 15)	Principal Amount	Interest Rate	CUSIP Number[2]
2020	$ 1,535,000	4.000%	79730AHF8
2020	52,760,000	5.000	79730AHG6
2021	600,000	4.250	79730AHH4
2021	56,395,000	5.000	79730AHJ0
2022	1,050,000	4.375	79730AHK7

[*] Preliminary; subject to change.
[1] The Refunded Series 2009B Bonds will be redeemed on May 15, 2019 at a redemption price of 100%.
[2] CUSIP numbers are provided only for the convenience of the reader. None of the Authority, the City or the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

Refunded Series 2010A Bonds[*1]

Maturity Date (May 15)	Principal Amount	Interest Rate	CUSIP Number[2]
2027	$30,690,000	5.250%	79730AHU5
2028	15,670,000	5.250	79730AHV3
2029	16,495,000	5.250	79730AHW1

[*] Preliminary; subject to change.
[1] The Refunded Series 2010A Bonds will be redeemed on May 15, 2020 at a redemption price of 100%.
[2] CUSIP numbers are provided only for the convenience of the reader. None of the Authority, the City or the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

A portion of the proceeds of the Series 2016A Bonds, together with certain amounts to be released from the Reserve Fund, will be deposited in separate escrow funds for the Refunded Bonds (collectively, the "Escrow Funds") to be established under the terms of an escrow agreement between the Authority and U.S. Bank National Association, as trustee and escrow agent. Certain amounts deposited into the Escrow Funds will be invested in direct, noncallable obligations of the United States Treasury and/or non-callable obligations issued by certain agencies of the United States Government, and all remaining amounts deposited into the Escrow Funds will be held uninvested in cash. Amounts on deposit in the Escrow Funds will be used to pay the redemption price of and interest on the Refunded Bonds on the respective interest payment dates and redemption dates.

Upon delivery of the Series 2016A Bonds, Causey Demgen & Moore P.C., a firm of independent certified public accountants (the "Verification Agent"), will deliver a report stating that it has verified the mathematical accuracy of the computations contained in the provided schedules to determine that the amounts to be held in the Escrow Funds will be sufficient to pay the redemption price of and interest on

the Refunded Bonds on the respective interest payment dates and redemption dates. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2016A Bonds and their expected uses are set forth below:

SOURCES:	
Principal Amount of the Series 2016A Bonds	$
Original Issuance Premium/(Discount)	
Release of Excess Amounts from Reserve Fund	
Total Sources	$
USES:	
Deposit to Series 2009A Escrow Fund	$
Deposit to Series 2009B Escrow Fund	
Deposit to Series 2010A Escrow Fund	
Underwriters' Discount	
Costs of Issuance[1]	
Total Uses	$

[1] Includes Trustee and escrow agent fees, municipal advisor fees and expenses, rating agency fees, bond and disclosure counsel fees and expenses, Verification Agent fees, printing costs and other costs of issuing the Series 2016A Bonds.

DESCRIPTION OF THE SERIES 2016A BONDS

General

The Series 2016A Bonds will be issued as fully-registered bonds in denominations of $5,000 and any integral multiple thereof and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2016A Bonds. Ownership interests in the Series 2016A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2016A Bonds, principal of and interest on the Series 2016A Bonds will be made as described in "APPENDIX F—INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

The Series 2016A Bonds will accrue interest from their date of delivery and interest thereon will be payable on May 15 and November 15 of each year, commencing on May 15, 2016. The Series 2016A Bonds will bear interest at the respective rates set forth on the inside cover page hereof.

Interest on the Series 2016A Bonds will be calculated on the basis of a 360-day year, comprised of twelve 30-day months. Interest coming due on a date which is not a Business Day will be payable on the immediately following Business Day. Each Series 2016A Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is during the period commencing after a Record Date through and including the next succeeding Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or unless such date of authentication is on or before the first Record Date, in which event it will bear interest from its dated date; provided, however, that if on the date of authentication of any Series 2016A Bonds, interest is then in default on the Outstanding Series 2016A Bonds, such Series 2016A Bonds will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the

Outstanding Series 2016A Bonds. Payment of interest on the Series 2016A Bonds due on or before the maturity or prior redemption thereof will be made to the Owner or Owners of record as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee, such interest to be paid by check mailed by first-class mail on such Interest Payment Date to such Owner at his address as it appears on such books; provided, that in the event the ownership of such Series 2016A Bonds is no longer maintained in book-entry form by the Depository, such payment will be made by wire transfer to any Owner of at least $1,000,000 in aggregate principal amount of Series 2016A Bonds, in immediately available funds to an account in the continental United States designated in writing by such Owner to the Trustee prior to the applicable Record Date.

Redemption

Optional Redemption. The Series 2016A Bonds maturing on and before May 15, 20___ are not subject to optional redemption prior to their stated maturities. The Series 2016A Bonds maturing on and after May 15, 20___ are subject to optional redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on any date on or after May 15, 20___, from and to the extent of prepaid Series 2016-1 Installment Payments paid pursuant to the Indenture, at a redemption price equal to the principal amount of Series 2016A Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2016A Bonds which are Term Bonds (herein defined) will be subject to mandatory redemption, on each date on which a sinking account payment for such Term Bonds is payable from sinking account payments as described in the tables below, by lot, in an amount equal to such sinking account payments, plus accrued interest to the redemption date and without premium. At the option of the Authority, it may credit against any sinking account payment requirement Term Bonds or portions thereof which are of the same maturity as the Term Bonds subject to redemption and which, prior to said date, have been purchased, with funds other than moneys in the Redemption Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement. The principal amount of Term Bonds that have been redeemed at the option of the Authority as described under "Optional Redemption" above will be credited against the sinking account payments of such Term Bonds as may be specified by the City on behalf of the Authority.

The Series 2016A Bonds maturing on May 15, 20__ (the "20__ Series 2016A Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Redemption Account, on each May 15 commencing on May 15, 20__ at a redemption price equal to the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium, in the principal amounts as follows:

Series 2016A Term Bonds Maturing on May 15, 20__	
Sinking Fund Payment Dates (May 15)	Sinking Account Payments

* Final Maturity.

The Series 2016A Bonds maturing on May 15, 20__ (the "20__ Series 2016A Term Bonds," and together with the 20__ Series 2016A Term Bonds, the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Redemption Account, on each May 15 commencing on May 15, 20__ at a redemption price equal to the principal amount thereof, plus interest accrued to the date fixed for redemption, without premium, in the principal amounts as follows:

Series 2016A Term Bonds Maturing on May 15, 20__	
Sinking Fund Payment Dates (May 15)	Sinking Account Payments

* Final Maturity.

Notice of Redemption. Pursuant to the Indenture, each notice of redemption will be mailed to the Owners not more than 60 days nor less than 30 days prior to the redemption date and will state the date of such notice, the redemption price (including the name and appropriate address of the Trustee), and, in the case of Series 2016A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Series 2016A Bonds thereof and in the case of a Series 2016A Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon will cease to accrue, and will require that such Series 2016A Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of one or more events and may be revoked prior to the redemption date. Notice of redemption may be conditioned upon the occurrence of future events, including but not limited to the issuance of refunding bonds, and may be given and rescinded by the Trustee prior to the redemption date, upon written instruction of the Authority.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the Series 2016A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the Series 2016A Bonds will become due and payable, and from and after the date so designated, interest on the Series 2016A Bonds so called for redemption will cease to accrue, and the Owners of such Series 2016A Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. A deficiency in any such notice will not affect the sufficiency of the proceedings for redemption. All Series 2016A Bonds redeemed pursuant to the provisions of the Indenture will be cancelled by the Trustee and will not be reissued, and the Trustee will thereupon deliver a certificate of cancellation to the Authority.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS

Sources of Payment; Priority of Pledge of Net System Revenues

The Series 2016A Bonds are limited obligations of the Authority payable solely from the Revenues of the Authority pledged for such purpose under the Indenture and amounts on deposit in certain funds and accounts established under the Indenture. "Revenues" means all amounts received by or due to be paid to the Authority pursuant to or with respect to the Installment Purchase Agreement in connection with the Bonds and all interest or gain derived from the investment of money in any of the funds (other than the Rebate Fund) established under the Indenture. The 2016-1 Installment Payments are secured by and payable solely from Net System Revenues and are required to be paid by the City to the Authority exclusively from the Sewer Revenue Fund. See "—Net System Revenues" below for a description of Net System Revenues. See also "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—Commitment of Net System Revenues."

The pledge and right of payment from Net System Revenues securing the 2016-1 Installment Payments (which, in turn, secure the Series 2016A Bonds) is on parity with the pledge and right of payment from Net System Revenues securing the Installment Payments represented by the Authority's Outstanding Parity Obligations, which will be outstanding upon the incurrence of the 2016-1 Installment Payments, and any other Parity Obligations that may be issued from time to time in accordance with the Installment Purchase Agreement. See "PLAN OF REFUNDING" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Outstanding Obligations," and "—Incurrence of Additional Obligations." All Parity Obligations, including Parity Installment Payment Obligations, are secured by a first priority lien on and pledge of Net System Revenues. All Parity Obligations are of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations.

The pledge and right of payment from Net System Revenues securing the 2016-1 Installment Payments (which, in turn, secure the Series 2016A Bonds) is senior to the pledge and right of payment from Net System Revenues securing the Subordinated Obligations, consisting of the Existing Subordinated SRF Loans. All Subordinated Obligations are secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. All Subordinated Obligations are of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations. The Installment Purchase Agreement provides that, subject to satisfaction of the requirements set forth therein for the incurrence of additional Obligations of the City, nothing therein shall limit the ability of the City to grant liens on and pledges of Net System Revenues that are subordinate to the liens on and pledges of Net System Revenues for the benefit of Parity Obligations and Subordinated Obligations contained in the Installment Purchase Agreement. See "—Outstanding Obligations" and "—Incurrence of Additional Obligations."

Sewer Revenue Fund

The City accounts for its wastewater operations through an enterprise fund known as the "Sewer Revenue Fund" (also referenced as the "Sewer Utility Fund" in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015 attached hereto as Appendix A). The Sewer Revenue Fund was established by an amendment to the Municipal Code of the City (the "City Municipal Code") on August 2, 1956. All System Revenues are deposited in the Sewer Revenue Fund.

All moneys in the Sewer Revenue Fund must first be used to pay: (a) directly or as otherwise required all Maintenance and Operation Costs of the Wastewater System; (b) to the Trustee amounts due in respect of Parity Installment Obligations for deposit in the Payment Fund for Parity Installment Obligations (including the Parity Bonds and the Parity SRF Loans), the amounts specified in any Issuing Instrument, as payments due on account of Parity Obligations; (c) to the obligee specified therein, any payment due as to any Parity Obligation that is not a Parity Installment Obligation (including any Credit Provider Reimbursement Obligations designated as Parity Obligations), other than (i) payments due on account of Qualified Take or Pay Obligations, and (ii) payments due by the City under a Qualified Swap Agreement; (d) to the obligee specified therein, any payment due as to Qualified Take or Pay Obligations; and (e) to the counterparty specified in any Qualified Swap Agreement, the amounts or payments due under such Qualified Swap Agreement as Parity Obligations. In the event there are insufficient Net System Revenues to make all of the payments contemplated by clauses (b), (c), (d) and (e) of the immediately preceding sentence, then said payments shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of said Parity Obligations. After such payments have been made, any remaining Net System Revenues must be used to make up any deficiency in the Reserve Funds or Reserve Accounts for Parity Obligations.

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

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

There are no Outstanding Qualified Take or Pay Obligations or Qualified Swap Agreements and there will be no such obligations or agreements as of the date of issuance of the Series 2016A Bonds.

Net System Revenues

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

The term "System Revenues" is defined in the Installment Purchase Agreement to include all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the

Wastewater System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law, earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (b) the proceeds derived by the City directly or indirectly from the lease of a part of the Wastewater System; (c) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Wastewater System; and (d) amounts received under contracts or agreements with governmental or private entities and designated for capital costs; and (e) grants received from the United States of America or from the State of California; provided, however, that System Revenues do not include: (i) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (ii) the proceeds of borrowings. Notwithstanding the foregoing, there will be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there will be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Wastewater System.

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

Obligation of City Under Installment Purchase Agreement

Pursuant to the Installment Purchase Agreement, the City commits, absolutely and unconditionally, to make Installment Payments (including the 2016-1 Installment Payments) to the Authority solely from Net System Revenues until such time as the Purchase Price has been paid in full (or provision for the payment thereof has been made pursuant to the Installment Purchase Agreement). The City will not discontinue or suspend any 2016-1 Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Project or any part thereof is operating or

operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such 2016-1 Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Under the Installment Purchase Agreement, the City has retained the right to transfer ownership of substantially all of the Metropolitan Sub-System, including amounts in the Sewer Revenue Fund attributable to the Metropolitan Sub-System and any amounts in the Rate Stabilization Fund agreed upon by the City and the transferee as being attributable to the Metropolitan Sub-System, to the Department or any other governmental agency whose primary purpose is to provide wastewater treatment and disposal services upon the satisfaction of certain conditions. See "THE WASTEWATER SYSTEM—General" and "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT—Selected Covenants of the City—Transfer of Metropolitan System Components."

Rate Covenant

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

No Debt Service Reserve Fund for Series 2016A Bonds

At the time of issuance of the Series 2016A Bonds, the City expects the Proposed Amendments will become effective, and therefore, the Series 2016A Bonds will not participate in or be secured by the Reserve Fund or any other debt service reserve fund.

In the event the Proposed Amendments do not become effective on the date of issuance of the Series 2016A Bonds because 51% of the Owners of the then-Outstanding Bonds will not have consented to the Proposed Amendments, the Series 2016A Bonds will participate in and be secured by the Reserve Fund, along with the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds, the unrefunded Series 2010A Bonds and the Series 2015 Bonds. However, the City expects that upon the Amendment Effective Date (if other than the date of issuance of the Series 2016A Bonds) it will elect that the Series 2016A Bonds and the Series 2015 Bonds will no longer participate in or be secured by the Reserve Fund or any other debt service reserve fund. See "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INDENTURE—Establishment of Funds; Deposit and Application; Reserve Fund" for additional information on the Reserve Fund.

Outstanding Obligations

As of December 31, 2015, there was $1,061,380,775 aggregate principal amount of Parity Obligations outstanding and $41,160,351 aggregate principal amount of Subordinated Obligations outstanding. The Outstanding Parity Obligations and the Outstanding Subordinated Obligations were issued to finance and refinance the costs of certain improvements relating to the Wastewater System. Upon the incurrence of the Series 2016-1 Installment Payments and the refundings and defeasances described herein, the Outstanding Parity Obligations will consist of Installment Payments relating to the Series 2016A Bonds, the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds, the unrefunded Series 2010A Bonds, the Series 2015 Bonds, and nine loans made by the State Water Resources Board to the City from the Clean Water State Revolving Fund (the "Existing Parity SRF Loans"). The Outstanding Subordinated Obligations consist of 11 loans made by the State Water Resources Board to the City from the Clean Water State Revolving Fund (the "Existing Subordinated SRF Loans").

In 2014, the Department applied to the State Water Resources Board for the Additional Parity SRF Loan in an approximate amount of $43 million to finance the installation of plant-based electrical generators for the Pump Station 2 Power Reliability and Surge Protection project at the Point Loma Plant. The Additional Parity SRF Loan is pending final approval from the State Water Resources Board. The City also expects to incur additional Obligations from time to time to finance a portion of the capital improvements to the Wastewater System, as described under the caption "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM," and, as economic conditions allow, to refund outstanding Obligations. As of the date of this Official Statement, the City expects that any additional Obligations incurred in the future (including any additional SRF loans received from the State Water Resources Board and/or loans received from the Federal government) will constitute Parity Obligations.

The City entered into a Master Lease Agreement, dated as of July 2, 2012, as amended (the "Equipment Lease"), with JPMorgan Chase Bank, N.A., in connection with the lease-purchase of certain equipment and vehicles used by the City, including the Department. The Department utilized the Equipment Lease to finance approximately $2.6 million of improvements to its advanced metering infrastructure program (the "AMI Program"). Approximately 50% (or $1.3 million) of the lease payments owed by the Department with respect to the AMI Program are payable from the Sewer Revenue Fund and the remaining 50% (or $1.3 million) are payable from the Water Revenue Fund. The lease payments payable from the Sewer Revenue Fund are not secured by a pledge of or lien on Net System

Revenues and therefore are neither a Parity Obligation nor a Subordinated Obligation. The lease payments allocated to the Sewer Revenue Fund are made from any available moneys in the Sewer Revenue Fund. Final payment of the lease payments is due on July 1, 2021. As of the date of this Official Statement, other than the obligations under the Equipment Lease, the Department has not entered into any direct bank loans or issued any direct placement debt.

Table 1 below sets forth the Outstanding Parity Obligations (which includes Installment Payments relating to the Outstanding Series 2009A Bonds, Series 2009B Bonds, Series 2010A Bonds, Series 2015 Bonds and Existing Parity SRF Loans) and the Outstanding Subordinated Obligations (which includes the Existing Subordinated SRF Loans), as of December 31, 2015.

TABLE 1
OUTSTANDING PARITY AND SUBORDINATED OBLIGATIONS
SECURED BY NET SYSTEM REVENUES OF THE WASTEWATER SYSTEM
(as of December 31, 2015)
(Unaudited)

Name of Issue	Original Issue Size	Principal Outstanding[5]	Scheduled Final Maturity Date
Parity Obligations			
Series 2009A Bonds	$ 453,775,000	$ 307,540,000	May 15, 2039
Series 2009B Bonds	634,940,000	286,670,000	May 15, 2022
Series 2010A Bonds	161,930,000	62,855,000	May 15, 2029
Series 2015 Bonds	313,620,000	313,620,000	May 15, 2027
Existing Parity SRF Loans[1,2]	92,762,065	90,695,775	August 11, 2037
Total Parity Obligations	$1,657,027,065	$1,061,380,775	
Subordinated Obligations			
Existing Subordinated SRF Loans[3]	$98,991,020	$41,160,351	March 30, 2026
Total Subordinated Obligations	$98,991,020	$41,160,351	
Total Parity and Subordinated Obligations[4]	$1,756,018,085	$1,102,541,126	

Source: Public Utilities Department

[1] See Note 6 "—BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES" contained in "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for a schedule of the Existing Parity SRF Loans and their effective interest rates.

[2] Does not include the $43 million Additional Parity SRF Loan. The Department has applied for the Additional Parity SRF Loan and is awaiting final approval from the State Water Resources Board.

[3] See Note 6 "—BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES" contained in "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for a schedule of the Existing Subordinated SRF Loans and their effective interest rates.

[4] Does not include the Department's payment obligations under the Equipment Lease.

[5] See "PLAN OF REFUNDING."

Incurrence of Additional Obligations

Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be on parity with or subordinate in priority to the City's obligation to make 2016-1 Installment Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement.

Parity Obligations. The City may not create any Obligations the payments of which are senior or prior to the pledge and right of payment from Net System Revenues securing the Parity Obligations. The

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

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

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

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

The obligation of the City to make all payments required by the Existing Parity SRF Loans to the State Water Resources Board is a Parity Obligation under the Installment Purchase Agreement and payable solely from Net System Revenues. Pursuant to the Existing Parity SRF Loans, the City may incur additional Parity Obligations, including the 2016-1 Installment Payments, provided that (a) Net System Revenues are equal to at least (i) 1.2 times the maximum annual debt service for the then-Outstanding Parity Obligations, and (ii) 1.1 times the maximum annual debt service for the then-Outstanding Parity Obligations and Subordinated Obligations, and (b) the Parity Obligations (except Additional Parity SRF Loans) proposed to be incurred have an "A" rating or better by at least two nationally recognized rating agencies. The requirements for the incurrence of Parity Obligations set forth in the Existing Parity SRF Loans are in addition to the requirements set forth in the Installment Purchase Agreement, which are described above.

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

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

(b) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations which will be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

In addition to the requirements set forth in the Installment Purchase Agreement as described above, the requirements for issuing additional Subordinated Obligations set forth in the Existing Subordinated SRF Loans (as described below) also must be met and are currently more restrictive than those set forth in the Installment Purchase Agreement.

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

The obligation of the City to make all payments required by the Existing Subordinated SRF Loans to the State Water Resources Board is a Subordinated Obligation under the Installment Purchase Agreement and payable solely from Net System Revenues. Pursuant to the Existing Subordinated SRF Loans, the City may incur additional Parity Obligations (the payments of which are senior or prior in right to the payment by the City of its obligations required by the Existing Subordinated SRF Loans, and all other contracts between the City and the State Water Resources Board that, by their terms, expressly provide therefor), including the 2016-1 Installment Payments; provided that (a) all Parity Obligations (including the Parity Obligations proposed to be incurred (except Additional Parity SRF Loans)) have an "A" rating (without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise) or better by at least two nationally recognized rating agencies; and (b) the City fixes, prescribes and collects rates and charges for Wastewater Service which will be sufficient to ensure that Net System Revenues to pay the obligations required by the Existing Subordinated SRF Loans are at least 1.10 times the current year's debt service on the Existing Subordinated SRF Loans.

Annual Debt Service Requirements on Parity and Subordinated Obligations

Table 2 below sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on the Series 2016A Bonds and the other Outstanding Parity Obligations (which include the outstanding Series 2009A Bonds, Series 2009B Bonds, Series 2010A Bonds, Series 2015 Bonds and Existing Parity SRF Loans) and the Outstanding Subordinated Obligations (which includes the Existing Subordinated SRF Loans). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS."

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TABLE 2
DEBT SERVICE ON ALL PARITY AND SUBORDINATED OBLIGATIONS
(Unaudited)

	Outstanding Parity Obligations[1]			Series 2016A Bonds					
Fiscal Year ending June 30	Principal	Interest	Total Principal and Interest	Principal	Interest	Total Principal and Interest	Total Debt Service on Parity Obligations	Total Debt Service on Subordinated Obligations[2]	Total Debt Service on Parity and Subordinated Obligations
2016	$ 59,510,673	$ 43,213,743	$ 102,724,416					$ 6,059,214	
2017	58,151,702	46,719,365	104,871,067					6,059,214	
2018	61,390,627	44,037,718	105,428,345					6,059,214	
2019	65,168,240	41,398,989	106,567,229					6,059,214	
2020	68,161,610	38,401,632	106,563,242					6,059,214	
2021	71,343,963	35,221,479	106,565,442					5,171,323	
2022	73,403,278	31,775,413	105,178,692					4,968,138	
2023	76,684,602	28,493,052	105,177,654					2,077,734	
2024	61,132,981	24,780,423	85,913,404					1,593,678	
2025	63,963,463	21,949,742	85,913,204					699,028	
2026	45,691,096	18,878,358	64,569,454					699,028	
2027	48,390,931	17,134,323	65,525,254					–	
2028	34,838,020	14,770,259	49,608,279					–	
2029	36,487,414	13,124,190	49,611,604					–	
2030	20,874,168	11,377,574	32,251,742					–	
2031	21,818,337	10,433,030	32,251,367					–	
2032	22,809,977	9,442,065	32,252,042					–	
2033	23,849,145	8,402,265	32,251,411					–	
2034	23,938,341	7,311,196	31,249,536					–	
2035	24,406,142	6,188,374	30,594,516					–	
2036	25,118,420	5,026,162	30,144,582					–	
2037	24,138,112	3,813,165	27,951,277					–	
2038	25,039,518	2,596,079	27,635,597					–	
2039	25,170,000	1,321,425	26,491,425					–	
Total[3]	$1,061,480,759	$485,810,023	$1,547,290,782					$45,505,000	

Source: Department of Debt Management, City of San Diego

[1] Debt service on (i) the Series 2009A Bonds, the Series 2009B Bonds and the Series 2010A Bonds prior to the refunding and defeasance of the Refunded Bonds (see "PLAN OF REFUNDING"), (ii) the Series 2015 Bonds, and (iii) the Existing Parity SRF Loans.

[2] Debt service on the Existing Subordinated SRF Loans.

[3] Amounts may not total due to rounding.

THE WASTEWATER SYSTEM

General

The "Wastewater System" consists of two sub-systems, the Municipal Sub-System (the "Municipal Sub-System" or the "Municipal System") and the Metropolitan Sub-System (the "Metropolitan Sub-System" or the "Metropolitan System"). The Municipal Sub-System is a municipal sewage collection system for the City's residents and consists of all elements required for the collection and conveyance of wastewater generated by the service area. The Municipal Sub-System consists of the piping and pumping facilities that service the City and ultimately discharge into the Metropolitan Sub-System. The Metropolitan Sub-System is a regional sewage treatment and disposal system that serves the City and various other public agencies, including cities situated within common drainage areas. The Metropolitan Sub-System includes all the facilities associated with treatment and disposal within the San Diego metropolitan area. The Metropolitan Sub-System treats and disposes of the wastewater generated by the City and certain amounts from 12 other cities and districts near the City. The Metropolitan Sub-System was designed to provide sufficient capacity to accommodate a regional population in excess of 2.5 million. As of June 30, 2015, the Metropolitan Sub-System served a population of approximately 2.2 million. Additionally, as of June 30, 2015, the Wastewater System had approximately 274,000 customers, 12 Participating Agencies and approximately $358.6 million in sewer service charge revenues. The Wastewater System is managed by the Department and covers approximately 450 square miles, including most of the City, and stretches from Del Mar and Poway to the north, Alpine and Lakeside to the east, and south to San Ysidro, California. The service area within the City is serviced by the Municipal Sub-System and the service area for the Participating Agencies is serviced by the Metropolitan Sub-System. The communities and agencies served by the Wastewater System form the third largest metropolitan area in the State, surpassed only by the Los Angeles and San Francisco metropolitan areas. The map that follows the Table of Contents of this Official Statement sets forth the sewer service area boundaries of the Wastewater System.

The City, as operator of the Wastewater System, is the holder of two National Pollutant Discharge Elimination System ("NPDES") permits, one for the discharge of sewage at the Point Loma Wastewater Treatment Plant (the "Point Loma Plant"), including flows from the North City Water Reclamation Plant (the "North City Plant") (the NPDES permit relating to the Point Loma Plant is referred to herein as the "Point Loma Discharge Permit"), and the other for the discharge of sewage at the South Bay Water Reclamation Plant (the "South Bay Plant") (the NPDES permit relating to the South Bay Plant is referred to herein as the "South Bay Discharge Permit"). As the holder of such permits, the City is responsible for complying with the discharge requirements under Federal law, including the Federal Clean Water Act (the "Clean Water Act"). The Metropolitan Sub-System provides advanced primary treatment of sewage at the Point Loma Plant. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage—Treatment Waivers for Point Loma Plant" for information regarding the waiver from secondary treatment standards of the Clean Water Act and the City's current application to renew such waiver with respect to the Point Loma Plant. The North City Plant and the South Bay Plant are designed to treat sewage to the secondary level and filter and disinfect effluent to the tertiary level. The Metropolitan Biosolids Center (herein defined) is the designated solids management facility for the biosolids created by the wastewater treatment process.

Governance and Management of Wastewater System

General. The Wastewater System is owned by the City and operated by the City through the Department. The Department is comprised of five branches and one section that are funded by both the Sewer Revenue Fund and the Water Revenue Fund, depending upon which system benefits from the tasks completed. Though the different branches cover all the tasks required by the Department, separate

accounting is kept for each fund. The Department ultimately reports to the Mayor, who has operational authority over the Department and appoints managers and directors who are charged with the operations of the Department. The Director of Public Utilities, who reports to the Deputy Chief Operating Officer, oversees the Department. The day-to-day operational responsibility for the Department rests with the Assistant Director of the Business Support Branch, the Assistant Director of the Water Quality Branch, the Assistant Director of the Distribution and Collection Branch, and the Assistant Director of the Potable Reuse Branch, each of whom reports to the Director of Public Utilities. The Assistant Director for Strategic Programs completes the Department's Senior Executive Team and leads organizational efficiency, employee services, quality assurance and strategic planning efforts, as well as asset management functions. The Department's management team is further comprised of Deputy Directors who head each of the divisions, plus Program Managers who provide assistance to the management team. The Department also has an External Affairs section, that provides public information and outreach, as well as policy and legislative strategy.

The San Diego City Council (the "City Council") retains the authority to approve the Department's budget, to set rates and charges of the Wastewater System, and to approve execution of certain contracts. For information on how the City sets the rates and charges of the Wastewater System see "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue—Sewer Service Charge Revenue." In accordance with the provisions of the City Municipal Code, the Wastewater System funds are administered in an enterprise account separate from the City's General Fund.

Officers. The current Senior Executive officers of the Department managing the Sewer Revenue Fund and the Water Revenue Fund and their respective biographies are as follows:

Halla Razak. Ms. Razak is the City's Director of Public Utilities and is responsible for both the daily operation of the City's Water, Wastewater and regional wastewater sub-system as well as planning to ensure the future reliability of these services. She holds a Bachelor of Science degree in Civil Engineering from the University of Dayton and a Masters degree in Engineering from San Diego State University. Ms. Razak has an extensive background in engineering and public utilities and is a Registered Professional Engineer in the State of California. Prior to rejoining the City in November 2013, she worked for eight years as the Colorado River Program Director for the San Diego County Water Authority and 18 years prior to that as Chief Deputy Director for the City's Engineering and Capital Projects Department.

Assistant Director of the Water Quality Branch. Will be vacant as of March 1, 2016. The Assistant Director of the Water Quality Branch oversees the day-to-day operation and maintenance of the wastewater and water treatment facilities as well as ensuring environmental compliance under State and Federal regulations.

Stan Griffith. Mr. Griffith currently serves as the Assistant Director of the Distribution and Collection Branch and oversees the day-to-day operational activities of the Wastewater Collection Division, which maintains the wastewater collection system, and the Water Construction and Maintenance Division, which provides construction, maintenance and emergency response for the potable water system. He has been an employee of the City for 27 years and has served in various management capacities including Labor Relations officer for the City, Assistant Deputy Director of the Environmental Monitoring and Technical Services Division, Assistant Deputy Director of the Customer Support Division and Deputy Director of the Wastewater Collection Division. Mr. Griffith earned a Bachelor of Science in Education from the University of Wisconsin at Oshkosh and has completed substantial coursework toward a Masters in Public Administration.

John Helminski. Mr. Helminski currently serves as the Assistant Director of the Potable Reuse Branch which includes oversight of engineering and consulting staff dedicated to the development and implementation of the Pure Water San Diego Program (the "Pure Water Program"). Additionally, he oversees the Department's Engineering and Program Management Division. Mr. Helminski holds a Bachelor of Science in Civil/Construction Engineering from the New Jersey Institute of Technology, Newark College of Engineering. Prior to joining the Department in December 2014, Mr. Helminski worked in various City departments holding several Engineering Project and Program Management positions. His 24-year professional background also includes experience in Operation and Maintenance of Right of Way Infrastructure as well as the City's Right of Way Infrastructure Capital Improvement Program.

Lee Ann Jones-Santos. Ms. Jones-Santos currently serves as the Assistant Director of the Business Support Branch. In her capacity as Assistant Director, she oversees the day-to-day operations of all Business Support activities which include Finance, Information Technology, Customer Service, and Long Range Planning. Ms. Jones-Santos holds a Bachelor of Science degree in Accounting from California State University in San Marcos. During her 16-year tenure with the City, Ms. Jones-Santos worked in the Office of the City Comptroller for 9 years before joining the Department. Her background includes knowledge in enterprise financial statement reporting, extensive knowledge of City operations and she has worked on high-profile projects including the SAP implementation.

Thomas Crane. Mr. Thomas Crane currently serves as the Assistant Director of Strategic Programs Branch, and oversees, among other things, the Employee Services and Quality Assurance Division, strategic planning, asset management, and organizational effectiveness activities. He holds a Bachelor of Science degree in Civil Engineering from the University of Maryland and a Master of Engineering in Nuclear Engineering from Pennsylvania State University. Mr. Crane started working for the Department in September 2006 and has been in his current position since February 2009. Prior to joining the Department, he operated his own consulting business for 15 years after retiring from the United States Navy after more than thirty-one years of service. He has extensive experience in infrastructure, contracting, organizational effectiveness and utilities management.

Branches. The Department is composed of five branches: Water Quality, Distribution and Collection, Potable Reuse, Business Support, and Strategic Programs.

The Water Quality Branch is composed of the following divisions:

Wastewater Treatment and Disposal. This division operates and maintains a wastewater treatment plant, two water reclamation plants, a bio-solids processing facility, and eight large wastewater pump stations. With these facilities, the division provides regional wastewater treatment and disposal services to the City, as well as 12 surrounding cities and special districts.

Water System Operations. This division operates and maintains the City's raw water supply system, potable water treatment and distribution system, and the recycled water distribution system. The division also manages the recreational program at the City's raw water reservoirs (lakes).

Environmental Monitoring and Technical Services. This division is responsible for monitoring and assessing the quality of drinking water, recycled water, wastewater, and the natural environment in order to determine regulatory compliance and to preserve and protect environmental and public health. Additional responsibilities include managing regulatory permits, running an industrial wastewater pre-treatment program, and assessing the Department's facilities for air quality and storm water compliance.

The Distribution and Collection Branch is composed of the following divisions:

Wastewater Collection. This division provides efficient operations and maintenance of the wastewater collection system, which consists of over 3,000 miles of sewer mains and 73 small municipal pump stations. The division also administers the Food Establishment Wastewater Discharge Permitting Program which permits and monitors over 5,000 food establishments to minimize the discharge of fats, oils, and grease into the wastewater collection system.

Water Construction and Maintenance. This division provides construction, maintenance, and emergency response for the potable water system. The division maintains approximately 279,000 metered service connections, over 25,000 fire hydrants and more than 83,000 total water system valves. The division performs construction activities for the potable and recycled distribution system; provides 24-hour emergency response, water main repair, Capital Improvement Program support; and performs maintenance, installation, and replacement of water meters throughout the City.

The Potable Reuse Branch is composed of the following division and program:

Engineering and Program Management. This division provides engineering services for the water, wastewater and recycled water systems to ensure new facilities, repairs and upgrades are planned and implemented in a fiscally-sound manner to meet regulatory and environmental standards. The division also provides long-range master planning, condition assessment, water and wastewater modeling, planning and pre-design for infrastructure, energy management, environmental support, and oversight of the implementation of the water, wastewater, and recycled water system's Capital Improvement Program.

Pure Water Program. This program is responsible for a focused and coordinated effort to develop and implement full-scale potable reuse to create 83 million gallons per day ("mgd") by the end of calendar year 2035 of locally controlled, reliable water and to identify a solution for future Point Loma Discharge Permit renewals. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Pure Water Program" for additional information on the Pure Water Program.

The Business Support Branch is composed of the following divisions:

Long-Range Planning and Water Resources. This division provides long-range water resources planning and development, watershed and resource protection, policy and regulatory analysis on wide-ranging water and wastewater issues, and management of the City's water conservation and non-potable recycled water programs.

Finance and Information Technology. This division provides administrative support in the areas of information systems; budget development and monitoring; accounts payable; rate setting and finance; Federal and State grants and loans; and the administration of interagency agreements.

Customer Support. This division provides customer service to Department patrons, handles customer phone interactions via a variety of contact channels, and is responsible for customer billing and payment processing, meter reading and code enforcement, customer compliance with State backflow device requirements, and public information.

The Strategic Programs Branch includes the following division and programs:

Employee Services and Quality Assurance. This division provides employee, management, and administrative services, as well as safety, security, training, and quality assurance. The division also is involved in a number of internal business support services, including services relating to contract formulation and administration, hiring and performance management, occupational health, and audit support.

Asset Management. This program coordinates Department activities that contribute to a unified methodology for asset management. The team is responsible for the Geographic Information System and data, as well as the implementation of an SAP-based Infrastructure Asset Management system.

Strategic Support Services. This program coordinates the development of the Department's five-year strategic business plan and coordinates the development and tracking of the annual strategic initiatives throughout the Department. The program assists with, and tracks progress on, various consolidation and efficiency initiatives throughout the Department. The program also conducts benchmarking studies for the Department and administers Employee Opinion Surveys to all Department employees.

Oversight.

IROC. The Independent Rates Oversight Committee ("IROC") was established by City ordinance in 2007 to assume and expand upon the oversight previously undertaken by the Public Utilities Advisory Commission, which no longer exists. There are 11 members on IROC, all of whom are appointed by the Mayor and confirmed by the City Council. The membership of IROC consists of representatives of each ratepayer class and professional experts in such fields as finance, engineering, construction and the environment. In addition to the 11 members, IROC includes two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the San Diego County Water Authority. IROC serves as an official advisory body to the Mayor and the City Council on policy issues relating to the oversight of Department operations including, but not limited to, resource management, revenue and expenditure projections, service delivery methods, public awareness and outreach efforts, and efforts to achieve high quality and affordable utility services provided by the Department. IROC's duties and functions include reviewing reports from staff, reviewing rate and bond proceed expenditures, advising on the efficiency and performance of the Water System and the Wastewater System, advising on future rate increases and cost of service studies, and the preparation of an annual report addressing such issues to the Mayor and City Council. IROC meets at least every other month with additional meetings convened as necessary and as determined by the Committee Chair.

On January 19, 2016, IROC issued its annual report on the Department for Fiscal Year 2015 (the "2015 IROC Report"). The 2015 IROC Report included certain key recommendations to the Department, including the following: (1) regularly report to IROC with information regarding sales, revenues, local supply availability and expenditures and how these track with cost of service assumptions; (2) continue to review alternative rates and rate structures, including for recycled water; (3) continue to perform condition assessments to prioritize repair or replacement of major components, while continuing routine replacement programs for the components with predictable service lives; (4) continue to improve the Wastewater System capital improvement program process to facilitate project visibility and enable appropriate oversight; (5) continue to pursue all options in order to get regulatory certainty that the Pure Water Program will suffice to offset the requirement to move up to secondary treatment; (6) continue outreach efforts to promote the Pure Water Program to all communities within San Diego. The recommendations in the 2015 IROC Report are advisory in nature. The Department is currently reviewing the recommendations in the 2015 IROC Report and deciding whether to incorporate any of them in its strategic initiatives.

Metro JPA. The Metro Joint Powers Authority ("Metro JPA") is a coalition of municipalities and special districts that share in the use of the City's regional wastewater facilities. The Metro JPA grew out of the Metro Wastewater Commission which was first formed in 1998. The mission of the Metro JPA is to create an equitable partnership with the City Council and Mayor on regional wastewater issues. Through stakeholder collaboration, open dialogue, and data analysis, the partnership seeks to ensure fair

rates for Participating Agencies, concern for the environment, and regionally balanced decisions. While wastewater remains a key focus, the Metro JPA now addresses all important water-related issues, including the need for conservation, water recycling, and protecting the ocean environment. The Metro JPA member agencies are the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City and Poway; the Lemon Grove Sanitation District; the Padre Dam Municipal and Otay Water Districts; and the County of San Diego (on behalf of the Winter Gardens Sewer Maintenance District, and the Alpine, Lakeside and Spring Valley Sanitation Districts).

Participating Agencies

Regional Wastewater Disposal Agreement. The Metropolitan Sub-System provides "wholesale" treatment and disposal services, including some sewage transportation to the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City and Poway, the Lemon Grove Sanitation District, the Otay Water District, the Padre Dam Municipal Water District, and the County of San Diego (on behalf of Winter Gardens Sewer Maintenance District and the Alpine Lakeside and Spring Valley Sanitation Districts) (such cities and districts are collectively referred to as the "Participating Agencies") pursuant to the Regional Wastewater Disposal Agreement, which became effective in June 1998 (the "Regional Wastewater Disposal Agreement"). The Regional Wastewater Disposal Agreement replaced separate sewage disposal agreements between the City and the Participating Agencies that were entered into as early as 1960 and applies to all facilities of the Metropolitan Sub-System required to comply with the Clean Water Act and the Ocean Pollution Reduction Act of 1994 ("OPRA"). See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage." The Regional Wastewater Disposal Agreement expires in December 2050. On or before December 2040, the parties expect to begin discussions on an agreement to provide wastewater treatment services beyond the year 2050. The City has full ownership of the Metropolitan Sub-System, including all additions to the Metropolitan Sub-System and facilities constructed pursuant to the Regional Wastewater Disposal Agreement. In addition, the City has the authority to sell the Metropolitan Sub-System to a governmental entity or divest a portion of the Metropolitan Sub-System, subject to the Participating Agencies' right of first refusal and the provisions of the Installment Purchase Agreement. See "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE AGREEMENT."

Pursuant to the Regional Wastewater Disposal Agreement, the Participating Agencies are required to pay their respective share of planning, design and construction of Metropolitan Sub-System facilities and costs relating to the operation and maintenance of the Metropolitan Sub-System by the City. The amount to be paid by the Participating Agencies is calculated based on a Sewer System Charge, and, if additional capacity is needed, a New Contract Capacity Charge (each as herein defined). The "Sewer System Charge" is a charge that is calculated annually, billed quarterly and based on flow and strength coming into the Metropolitan Sub-System. The "New Contract Capacity Charge" is an amount to be paid by any Participating Agency for the right to discharge any new or additional capacity into the Metropolitan Sub-System beyond its existing purchased capacity. As of the date of this Official Statement, the Department does not expect to receive any revenues in the near future from New Contract Capacity Charges because the Participating Agencies have not expressed any recent interest in new or additional capacity. Pursuant to the Regional Wastewater Disposal Agreement, the Participating Agencies pay their proportionate costs of the Metropolitan Sub-System, including operation and maintenance costs of all facilities, capital improvement program costs, and water recycling facilities (excluding any water recycling distribution pipelines). Since Fiscal Year 2011, these aggregate costs have consistently constituted approximately 33% of the total Metropolitan Sub-System's operation and maintenance and capital improvement program costs. Annual costs attributable to the Participating Agencies include those associated with administration, operation, maintenance, replacement, annual debt service costs and other periodic financing costs and charges, capital improvement, insurance premiums,

claims payments and claims administration costs of the Metropolitan Sub-System. Additionally, in Fiscal Year 2010, the Department and the Participating Agencies established an Administrative Protocol that requires the Participating Agencies to (i) fund a 45-day operating reserve, and (ii) make annual contributions towards the 1.20 times debt service coverage requirement on Parity Obligations that were incurred to finance improvements to the Metropolitan Sub-System. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Rate Covenant."

The Participating Agencies have historically paid charges due and payable under the Regional Wastewater Disposal Agreement in a timely manner. The Participating Agencies may only dispute amounts owed after payment of the amounts set forth in their respective invoices from the City. Between Fiscal Years 2011 and 2015, the Department received, on average, approximately $65 million in System Revenues per Fiscal Year from the Participating Agencies. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS" for additional information on the charges collected from the Participating Agencies.

Transportation Agreements. The Participating Agencies and the City are responsible for the retail collection operations within their respective jurisdictions. The Participating Agencies transport collected sewage through large municipal trunk lines to the Metropolitan Sub-System. The collection systems and many of the transport trunk lines outside City limits are owned by the individual Participating Agencies. Transportation of wastewater through the Municipal Sub-System to the Metropolitan Sub-System is facilitated by 14 separate transportation agreements (each, a "Transportation Agreement" and, collectively, the "Transportation Agreements") each between the City and a Participating Agency. The City is in the process of negotiating nine of the Transportation Agreements that have expired, and anticipates finalizing two of the agreements by the end of Fiscal Year 2016. The City and the Participating Agencies with expired Transportation Agreements have agreed to continue their operations pursuant to mutually acceptable terms until new agreements are executed. All parties have, however, agreed upon an updated rate for the municipal transportation of sewage. The City and the Participating Agencies have agreed to adjust this rate annually for inflation in accordance with the United States Department of Labor, Bureau of Labor Statistics Data. The Department receives approximately $500,000 in wastewater transportation charges each Fiscal Year.

Capacity Rights and Actual Flow from Participating Agencies. During Fiscal Year 2015, total average daily sewage flow from the Participating Agencies was approximately 50 mgd, which was approximately 57% of the total capacity rights that have been granted to the Participating Agencies. The Participating Agencies have capacity rights of approximately 88 mgd. None of the Participating Agencies are currently utilizing all of their capacity rights for sewage treatment and disposal.

The following Table 3 sets forth for each Participating Agency and the City their respective estimated population, capacity rights, the percentage of total capacity represented by the respective capacity rights and average daily flow for the Fiscal Year ended June 30, 2015.

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TABLE 3
METROPOLITAN SUB-SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 2015
(Unaudited)

Participating Agencies	Estimated Population[1]	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd)	% of Total Average Flow
City of Chula Vista	257,188	20.864	8.182%	15.728	10.554%
City of Coronado	25,500	3.250	1.275	1.549	1.039
City of Del Mar	4,400	0.876	0.344	0.553	0.371
City of El Cajon	102,000	10.915	4.280	7.234	4.854
City of Imperial Beach	29,500	3.755	1.473	2.154	1.445
City of La Mesa	58,994	6.993	2.742	4.369	2.932
City of National City	59,815	7.487	2.936	3.940	2.644
City of Poway	43,973	5.894	2.311	2.563	1.720
San Diego County – Spring Valley Sanitation Districts[2]	157,322	17.503	6.864	7.689	5.159
Lemon Grove Sanitation District	25,600	3.027	1.187	2.072	1.390
Otay Water District	5,300	1.287	0.505	0.005	0.003
Padre Dam Municipal Water District	53,400	6.225	2.441	2.073	1.391
Subtotal	822,992	88.076	34.540	49.929	33.503
City of San Diego	1,368,061	166.924	65.460	99.101	66.497
Total	2,191,053	255.000	100.000	149.030[3]	100.000

Sources: Participating Agencies and Public Utilities Department, City of San Diego

[1] Participating Agencies provided population figures for their respective agencies. Population for the City of San Diego is as of January 1, 2015 and is from information provided by the California Department of Finance.

[2] These facilities use the San Diego County Facility Plan for their population figures, and reflect the combined East Otay, Lakeside-Alpine, Winter Gardens, and Spring Valley Sanitation Districts.

[3] Excludes flow through plants that are not part of the Metropolitan Sub-System—Escondido Plant and Solana Beach (which is serviced by the San Elijo Plant).

Disputes and Other Recent Developments Regarding the Participating Agencies. The City is in ongoing negotiations with several of the Participating Agencies for payment of capital improvement projects on portions of the Municipal Sub-System through which wastewater from such Participating Agencies flows. The Participating Agencies are required to contribute to capital improvements to the Metropolitan Sub-System on a pay-as-you-go basis and by making annual debt service payments on Outstanding Obligations issued to fund such improvements based upon their respective allocable share of benefits derived from such improvements. Participating Agencies are only obligated to contribute to capital projects on the portions of the Municipal Sub-System they use. The Participating Agencies also are required to make annual contributions towards the 1.20 times debt service coverage requirement on Parity Obligations that were incurred to finance improvements to the Metropolitan Sub-System.

The Participating Agencies previously asserted that under the terms of the Regional Wastewater Disposal Agreement they were entitled to a percentage of the revenue from the sale of recycled water produced by the South Bay Plant. The City and the Participating Agencies recently resolved this issue and, in June 2015, the City paid the Participating Agencies approximately $3.7 million for recycled water that was sold between Fiscal Years 2002 and 2014. In future years, the Department will provide the Participating Agencies their percentage of the recycled water revenue from the South Bay Plant on an annual basis. The Department estimates that the Participating Agencies' percentage of recycled water revenue will be approximately $550,000 in Fiscal Year 2016 and approximately $1.1 million annually in Fiscal Years 2017 through 2020.

The Padre Dam Municipal Water District ("Padre Dam Water District") began operation of its new Advanced Water Purification Demonstration Plant (the "Padre Dam Water Purification Plant") in March 2015. Additionally, the Padre Dam Water District is conducting a study to consider potentially expanding the plant to include the service areas of a portion of the County of San Diego (East County Agencies of Lakeside, Alpine and Winter Gardens) and the City of El Cajon, both of which are Participating Agencies. In Fiscal Year 2015, the average flow through the Metropolitan Sub-System for the Padre Dam Water District, the County of San Diego Agencies described above and the City of El Cajon was 12.9 mgd, which represented approximately 26% of the total flow from the Participating Agencies. The Padre Dam Water Purification Plant is still in the beginning stages and it is too early to determine how the full implementation of the plant will impact the Wastewater System. The Department anticipates that overall Metropolitan Sub-System treatment costs will remain relatively unchanged since a large portion of those costs are fixed. However, with potentially fewer Participating Agencies to share the Metropolitan Sub-System treatment costs, the cost for each Participating Agency is expected to slightly increase. Pursuant to the Regional Wastewater Disposal Agreement, any Participating Agency may negotiate an agreement with the City to withdraw all flows from the Metropolitan Sub-System, which would require such withdrawing Agency to pay its proportionate share of any capital improvement costs associated with the Metropolitan Sub-System.

In January 2014, the City of Del Mar notified the Department of its intent to reduce its flow by .5 mgd. The Department does not anticipate the City of Del Mar to completely discontinue use of the Metropolitan Sub-System, and they will continue to keep their existing contracted capacity of .876 mgd.

Metropolitan Sub-System Facilities

General. The current Metropolitan Sub-System infrastructure, with the exception of the South Metropolitan Interceptor Pipeline, is located within the jurisdictional boundaries of the City and is concentrated along a kidney-shaped corridor running from Mission Bay to the north, and along the perimeter of the San Diego Bay to the south. The map that follows the Table of Contents of this Official Statement shows the geographic concentration of the Metropolitan Sub-System's infrastructure and identifies the major trunk lines that service the Participating Agencies. The Metropolitan Sub-System's infrastructure currently consists of three wastewater treatment plants, two ocean outfalls, a biosolids center, four large pump stations, force mains and gravity flow interceptors. The Metropolitan Sub-System infrastructure also includes two interceptors, which collect and route wastewater to the Point Loma Plant from the Municipal Sub-System and the Participating Agencies. Additionally, the Metropolitan Sub-System includes 97 permanent flow monitoring stations that are utilized for multiple purposes, including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow analysis and spill detection. The City is required to maintain certain permits and waivers with respect to the Wastewater System under Federal and State law. If existing permits and waivers are not maintained, the City could incur costs in addition to those currently included in the Department's budgets and projections. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage."

The City has the right to make all decisions with respect to the planning, design, construction, operation and maintenance of the Metropolitan Sub-System. Decisions on issues that impact the Participating Agencies are made with the advice of the Metro JPA. Although the Metro JPA may make recommendations to the City, the City retains ownership and decision-making authority over all elements of the Metropolitan Sub-System, including the capital improvements for the Metropolitan Sub-System.

The following is a summary description of the Metropolitan Sub-System's current facilities and their respective primary functions.

Point Loma Plant. The Point Loma Plant began operation in 1963. The site is part of the Fort Rosecrans military reservation and was acquired by the City from the U.S. Department of the Interior, Bureau of Land Management. The Point Loma Plant is the principal treatment facility in the Metropolitan Sub-System, with a permitted treatment capacity of 240 mgd flow with 432 mgd peak wet weather flow. During Fiscal Year 2015, the Point Loma Plant had an average daily flow rate of 135 mgd, including return flows from the North City Plant, centrate from the Metropolitan Biosolids Center, and sludge from the South Bay Plant. The average daily flow rate at the Point Loma Plant accounted for approximately 90.7% of the wastewater flow generated within the Metropolitan Sub-System. Almost all the inflow to the Point Loma Plant is conveyed through the Metropolitan Sub-System's Pump Station No. 2, which is the terminus for the North Metropolitan Interceptor Pipeline and South Metropolitan Interceptor Pipeline. Flow from the North City Plant which is not distributed to recycled water users is returned to the sewage conveyance system and is treated at the Point Loma Plant. In addition, the Point Loma Plant serves as a standby facility for the North City Plant and the South Bay Plant in the event one or both of these facilities are taken off-line for maintenance purposes.

The Point Loma Plant currently provides advanced chemical primary treatment of sewage in accordance with a waiver from the secondary treatment standards of the Clean Water Act, which was originally received by the City in 1995. The City's waiver was first renewed in 2002 by adoption of Order No. R9-2002-0025 by the California Regional Water Quality Control Board – San Diego Region (the "Regional Water Board"), and again renewed in 2009 by adoption of Order No. R9-2009-0001. The latter and present order became effective August 1, 2010 and expired on July 31, 2015. The City submitted its third application for renewal of the waiver and its discharge of wastewater to the ocean via the Point Loma Ocean Outfall (defined herein) in January 2015. A tentative decision on the City's renewal application is expected to be issued by the United States Environmental Protection Agency (the "EPA") by mid-2016. During the time from expiration of the current order in July 2015 until adoption of a new order, the present modified permit for the Point Loma Plant will be administratively continued. Consequently, the Point Loma Plant will continue to operate under the provisions of the 2009 modified permit, in full compliance with Clean Water Act section 301(h) as modified by the Ocean Pollution Reduction Act. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage." Treated wastewater from the Point Loma Plant is discharged into the ocean through the Point Loma Ocean Outfall.

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

Presently, the Point Loma Plant is capable of removing 85% to 92% of total suspended solids ("TSS"). The Point Loma Plant has increased its TSS removal rates through operational improvements of its chemical treatment processes. The wastewater treatment process currently employed at the Point Loma Plant consists of advanced chemical primary treatment and a digester gas utilization facility. Dewatering of sludge is provided at the Metropolitan Biosolids Center. Methane gas produced during the digestion is fed to a City-owned cogeneration plant where it is converted to electricity and used to provide power to operate the plant. Excess gas not converted to energy is directed to a third party, under the terms of an agreement to polish the gas and sell the gas to the local utility via an existing utility pipeline. See "Metropolitan Biosolids Center" below.

North City Plant. The North City Plant is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The North City Plant commenced operations in 1997 and is located adjacent to Interstate 805 and Miramar Road in the northwestern quadrant of the City. The North City Plant operates pursuant to "Waste Discharge and Water Recycling

Requirements for the Production and Purveyance of Recycled Water," Order No. 97-03, Addendum No. 1, which was adopted by the Regional Water Board on June 11, 2003 (the "North City Plant Permit"). The North City Plant Permit, as amended, is effective until it is revoked or further modified.

The North City Plant receives influent through the North City Tunnel Connector and from the Penasquitos Pump Station. The North City Plant process includes screening, grit removal, settling, flow equalization, activated sludge processing, tertiary filtration and effluent disinfection. The Metropolitan Biosolids Center (described below) digests and dewaters the sludge that is produced at the North City Plant. Support facilities of the North City Plant include an administration building that houses the operation and maintenance functions, a chemical building, and electrical energy generation facilities. The North City Plant has a permitted capacity of 30 mgd average daily flow. Per the requirements of a grant the City received from the EPA for construction of the North City Plant, flows into the plant must constitute a minimum of 75% of the plant's design capacity (at least 22.5 mgd). In Fiscal Year 2011, the Department notified the EPA that it would be temporarily reducing total flows from 22.5 mgd to 15 mgd to meet the actual demand for recycled water. The EPA has acknowledged this reduction and the City's good faith effort to maximize recycling and beneficial reuse. The City still maintains its commitment to maximize recycling and beneficial reuse, and is expanding the North City Plant's total wastewater treatment capacity up to 52 mgd with the implementation of the Pure Water Program. In Fiscal Year 2015, the plant operated at an average flow rate of approximately 16 mgd. The North City Plant is producing an average of 6 mgd of recycled water that is distributed to users through the Northern Water Distribution System. The North City Plant also is capable of providing treatment beyond the tertiary level through the demineralization of a portion of the effluent, to reduce total dissolved solids ("TDS") to meet recycled water customers' needs. The North City Plant limits its production of recycled water to meet demand. Excess treated effluent is returned to the sewer system for conveyance to the Point Loma Plant and ocean outfall. In Fiscal Year 2015, approximately 10 mgd was returned to the sewer system. See "Point Loma Plant" below. The solids that are removed during the sewage treatment process, either by sedimentation or biological oxidization, are pumped to the Metropolitan Biosolids Center for further treatment. See "Metropolitan Biosolids Center" below.

As of December 31, 2015, the North City Plant produced recycled water that served 669 retail and four wholesale meters. Three of the wholesale meters serve the Olivenhain Municipal Water District and the remaining wholesale meter serves the City of Poway. Recycled water also is used for industrial processing, cooling towers, construction site dust suppression and soil compaction, decorative fountains and toilet and urinal flushing. Revenues from the sale of recycled water are collected by the Department for deposit in the Water Revenue Fund and used to pay for the cost of the recycled water distribution system and then operations and maintenance costs for the distribution system. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Pure Water Program" for additional information on the Wastewater System's production of recycled water.

South Bay Plant. The South Bay Plant commenced operations in 2002. This plant, located on Dairy Mart Road north of the International Border with Tijuana, Mexico, is a sewage treatment facility that is capable of processing sewage to both secondary and tertiary treatment levels. The South Bay Plant currently operates under NPDES permit Order Number R9-2013-0006 (expiring in April 2018), as amended by Order Number R9-2014-0071, for the treatment and disposal of wastewater through the shared South Bay Ocean Outfall (the "South Bay Outfall"). Additionally, the South Bay Plant has been issued Recycled Water Permit No. 2000-203 (the "South Bay Recycled Water Permit"), which authorizes water recycling at the South Bay Plant. The South Bay Recycled Water Permit is effective until it is revoked. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS."

Untreated wastewater is pumped to the South Bay Plant's headworks, via the Grove Avenue Pump Station. After passing through the headworks for screening, the wastewater treatment process

continues with grit removal, primary sedimentation, aeration, secondary clarifiers, filtration (tertiary), and ultraviolet light disinfection to generate recycled water. The South Bay Plant is currently in the process of implementing a demineralization facility to reduce TDS for continued compliance with the Regional Water Board permit criteria for recycled water of 1,200 parts per million ("ppm") TDS. The South Bay Plant has a permitted capacity of 15 mgd average daily flow. For Fiscal Year 2015 the plant operated at an average flow rate of approximately 8 mgd. The South Bay Plant produced an average of 3 mgd of recycled water that was distributed to one wholesale and six retail meters. The wholesale connection is to the Otay Water District, and contracted at the retail rate, is pursuant to a take or pay recycled water service agreement for up to 6 mgd. On February 19, 2016, Otay Water District filed a claim against the City, accusing the City of charging an illegal rate for the recycled water sold to the District. Otay Water District paid the Department approximately $1.4 million for recycled water during Fiscal Year 2015. As of the date of the Official Statement, the City cannot predict the ultimate outcome of this claim.

The South Bay Plant limits its production of recycled water to meet demand. The South Bay Plant uses a phased tertiary process that allows the tertiary process to be bypassed when recycled water is not being produced, which increases efficiency and reduces plant operations and maintenance cost. Excess treated effluent is discharged to the South Bay Outfall for disposal. See "South Bay Outfall" below. However, during warmer periods of the year, almost the entire amount of wastewater treated at the South Bay Plant is reused. The South Bay Plant does not treat its own solids and cannot discharge its solids to the Metropolitan Biosolids Center directly. Primary sludge is pumped to the South Metropolitan Interceptor Pipeline and conveyed to the Point Loma Plant for further treatment and from there to the Metropolitan Biosolids Center for processing. See "Point Loma Plant" above and "Metropolitan Biosolids Center" below.

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

South Bay Outfall. The South Bay Outfall discharges flow from the South Bay Plant and the International Boundary and Water Commission's South Bay International Treatment Plant (a treatment plant located in San Diego County that treats sewage originating in Tijuana, Mexico). The South Bay Outfall consists of a land portion running 3.3 miles and an ocean portion discharging 3.5 miles off the coast at a depth of 95 feet. The outfall is jointly owned by the City and the International Boundary and Water Commission. The City has a 40% ownership interest in the South Bay Outfall, or approximately 133 mgd of the peak flow capacity of 333 mgd.

Metropolitan Biosolids Center. The Metropolitan Biosolids Center commenced operations in 1998 on a 39-acre site leased from the United States Navy within the Miramar Marine Corps Air Station located off Highway 52 in the north central portion of the City. The Metropolitan Biosolids Center is regulated under the Point Loma Discharge Permit because all waste streams from the Metropolitan Biosolids Center are sent to the Point Loma Plant for treatment. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage." The lease with the United States Navy (the "Metropolitan Biosolids Lease") expires in 2045. The United States Navy may terminate the Metropolitan Biosolids Lease during its term without the payment of any compensation to the City only in the event of a national or military emergency or with cause if the City fails to cure any breach of the

lease within 30 days' notice from the United States Navy. In the event the Metropolitan Biosolids Lease is terminated during its term by the United States Navy, the City would be obliged to vacate the site and relocate this facility elsewhere.

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

Once sludge is thickened, digested and dewatered at the Metropolitan Biosolids Center, the Department disposes of biosolids through landfill disposal, direct land application, or alternate daily cover. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Discharge and Disposal of Sewage" for information on the recently adopted AB 1594 and the elimination of yard trimmings and other greenwaste for landfill cover.

Located adjacent to the Metropolitan Biosolids Center and the North City Plant are two privatized cogeneration plants (6.4 MW and 3.8 MW, respectively) that are owned and operated by Minnesota Methane San Diego, LLC ("MMSD"), a subsidiary of Fortistar Methane Group, LLC ("FMG"). The cogeneration plants are located on parcels leased to MMSD for its exclusive use. The City has subleased methane gas rights from the landfill located adjacent to the Metropolitan Biosolids Center (the "Miramar Landfill") and digester gas produced at the Metropolitan Biosolids Center to MMSD's affiliate NEO San Diego (the "Landfill Gas Lease"). NEO San Diego is also a FMG subsidiary. NEO San Diego sells the gas to MMSD and MMSD burns the gas in the cogeneration plants to produce electricity and heat. All of the commercial landfill gas collection systems and the two cogeneration plants are entirely privately financed, owned, designed, built, and operated by the FMG entities. The City has purchase contracts (the "Cogeneration Facility Agreements") with MMSD to buy electricity for operations at the Metropolitan Biosolids Center and the North City Plant. The Cogeneration Facility Agreements are scheduled to expire on December 31, 2026, with automatic 5-year extensions subject to opt-out by either party. Any excess power that is generated and not purchased by the City for its facilities is sold by MMSD to the San Diego Gas & Electric Company. This arrangement allows the Wastewater System to decrease its dependence on external sources of power and reduces energy expenditures. Under the Landfill Gas Lease and the Cogeneration Facility Agreements, the City bears the risk of a possible termination of the Metropolitan Biosolids Lease. As discussed above, the Metropolitan Biosolids Lease allows the United States Navy to terminate the lease in the event of a national or military emergency, or in the event the City breaches the terms thereof. If the United States Navy terminates the Metropolitan Biosolids Lease, then the City must purchase MMSD's facilities, including the landfill gas collection system installed by MMSD and the cogeneration plants at the Metropolitan Biosolids Center and the North City Plant. The purchase price for the facilities would be equal to the greater of a "stipulated purchase price" (provided by formula in the contract, which takes into account such factors as initial and depreciated values) or the "fair market value" of the facilities, as each of these terms is defined in the agreements with MMSD. The maximum amount of exposure to the City for the loss of these facilities is estimated to be $38 million. Such a loss would only arise upon the occurrence of a default by the City or termination by the United States Navy in the event of a national or military emergency. The City believes that it is unlikely that the United States

Navy will terminate the Metropolitan Biosolids Lease because of the United States Navy's reliance on the landfill and the City's substantial investments in placing regionally crucial wastewater infrastructure, such as the Metropolitan Biosolids Center at Miramar. Moreover, in 2011, the City consented to allow FMG to develop a separate landfill gas fueled 3.2 MW cogeneration plant that is now under contract to the United States Navy to supply electricity to the adjacent Marine Corps Air Station Miramar through December 31, 2026, with automatic 5-year extensions subject to opt-out by either party. The City believes, that the Navy's own reliance on a FMG landfill gas and cogeneration system makes the possibility of early termination of the Metropolitan Biosolids Lease by the Navy even less likely. See "RISK FACTORS—Utility Costs.

Pump Stations. The Department operates and maintains a total of 81 pump stations, including 8 large and 73 smaller pumps. Four of the large pump stations service the Metropolitan Sub-System, which include Pump Station No. 1 and Pump Station No. 2, that began operation in 1963, the Grove Avenue Pump Station, that began operations in 2002 and pumps wastewater to the South Bay Plant, and the Otay River Pump Station, added to the Metropolitan Sub-System in 2003, and pumps wastewater to the South Bay Plant. The other four large pump stations are part of the Municipal Sub-System and include East Mission Gorge Pump Station, Sewage Pump Station No. 64, Sewage Pump Station No. 65 and the Penasquitos Pump Station. All of the 73 small pump stations also are part of the Municipal Sub-System.

Interceptors. The Metropolitan Sub-System interceptors consist of two major branches, the South Branch and the North Branch, which meet at Pump Station No. 2. Interceptor capacities are adequate for current peak flows and the City models' capacity is consistent with all current regulations. Due to predicted capacity limitations at Pump Station No. 2, the Department initiated the Wet Weather Operational Plan which deploys system-wide operational strategies to best utilize sewer pipe capabilities and recycle water treatment to off load and control flows to Pump Station No. 2. Additionally, the Department initiated the Wet Weather Storage Project that will include the construction of an underground storage tank with a capacity of seven million gallons near Pump Station No. 2 to store excess wastewater flow during the peak wet weather flow period to relieve the capacity constraint at Pump Station No. 2. The Department also initiated the Wet Weather Intermittent Stream Discharge Project to discharge the tertiary treated recycled water from the North City Plant to the streams or canyons during the peak wet weather flow period to relieve the capacity constraint at Pump Station No. 2. An NPDES permit is required for this project and the project is currently under review by the Regional Water Board. The Department can defer the Wet Weather Storage Project if the Wet Weather Intermittent Stream Discharge Project is implemented. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

Municipal Sub-System Facilities

The Municipal Sub-System consists of approximately 3,000 miles of trunk sewers and collector mains, 73 small sewer pump stations, and four large pump stations, including East Mission Gorge Pump Station, Sewage Pump Station No. 64, Sewage Pump Station No. 65, and Penasquitos Pump Station, serving approximately 274,000 accounts with connections to the sanitary sewer system. Approximately 84% of these connections are from accounts relating to single family dwellings, 10% are from accounts relating to multifamily dwellings and the remaining 6% are from accounts relating to commercial and industrial customers (these percentages include multiple accounts at some locations). On average, these accounts generate 99 mgd of wastewater which is conveyed by the Municipal Sub-System to the Metropolitan Sub-System for treatment and disposal. The Municipal Sub-System also includes 58 permanent flow monitoring stations which are utilized for multiple purposes, including strength-based billing, facility planning, sewer modeling, criticality evaluation, infiltration/inflow analysis and spill detection.

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

Pursuant to a sewage disposal agreement with the City of Escondido entered into in 1972, up to 5 mgd of sewage emanating from the Rancho Bernardo sewer service area of the City may be treated at Escondido's Hale Avenue Resource Recovery Facility (the "Escondido Plant"). The Escondido Plant is not owned by the City and is not part of the Municipal Sub-System. This agreement is scheduled to terminate in 2022, fifty years from the date on which sewage flow commenced through the Escondido Plant, and may be extended at the City's option for an unlimited number of 10-year periods. The Escondido Plant, which can process up to 18 mgd of sewage, currently is treating approximately 3 mgd of flow from the City. The City of Escondido is considering options to increase its treatment capacity to accommodate expected population growth.

Pursuant to a sewage disposal agreement (the "Solana Beach Agreement") with the Solana Beach Sanitation District originally entered into in 1974, the City has the right to connect to sewer lines within the Solana Beach Sanitation District. Pursuant to the Solana Beach Agreement, the City may permit the connection to the sewage system of the Solana Beach Sanitation District of up to 300 equivalent dwelling units (one equivalent dwelling unit or "EDU" is equal to 280 gallons per day of wastewater flow for a single family residence), or 84,000 gallons per day, of sewage emanating from the portion of the City contiguous to Del Mar and Solana Beach to be treated at the San Elijo Water Reclamation Plant (the "San Elijo Plant"). The City currently connects approximately 337 EDUs (the Solana Beach Sanitation District has agreed to allow the City to connect EDUs in excess of the 300 EDUs provided for in the Solana Beach Agreement until 2024) to the District's system. Sewage treated at the San Elijo Plant is disposed of through the San Elijo Ocean Outfall, which is owned by the City of Solana Beach and the Cardiff Sanitation District and operated by the Solana Beach Sanitation District, the Cardiff Sanitation District and the City of Escondido. The San Elijo Plant and the San Elijo Ocean Outfall are not owned by the City and they are not part of the Municipal Sub-System. The Solana Beach Agreement expires in 2033 and may be extended by mutual agreement by the parties.

Historical Wastewater System Flow

Over the past ten years, the Department has seen a downward trend in wastewater flows. The trend reflects both the ongoing water conservation efforts (as consumers continue to upgrade to high efficiency appliances including toilets, dishwashers, and washing machines, etc.) and lower infiltration and inflow components in the wastewater as a result of below average rainfall over the last five consecutive years. The sewer flow rate per capita is estimated to decrease by 5% in Fiscal Year 2016 as a result of the State mandated 16% reduction of water consumption for the City (beginning February 8, 2016, the Department may apply to the Regional Water Board to reduce the 16% mandated reduction to as low as 8% by providing the Regional Water Board supporting data that qualifies it for a reduction, which data the Regional Water Board will use in determining whether to approve the requested reduction). Also, the ongoing water conservation efforts are anticipated to result in an additional decrease to sewer flow rates per capita of 5% over a ten-year period from Fiscal Year 2017 through Fiscal Year 2026. However, the Department projects that the aggregate overall wastewater flows will slightly increase over the next ten years as a result of the expected population growth. Table 4 below sets forth total annual system flow through the Wastewater System (including the Point Loma Plant and the South Bay Plant) and through the City of Escondido to the Escondido Plant and the City of Solana Beach to the San Elijo Plant, and total annual recycled water flow through the North City Plant for Fiscal Years 2006 through 2015.

TABLE 4
WASTEWATER SYSTEM
TOTAL ANNUAL FLOW[1]
Fiscal Years Ended June 30, 2006 through June 30, 2015
(in million gallons)
(Unaudited)

Fiscal Year Ended June 30	City Flow Through Point Loma Plant	Participating Agency Flow Through Point Loma Plant	City Flow Through Escondido Plant[2]	City Flow Through San Elijo Plant[2]	Recycled Water Through North City Plant	City Flow Through South Bay Plant	Total System Flow	Average MGD For The Year
2006	42,240	22,270	1,279	32	1,259	1,632	68,712	188
2007	38,295	21,886	1,106	32	1,544	2,949	65,812	180
2008	37,207	21,849	1,096	32	1,749	3,210	65,143	178
2009	36,752	21,174	1,065	32	2,402	3,106	64,531	177
2010	36,995	20,488	1,022	32	1,931	2,986	63,454	174
2011	37,607	21,259	1,058	32	1,872	3,026	64,855	178
2012	36,484	20,721	1,000	32	1,925	2,957	63,120	172
2013	35,686	19,948	968	32	2,181	2,938	61,753	169
2014	34,378	19,366	935	32	2,375	2,919	60,005	164
2015	33,321	18,224	896	32	2,232	2,851	57,556	158

Source: Public Utilities Department, City of San Diego

[1] The Wastewater System consists of the Metropolitan Sub-System (collects and treats the wastewater generated by the City and 12 other agencies) and the Municipal Sub-System (all elements required for the collection and conveyance of the wastewater generated by the City).

[2] The City does not treat flows through the Escondido Plant or the San Elijo Plant.

WASTEWATER SYSTEM REGULATORY REQUIREMENTS

General

Wastewater System operations are subject to Federal, State, and local environmental regulations that primarily address the quality of effluent that may be discharged from the Wastewater System, the disposal of sludge generated by the Wastewater System, and the nature of waste material (particularly industrial waste) discharged into the collection system. The Federal regulations that have the most significant effect on the Wastewater System are the Clean Water Act (which is administered by the EPA, the State Water Resources Board and the Regional Water Board), the Federal Clean Air Act, and the Federal Resource Conservation and Recovery Act. The Wastewater System is in compliance with the major elements of each of the foregoing regulations and other programs managed by the Federal government and the State.

Collection of Sewage

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

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

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

In March 2001, two environmental groups filed suit against the City alleging that the Municipal Sub-System's collection system was deficient as a result of sewer spills which had occurred since December 1996. The EPA and the State filed similar suits against the City in July 2003. The resulting settlements were memorialized in a Partial Consent Decree (the "Partial Consent Decree") which expired on June 30, 2006 and a Second Partial Consent Decree (the "Second Partial Consent Decree"), which expired on June 30, 2007. Under the Partial Consent Decree and the Second Partial Consent Decree, the City agreed to rehabilitate or replace 200 miles of sewer pipeline by June 30, 2007. In 2007, the City, the EPA and various environmental groups entered into a final Consent Decree (the "Final Consent Decree" and, together with the Partial Consent Decree and the Second Partial Consent Decree, the "Consent Decree"). The Consent Decree required, among other things, increased sewer spill response and tracking, increased root control, and replacement or rehabilitation of an additional 250 miles of pipeline between July 1, 2007 and June 30, 2013.

The City completed all requirements of the Consent Decree, and on August 4, 2015 the Consent Decree was terminated by all parties upon an order from the United States District Court granting all parties a joint stipulation terminating the Consent Decree.

In 2001, the Department initiated a program to reduce SSOs by maintaining a system-wide cleaning schedule, video monitoring and assessing the condition of the oldest and most problematic sewer lines in the Wastewater System and increasing the number of miles of sewer lines replaced or rehabilitated annually. The Department has reduced sewer spills by 92% between calendar year 2000 and calendar year 2015. During calendar year 2015, there were 35 SSOs in the Municipal Sub-System. The City plans to continue with the replacement and rehabilitation program of approximately 45 miles of pipeline per year it commenced in connection with the Consent Decree.

Treatment of Sewage

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

Treatment Waivers for Point Loma Plant

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

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

The City applied for and was granted the Point Loma Plant Treatment Waiver on November 9, 1995 (such Treatment Waiver, granted pursuant to OPRA, is referred to herein as a "Modified Permit"). The City must seek a renewal of its Modified Permit every five years if it seeks to renew the Point Loma Discharge Permit. The City has satisfied the OPRA requirements to achieve a system capacity of 45 mgd of recycled wastewater per day by constructing the North City Plant, which has a design capacity of 30 mgd, and the South Bay Plant, which has a design capacity of 15 mgd. The Point Loma Plant has consistently met or exceeded the 80% removal requirement for TSS and the 58% removal of BOD. The quantity of TSS discharged into the Pacific Ocean has conformed to OPRA requirements and all other permit requirements. The City, the EPA and certain environmental groups disagree on how the OPRA requirements may apply to future Modified Permits. Currently, there are no active lawsuits or appeals with respect to the OPRA requirements.

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

In separate proceedings, the City successfully appealed the actions of the California Coastal Commission and the Regional Water Board. In May 2002, the City resubmitted its consistency certification to the California Coastal Commission and appealed the Commission's consistency certification objection to the Secretary of Commerce. In addition, the City appealed the Regional Water

Board's NPDES permit action modifying the mass emission limits to the State Water Resources Board. In August 2002, the State Water Resources Board ordered the mass emission limits to be returned to the originally drafted levels. Subsequently, the City resubmitted its consistency certification for the waiver as modified and ordered by the State Water Resources Board. The State Water Resources Board concluded that the Regional Water Board had ". . . failed to make findings, either in its order or during its deliberations, that justify reducing the mass emissions limit for TSS in the waste discharge requirements." The California Coastal Commission then approved the consistency certification for the Treatment Waiver.

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

Current Treatment Waiver for Point Loma Plant. In December 2007, the City submitted an application to the EPA to request a renewal of the Modified Permit for the Point Loma Plant. The City's renewal application followed the same conventions as previous applications relative to the Clean Water Act requirements. The City received a Tentative Decision to approve the Modified Permit from the EPA in December 2008. In January 2009, the City Council approved a resolution authorizing the City to negotiate and execute an agreement with two local environmental groups regarding the Modified Permit. Pursuant to the agreement, the two environmental groups agreed not to challenge the Tentative Decision and the City was obligated to research options to increase the use of recycled wastewater and decrease discharges to the Pacific Ocean from the Point Loma Plant. After receiving public input through a joint public hearing process conducted with the EPA, the Regional Water Board unanimously approved the Modified Permit in June 2009. In August 2009, the California Coastal Commission denied a consistency certification for the Modified Permit, rejecting the recommendations for approval from the EPA and staff of the California Coastal Commission. Approval was eventually granted in March 2010 with the condition that the City return in two years to present the results of the Recycled Water Study (herein defined). The Recycled Water Study was presented to the California Coastal Commission in October 2012. The Modified Permit became effective on August 1, 2010 and expired on July 31, 2015. The City submitted a renewal application in January 2015 and the existing Modified Permit has been administratively continued pending a decision by the regulatory agencies. Since its initial Modified Permit approval in 1995, the Point Loma Plant has been in consistent compliance with the requirements of the Clean Water Act and such other requirements for Modified Permits. Based on the City's past experience and its high level of compliance with the Clean Water Act, it expects to receive approval of a new Modified Permit by the end of 2016.

Despite the history of approvals and high level of compliance, Modified Permits are still subject to a regulatory approval process every five years. Absent a Modified Permit, the Point Loma Plant would need to be modified to comply with the Clean Water Act secondary treatment requirements. As a result of the Recycled Water Study, the City engaged local environmental groups to explore whether sufficient wastewater could be offloaded from the Point Loma Plant to make the effluent from the Point Loma Plant equivalent to what would be realized through secondary treatment. The offloaded wastewater would then go through advanced water treatment to create potable water. This approach of achieving "secondary

equivalency" through potable reuse became known as the Pure Water Program. In May 2014, the City Council adopted a resolution in support of the Pure Water Program. The City believes that implementation of the Pure Water Program will assist the City in receiving Modified Permits in the future. Wastewater flows to and the total amount of solids handled by the Point Loma Plant will be reduced, thereby improving the discharge to the ocean over the discharge that has consistently qualified for past Modified Permits. See "—Pure Water Program" below. To verify the validity of this strategy, the City has maintained an open dialogue with the EPA to insure that the facility planning for the Pure Water Program will provide an even greater degree of assurance for future Modified Permits.

If the City does not obtain a renewal of the Modified Permit (or any subsequent Modified Permit), the implementation of secondary treatment would be required at the Point Loma Plant. Based on Fiscal Year 2015 calculations, the cost to bring the Point Loma Plant into compliance with the secondary treatment requirements of the Clean Water Act would be approximately $2.1 billion (in current dollars) through Fiscal Year 2050, with approximately $1.8 billion occurring by Fiscal Year 2030. Further, the City estimates there also would be an increase in operating and maintenance costs of approximately $39 million per year, including additional energy and personnel costs, once the Point Loma Plant was fully operational at the secondary treatment level. Increased costs associated with bringing the Point Loma Plant to the secondary treatment level could potentially result in increased service charges. Such estimated costs are not reflected in the financial information included in Tables 5 and 16. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM" and "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Financial Projections."

The estimated costs described in the previous paragraph to bring the Point Loma Plant into compliance with the secondary treatment requirements of the Clean Water Act do not incorporate the expected reduction of flows that would result from the implementation of the Pure Water Program. In the event the Modified Permit is not approved for renewal, the Department would reevaluate the projected costs of bringing the Point Loma Plant into compliance with the secondary treatment requirements given the reduced flows that are expected to result from the implementation of phase one of the Pure Water Program.

In November 2014, the Mayor and City Council approved a Cooperative Agreement (the "Cooperative Agreement"), between the City and local environmental groups to work together to implement the Pure Water Program. The centerpiece of the Cooperative Agreement is an amendment to OPRA called OPRA II. OPRA II would amend the Clean Water Act to allow the Point Loma Plant to remain at advanced primary treatment in return for implementing a total of 83 mgd of potable reuse by the end of calendar year 2035. Building the facilities necessary to implement potable reuse will offload wastewater from the Point Loma Plant such that the effluent levels will be equivalent to converting the Point Loma Plant to secondary treatment. OPRA II would also change the permitting process for the Point Loma Plant to treat it like every other secondary wastewater treatment plant.

The Cooperative Agreement requires the parties to jointly pursue the passage of OPRA II in Congress. The environmental groups also will reach out to other environmental groups to convince them to support, or at least not object, to OPRA II. The City agreed to submit an application to renew the NPDES permit that complies with both OPRA and OPRA II because historically it has taken one to two years for the EPA to process and approve the City's application. Therefore, the City's application will include a commitment to perform a program Environmental Impact Review for the Pure Water Program and to design (but not construct) the first capital improvements for potable reuse. In return, the environmental groups have agreed not to challenge the City's application and any subsequent applications that comply with OPRA II, and to support the application at public hearings before regulatory agencies. The City will continue the current ocean monitoring program to confirm the Point Loma Plant is not harming the ocean environment.

The Cooperative Agreement includes a schedule for implementing the capital improvements necessary to achieve at least 83 mgd in potable reuse by the end of calendar year 2035 as required by OPRA II, including additional interim milestones of 15 mgd by the end of calendar year 2023 and another 15 mgd by the end of calendar year 2027. The City is currently evaluating the option of delivering the entire 30 mgd by the end of calendar year 2021. The requirement to meet this implementation schedule, however, is contingent on several events including the enactment of OPRA II (which is currently subject to negotiations between the City and certain environmental groups), California Environmental Quality Act review, sufficient funding being available, acquisition of property for the new reclamation facility, and various regulatory approvals to implement potable reuse.

The City also is exploring the possibility of an amendment to the Code of Federal Regulations to allow for secondary equivalency through potable reuse. There are existing federal regulations addressing secondary equivalency in certain circumstances, but the regulations are decades old and predate modern advanced water treatment technology used for potable reuse. The City is in discussions with the EPA as to whether amending the Code of Federal Regulations is feasible.

Pure Water Program

General. The Pure Water Program is the Department's program to provide a safe, secure, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce potable water from recycled water. The City and its regional partners face significant issues with water supply and wastewater treatment. Currently 85% of the region's water supply is imported from the Colorado River and Northern California. The region's reliance on imported water causes the water supply to be vulnerable to impacts from shortages and susceptible to price increases beyond the control of the Department. As sources of local water supply are few, consideration has been given to both non-potable and potable reuse options of treated water. Water reuse is proven, safe, reliable, and is currently in use in other communities in the United States and around the world. The Pure Water Program is a significant water and wastewater capital improvement program that will create 83 mgd by the end of calendar year 2035 of locally controlled water, and reduce flows to the Point Loma Plant which would reduce total suspended solids discharged, and recycle a valuable and limited resource that is currently discharged to the ocean.

Background of Pure Water. In January 2004, the City Council authorized a comprehensive evaluation of all viable options to maximize the usage of recycled water. In March 2006, the City, working in partnership with an Independent Advisory Panel and a City Assembly on Water Reuse, published the "City of San Diego Water Reuse Study" (the "Water Reuse Study"). The Water Reuse Study included analysis and research on the health effects of reuse options and a public participation process. The Water Reuse Study's stakeholders identified reservoir augmentation as their preferred strategy. In October 2007, the City Council also recognized the strategy as their preferred alternative. In December 2007, the City Council voted to accept the Water Reuse Study and proceed with the Water Purification Demonstration Project (the "Demonstration Project") which evaluated the feasibility of turning recycled water produced at the North City Plant into drinkable water through the use of Advanced Water Purification ("AWP") technology. The AWP process uses multiple treatment barriers to remove contaminants from the water and prevent them from re-entering the water supply. The process begins with membrane filtration, followed by reverse osmosis, and ends with advanced oxidation. The result is water that meets all drinking water standards and is similar in quality to distilled water. The water is then sent to an environmental buffer, a reservoir, as the next step in the indirect potable reuse process. The water in the reservoir is treated at a drinking water treatment plant before it is distributed for drinking purposes. As part of the Demonstration Project, the Department tested and operated a one mgd demonstration-scale AWP facility from June 2011 to August 2012. The Demonstration Project was completed in March 2013, and in April 2013, the City Council unanimously voted to accept the

Demonstration Project and continue to pursue potable reuse options for the City. The Department is currently evaluating reservoirs where the purified water can be stored.

During the City's 2010 NPDES permit renewal process, two environmental groups entered into the Cooperative Agreement with the City to conduct a "Recycled Water Study" to find ways to maximize water reuse and minimize the flow to the Point Loma Plant. In accordance with the Cooperative Agreement, both environmental groups provided support to the EPA's decision to grant the Modified Permit. The Recycled Water Study was conducted and completed in July 2012. In addition to developing integrated water reuse alternatives for both non-potable and indirect potable reuse to augment the region's water supply, the Recycled Water Study identified locations for future advanced water purification facilities. The Recycled Water Study also identified two City owned and operated reservoirs as potential locations for reservoir augmentation. The City Council voted to accept the Recycled Water Study report in July 2012.

At the time of acceptance of the Demonstration Project, the City Council directed City staff to define in greater detail the City's potable reuse options, including direct potable reuse. This is an overlap between the City Council directive and the follow on work associated with the Recycled Water Study. The combined efforts of the Demonstration Project and the Recycled Water Study comprise the Pure Water Program.

Pure Water Program Facilities. The Pure Water Program is a twenty-year program that will involve the planning, design, and construction of new advanced water treatment facilities, wastewater treatment facilities, pump stations, transmission lines and pipelines. The Pure Water Program also will include property and easement acquisition, discretionary permitting, financing, facility startup, testing, operation and maintenance of new facilities, and significant public education and community engagement.

The total capital cost to build the Pure Water Program facilities and infrastructure is estimated to be approximately $3 billion (in current dollars), of which approximately $1.8 billion will be a cost to the Sewer Revenue Fund. The remaining costs of the Pure Water Program (approximately $1.2 billion) will be a cost to the City's Water Revenue Fund. The Department has determined that the costs for the Pure Water Program will be allocated between the Sewer Revenue Fund and the Water Revenue Fund as follows: all capital and operational costs related to facilities for the conveyance of wastewater and the treatment of the wastewater through secondary treatment will be borne by the Sewer Revenue Fund and all capital and operational costs related to treatment and conveyance of processed water after the secondary phase will be borne by the Water Revenue Fund. The first phase of the Pure Water Program is estimated to cost approximately $1 billion (in current dollars), of which approximately $266 million would be a cost to the Sewer Revenue Fund. A portion of these costs include an initial five-year, $30 million, as-needed contract with MWH Americas, Inc. ("MWH") Working with Department staff, MWH will provide strategic planning, project delivery, program controls, pre-design of conveyance and treatment facilities, design oversight/management, pilot testing of proposed technologies, regulatory permitting, outreach and public education, quality management and risk mitigation services. Once the Pure Water Program is fully implemented, the total annual operating costs associated with the Pure Water Program facilities are estimated to be approximately $124 million at full capacity, of which approximately $28 million will be payable from the Sewer Revenue Fund. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM."

The key Pure Water Program facilities can be categorized as treatment, storage, and conveyance. Treatment facilities include the existing North City Plant and South Bay Plant, as well as a proposed Central Area facility. Pump station and pipeline facilities are included for conveying different types of flows to and from the treatment facilities for: diverting wastewater flows to advanced water purification

facilities; conveying purified water from treatment facilities to a reservoir; and transporting solid wastes from treatment processes to solids handling facilities.

All projects will be planned and coordinated with existing operations, and in full compliance with applicable Federal, State, and local regulations. Pursuant to the Cooperative Agreement, the City has committed to produce at least 15 mgd of potable reuse by the end of calendar year 2023, a cumulative total of 30 mgd of potable reuse by the end of calendar year 2027, and a cumulative total of at least 83 mgd of potable reuse by the end of calendar year 2035. Cumulative totals of potable reuse include projects that may be implemented by the Participating Agencies. The City is currently evaluating the option of delivering up to 30 mgd of purified water by the end of calendar year 2021.

The City continues to review and evaluate all components of the Pure Water Program, including the methods to be employed to purify water and the locations of the purification facilities.

North City Component. The North City Area component of the Pure Water Program includes possible expansion of the North City Plant, construction of a new Advanced Purification Facility, pipelines, and support facilities such as pump stations. The purified water will be piped to a reservoir where it will blend with raw water in the reservoir. Plans for the North City Plant are to maximize the current plant capacity or expand the plant capacity to treat 52 mgd, which would yield 30 mgd of purified water and 12 mgd of non-potable recycled water. The new advanced treatment facility would be located on the vacant City-owned lot across the street to the north of the existing North City Plant. A new pump station, sewer force main, and a brine pipeline would be required to support the treatment facility at an expanded capacity. Pump stations and a new pipeline would be constructed between the advanced purification facility and the reservoir. A total of 15 mgd to 30 mgd reduction in Point Loma Plant flow is possible with this North City component.

South Bay Component. The South Bay component of the Pure Water Program will include the expansion of the South Bay Plant, installation of additional pump stations and pipelines to convey additional wastewater to the plant, and construction of an Advanced Water Purification Facility and a conveyance system to deliver purified water to a reservoir. The South Bay component will be expanded to treat 44 mgd of wastewater and to produce 15 mgd of purified water and 9 mgd of non-potable reuse. The South Bay component will minimize flows discharged to the South Bay Outfall.

Central Area Component. The Central Area component of the Pure Water Program would be the largest proposed facility. The Central Area facilities will carry all of the flows that are conveyed to the Point Loma Plant. The Central Area facilities would produce 53 mgd of purified water. Pipelines would be built that connect the purified water from Central Area facilities to a reservoir. Additionally, another pipeline would be needed between the Central Area facilities and the Point Loma Plant to convey solids from the Central Area facilities to the Point Loma Plant for use in energy production. A total of 53 mgd reduction in Point Loma Plant flow is possible with this Central Area component. Cumulative totals of potable reuse include projects that may be implemented by the Participating Agencies.

Discharge and Disposal of Sewage

Enacted in 1972, the Clean Water Act is a comprehensive revision of prior Federal water pollution control legislation requiring operators of wastewater treatment plants to operate such facilities in accordance with NPDES permits which set forth discharge limitations and reporting requirements applicable to the treatment and discharge of wastewater. The NPDES permit sets effluent limitations (waste discharge requirements) on what is discharged into any public waters and prohibits any non-authorized discharges such as sewer system overflows. The Point Loma Plant and the South Bay Plant

must obtain separate NPDES permits authorizing them to discharge treated wastewater to the Pacific Ocean via the Point Loma Outfall and the South Bay Outfall, respectively.

The Point Loma Plant (NPDES No. CA0107409) is currently permitted to discharge up to 240 mgd of chlorinated advanced primary treated wastewater to the ocean via the Point Loma Outfall in accordance with a waiver from the secondary treatment standards of the Clean Water Act, which was originally received by the City in 1995. As described above under "—Treatment of Sewage—Treatment Waivers for Point Loma Plant," the existing Modified Permit became effective August 1, 2010 and expired on July 31, 2015. The City submitted a renewal application in January 2015 and the existing Modified Permit has been administratively continued pending a decision by the regulatory agencies. A tentative decision on the renewal application is expected to be issued by the EPA by mid-2016. Although no assurance can be given that such approval will be granted, based on the City's past experience and its high level of compliance with the Clean Water Act, it expects to receive approval of a new Modified Permit by the end of 2016. See "—Treatment of Sewage—Treatment Waivers for Point Loma Plant" above for additional information with respect to the Modified Permit.

The South Bay Plant (NPDES No. CA0109045) is currently permitted to discharge up to 15 mgd of secondary treated wastewater to the ocean via the South Bay Outfall in accordance with the requirements specified in Order No. R9-2013-0006 as amended by Order No. R9-2014-0071. Order R9-2013-0006 was originally adopted by the Regional Water Board on February 13, 2013, became effective on April 4, 2013, and will expire on April 3, 2018. However, the receiving waters monitoring requirements in this order were subsequently modified by the Regional Water Board effective November 12, 2014 in order to match the receiving waters monitoring requirements specified in Order No. R9-2014-0009 for the South Bay International Wastewater Treatment Plant. This amendment enables the City and the International Boundary and Water Commission to continue conducting a joint ocean monitoring program for the South Bay Outfall region.

The City also must comply with effluent water-quality based State requirements. The California Water Code Article 4 (commencing with Section 13160) of Chapter 3 of Division 7 requires the State Water Resources Board to formulate and adopt a water quality control plan for the ocean waters of the State known as the California Ocean Plan (the "Ocean Plan"). The Ocean Plan sets forth waste discharge limitations and monitoring and enforcement guidelines to ensure that water quality objectives are met. Section 303(c)(1) of the Clean Water Act and Section 13170.2(b) of the State Water Code require that ocean water quality standards be reviewed at least once every three years. In the event significant changes to the discharge requirement for TSS are approved with respect to the Ocean Plan, future waivers for the Point Loma Plant may be threatened. As of the date of this Official Statement, no significant changes have been enacted, and the TSS limitations in the current Ocean Plan (adopted on October 16, 2012) remain unchanged.

In 1993, the EPA promulgated its "Standards for the Use or Disposal of Sewage Sludge" (Code of Federal Regulations Title 40, Part 503), which established, among other things, pollutant limitations, operational standards, management practices and other provisions intended to protect public health. In addition to Federal requirements, the City must also comply with State Water Resources Board adopted Water Quality Order No. 2004-12-DWQ, which expands upon Federal regulations with respect to biosolids and streamlines the regulatory process for the use of biosolids as a soil amendment.

State law AB 939 required the City to divert at least 50% of all solid waste from landfill disposal by January 1, 2000. For calendar year 2015, the City diverted 97.4% of biosolids from landfill disposal. Biosolids diversion is an integral part of the City's compliance with AB 939, as biosolids were disposed of in the City's landfill during the baseline year used for calculating the diversion rate. The City entered into a franchise disposal agreement with a private company pursuant to which the company is responsible

for the disposal of all biosolids generated at the Metropolitan Biosolids Center through a combination of land application and alternative daily cover methods for landfill use. In 2015, the City renewed the franchise disposal agreement for five additional years. This agreement will maintain the same per unit cost for reusing the biosolids as alternative daily cover and land application. AB 1594, adopted in 2014, eliminates the use of yard trimmings and other greenwaste to be used as landfill cover and be counted toward diverting waste from the landfill when determining compliance with AB 939 and subsequent legislation. AB 1594 and AB 1826, which also was adopted in 2014 and further restricts biosolids disposal, could result, starting in 2020, in the local landfill not having an alternative material to mix with the biosolids, and thus the biosolids would require direct landfilling for any portion that would not be land farming applied. The City is actively pursuing alternative biosolids reuse methods to diversify the present disposal options, including initiating a study to evaluate biosolids management options that have proven technologies and are pertinent to the Department, in order to address any impacts from the provisions of AB 939, AB 1594 and AB 1826. Compliance with AB 939, AB 1594 and AB 1826 could result in additional capital investment, administrative cost and time of implementing, monitoring, and reporting on the new method.

Industrial Wastewater Control Program

The Point Loma Discharge Permit, the South Bay Discharge Permit and various Federal regulations require the City to control discharges to the Wastewater System by implementing an industrial wastewater control program (an "IWCP"). The Metropolitan Sub-System has had an IWCP in effect since 1972. The Metropolitan Sub-System's IWCP was formally approved by the EPA in 1983. The Metropolitan Sub-System's IWCP administers and enforces Federal general and specific discharge prohibitions, Federal categorical pretreatment standards, treatment plant-specific local limits and local source control programs within the City. The City's Industrial Waste Ordinance lists federal general and specific prohibitions and authorizes the issuance of permits, which include applicable federal and local discharge standards. The City's Industrial Waste Ordinance also authorizes administrative penalties and other enforcement measures in response to permit or ordinance violations. The City has entered into inter-jurisdictional pretreatment agreements (each, a "Pretreatment Agreement" and, collectively, the "Pretreatment Agreements") with eleven of the Participating Agencies, including four of the five County service areas that constitute the County's Participating Agency, whose sewage is treated by the Department; the agreement with the remaining County service area is being finalized. The Pretreatment Agreements specify that each Participating Agency must either implement an equivalent IWCP or authorize the City to administer an IWCP in their respective agencies. Collectively, the IWCP operated by the City regulates 1,314 dischargers throughout the Metropolitan Sub-System's tributary area. In addition, inspections have determined that an additional 2,394 facilities do not require permits at this time. Annual Pretreatment Program audits by the EPA and the Regional Water Board have determined that the IWCP, with the exception of ordinance modification required by EPA contractors, is in compliance with the Point Loma Discharge Permit, the South Bay Discharge Permit and Federal program requirements. Certain ordinance modifications required by EPA contractors are pending review and submittal to the City Council for review.

Grant and Loan Related Regulatory Requirements

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

In connection with an EPA grant of approximately $69.5 million that the City received and used for the construction of the North City Plant and other wastewater projects, the grant contained a condition that the City attempt to meet the goal of beneficial reuse of 25% of the flows treated at the North City Plant by December 31, 2003 and 50% by December 31, 2010. The City has diligently reported its progress and efforts to meet the goals set forth in the grant. The EPA has acknowledged the City's good faith efforts toward compliance with the beneficial reuse goals set forth in its grant and has not imposed any penalties or sanctions under the grant agreement. During Fiscal Year 2015, the City achieved beneficial reuse of 38% of the flows treated at the North City Plant. The City is continuing to explore alternative means to increase recycled water use. See "THE WASTEWATER SYSTEM—Metropolitan Sub-System Facilities—North City Plant."

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

Recent Sewage Spill in Tecolote Creek

On January 5, 2016, during a major El Niño storm event, a 15-inch sewer main in Tecolote Canyon was exposed and ruptured by the surging Tecolote Creek. Due to flooding and erosion at the location and storm water entering the ruptured sewer main in place of the sewage, the Department did not discover the sewer main break until January 10, 2016. The sewage spill was contained within hours of its discovery and the sewer main was repaired and placed back into service on February 1, 2016.

The Department estimates that approximately 5.7 million of the total 6.7 million gallons of sewage spilled escaped from the sewer main and entered Tecolote Creek and Mission Bay. The Department successfully recaptured an estimated 1 million gallons of the spill. The Department immediately reported the spill to the Regional Water Board, the State regulatory agency that has jurisdiction over the Department with respect to the spill. In response to a Request for Technical Information and Notice of Violation dated February 10, 2016 ("Request for Information"), the Department is in the process of providing additional information and reports regarding the spill to the Regional Water Board by the stated due date of April 1, 2016. Beyond delivering the Request for Information, the Regional Water Board has not indicated what actions, if any, it may take against the Department.

Pursuant to California Water Code Section 13385(c), the Regional Water Board has the authority to impose fines on wastewater agencies of up to $10 per gallon of sewage spilled plus up to $10,000 per day that a spill continued. The Department estimates that the maximum possible fine the Regional Water Board could impose on the Department for this sewer spill would be approximately $68 million. Based upon its past experiences with the Regional Water Board, however, the Department believes any such fine would be substantially less than the maximum. Over the past ten years, the Regional Water Board has

imposed fines of $622,707 and $680,278 on the Department for other sewage spills, approximating $0.25 and $1.78 per gallon of sewage spilled. When assessing those fines, which were significantly less than the statutory maximums, the Regional Water Board took into consideration (among other factors) extenuating circumstances outside of the Department's control that contributed to the spills, as well as the responsiveness and comprehensiveness of the Department's mitigation efforts with regard to the duration of and damage caused by, the spills.

If the Regional Water Board were to determine that the Department should be subject to a fine for the spill, the Department would enter into negotiations with the Regional Water Board in order to minimize the fine as much as possible. Historically, this process has taken 2 to 3 years from the date of the initial spill. In the unlikely event the Department were fined the maximum of $68 million, such a fine would be payable at one time and, while not impacting the Net System Revenues securing the payment of the Installment Payments, including the 2016-1 Installment Payments, such a payment could affect the Department's cash reserves that it expects to use to pay for projects in the Wastewater System capital improvement program. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM" below. If the Department's cash reserves were affected by a large payment to the Regional Water Board, the Department would explore different solutions to minimize the impact of such a payment on the Wastewater System capital improvement program such as adjusting the timing of certain projects and/or seeking other sources of funding in place of using cash.

As of the date of this Official Statement, the Department cannot predict what, if any, actions the Regional Water Board may take against the Department or the amount of any fine that may be imposed on the Department as a result of this sewage spill. See "RISK FACTORS—Litigation and Potential Regulatory Enforcement Actions—Tecolote Creek Sewage Spill."

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

Background

The Department prepares a multi-year Wastewater System Capital Improvement Program ("CIP") (consisting of the current budget year and future year projections) on an annual basis, and the City incorporates the first year of such plan into the Wastewater System's annual budget. The Department's Engineering and Program Management Division also prepares a ten-year internal Wastewater System Capital Improvement Program in connection with the consideration of longer-term projects. The Wastewater System CIP includes the total estimated project cost since project inception, including expenditures, encumbrances, continuing appropriations, the annual budget for the current fiscal year and projections of expenses in subsequent years. The general objectives of the Wastewater System CIP are to meet Federal and State requirements and City policy regarding water pollution control, to provide satisfactory levels of service to users of the Wastewater System, and to maintain the integrity of the Wastewater System.

The Wastewater System CIP is an ongoing capital program. During the 1990's, the City completed several large wastewater treatment plant projects in response to litigation involving violations of the Clean Water Act. Beginning in 2000, the focus of the Wastewater System CIP shifted to the Municipal Sub-System. In April 2002, the City received an Administrative Order from the EPA directing the City to prepare and submit a plan for rehabilitation and replacement of sewer pipes and structures. In October 2007, the City signed the Final Consent Decree with the EPA, which obligated the City to replace or rehabilitate 250 miles of sewer pipeline between July 2007 and June 2013, and to replace or rehabilitate a number of trunk sewers and pump stations by certain dates. The City completed all requirements of the Consent Decree, and on August 4, 2015 the Consent Decree was terminated by all parties upon an order from the United States District Court granting all parties a joint stipulation

terminating the Consent Decree. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Collection of Sewage—The Municipal Sub-System Collection System."

The Wastewater System CIP includes annual allocation projects, which are programmed expenditures that allow the Department to plan for the expansion, renovation, relocation, or replacement of facilities and equipment that have reached or exceeded their anticipated service life, provides for emergency and accelerated construction needs, and provides for capital improvement project contingency needs. Any amount not allocated to a component task in a particular year is returned to the contributing fund. In addition, the Wastewater System CIP includes phased funding to accommodate and appropriate funding of contracts for large projects. This practice maximizes the Department's use of available funds by identifying defined portions or phases of projects on a contingent basis. The Wastewater System CIP is funded by one or more sources, including but not limited to, debt financing, grants, capacity fees, and other contributions and fees that are typically allocated based on the benefit provided by a specific project.

Any ongoing project under the Wastewater System CIP, other than an annual allocation, that was initiated prior to the current Fiscal Year will have expenditures, encumbrances or continuing appropriations in the current Fiscal Year. The Department may budget additional funding for such projects during current and future Fiscal Years depending upon project scheduling. The Department includes the amounts it has budgeted for each Fiscal Year in an annual appropriation ordinance (each, an "Annual Appropriation Ordinance"), which becomes effective upon adoption by the City Council. Each Annual Appropriation Ordinance authorizes the City to appropriate revenues for expenditures relating to capital improvement projects for the applicable Fiscal Year. In addition, each Annual Appropriation Ordinance provides guidance regarding the administration of the Wastewater System CIP. Modifications to a project's budget may occur during the course of the Fiscal Year through City Council action. Appropriations for projects which are contained in the Wastewater System CIP for Fiscal Year 2016 have been approved in the Annual Appropriation Ordinance for Fiscal Year 2016.

Table 5 below sets forth the Wastewater System CIP for Fiscal Years 2016 through 2020 and the expected allocations between the Municipal Sub-System and Metropolitan Sub-Systems. These projections include an assumed 2.27% annual increase in Wastewater System CIP project costs for Fiscal Years 2017 through 2020. The Department expects the Wastewater System CIP for Fiscal Years 2016 through 2020 to include approximately $93 million (in inflated dollars) of costs for the North City component of the Pure Water Program. Additionally, the Wastewater System CIP for Fiscal Years 2021 and 2022 includes approximately $198 million (in inflated dollars) of costs to finalize the North City component of the Pure Water Program (which the Department expects will yield 30 mgd of purified water by the end of calendar year 2022), and $84 million (in inflated dollars) of costs to begin the Central Area component of the Pure Water Program. The Department currently expects to fund the costs of the Wastewater System CIP with proceeds of Additional Parity Obligations (including proceeds of bonds issued by the Authority and loans received from the State Water Resources Board), Federal and State grants and Department cash. See Table 6 below for additional information on the projected funding sources for the Wastewater System CIP.

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TABLE 5
WASTEWATER SYSTEM
PROJECTED CAPITAL IMPROVEMENT PROGRAM EXPENDITURE SUMMARY[1]
Fiscal Years Ending June 30, 2016 through June 30, 2020
($ in thousands)
(Unaudited)

Expected Projects	2016	2017	2018	2019	2020	Total
Municipal Sub-System Projects						
Pipelines	$55,340	$ 64,233	$ 53,990	$51,001	$56,616	$281,180
Muni Pump Stations	2,716	2,185	1,034	1,002	3,799	10,736
Trunk Sewers	3,841	3,924	14,873	15,827	10,927	49,392
Other[2]	5,957	24,217	14,500	107	109	44,890
Subtotal Municipal Sub-System Projects	$67,854	$94,559	$84,397	$67,937	$71,451	$386,198
Metropolitan Sub-System Projects						
Treatment Plants	$15,070	$ 2,814	$ 423	$ 527	$ 875	$ 19,709
Treatment Plants – Pure Water Program[3]	9,495	21,315	27,955	9,128	25,175	93,068 [4]
Large Pump Stations	288	5,600	19,690	14,946	3,703	44,227
Trunk Sewers	982	2,742	4,233	1,078	7,285	16,320
Other[2]	2,185	4,254	3,043	2,881	2,348	14,711
Subtotal Metropolitan Sub-System Projects	$28,020	$36,725	$ 55,344	$28,560	$39,386	$188,035
TOTAL	$95,874	$131,284	$139,741	$96,497	$110,837	$574,233

Source: Public Utilities Department, City of San Diego; Reflects Rate Case as of January 2016

[1] Includes an assumed 2.27% annual increase in Wastewater System CIP project costs for Fiscal Years 2017 through 2020.

[2] Includes the AMI Program (Municipal Sub-System) and the Infrastructure Asset Management Project (Municipal and Metropolitan Sub-Systems) in Fiscal Years 2016 through 2018.

[3] Includes costs for the North City component of the Pure Water Program. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Pure Water Program."

[4] The Department expects the Wastewater System CIP for Fiscal Years 2021 and 2022 to include approximately $198 million of costs to finalize the North City component of the Pure Water Program (which the Department expects will yield 30 mgd of purified water by the end of calendar year 2022), and $84 million of costs to begin the Central Area component of the Pure Water Program. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Pure Water Program."

Capital Improvement Projects

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

(a) Pipelines—these projects include replacement or rehabilitation of various sewer mains located throughout the City due to deterioration or insufficient capacity.

(b) Muni Pump Stations—these projects include upgrades, renovations, restoration and replacement of major equipment at the Municipal Sub-System's pump stations.

(c) Trunk Sewers—these projects include replacement or rehabilitation of existing trunk sewers (larger than 15 inches in diameter) due to deterioration, or to increase capacity.

(d) Other—these projects include, among others, the AMI Program, the Infrastructure Asset Management Project, and the Metropolitan Operations Center Complex Solar Project.

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

(a) Treatment Plants—these projects include renovations or upgrades, including the North City Plant, the South Bay Plant, the Metropolitan Biosolids Center and the Point Loma Plant to implement operating efficiencies, optimize the existing facilities and comply with revised regulatory and operation plan requirements.

(b) Treatment Plants – Pure Water Program – these projects include the planning, design and construction costs associated with the North City Component of the Pure Water Program.

(c) Large Pump Stations—these projects include upgrades, renovations, restoration and replacement of major equipment for Metropolitan Sub-System Pump Stations, Pump Station No. 1 and Pump Station No. 2.

(d) Trunk Sewers—these projects include replacement or rehabilitation of various sewer interceptors which are deteriorating or have insufficient capacity.

(e) Other—these projects include, among other things: land acquisition for the Pure Water Program, the Infrastructure Asset Management Project the Environmental Monitoring and Technical Services boat dock; the Metropolitan Facilities Control System Upgrade, which includes upgrades to the distributed controls system at the Metropolitan Biosolids Center, the Point Loma Plant, the North City Plant and the South Bay Plant; and Phase I of the Wet Weather Storage Facility.

Capital Improvement Financing Plan

Table 6 below sets forth the projected sources and uses of funds for the Wastewater System CIP for Fiscal Years 2016 through 2020. Subject to final approval by the State Water Resources Board in Fiscal Year 2016, the Department expects to receive the Additional Parity SRF Loan in the amount of $43 million. The expected receipt of the Additional Parity SRF Loan is included in the City's Financial Rate Model. Proceeds from the Additional Parity SRF Loan will provide funding in Fiscal Years 2016 through 2020, with loan repayment beginning in Fiscal Year 2021. Additionally, the Department anticipates securing future loans from the State Water Resources Board and Federal and State grants for the Pure Water Program, which also are recognized in the City's Financial Rate Model. Any additional loans received from the State Water Resources Board are expected to be Parity Obligations. The City also anticipates the Authority issuing additional bonds, the proceeds of which will be provided to the City under the Installment Purchase Agreement to pay the costs of certain projects in the Wastewater System CIP. The Installment Payments relating to the Authority bonds are expected to be secured by a pledge of Net System Revenues on parity with the Installment Payments relating to the Series 2016A Bonds.

The Wastewater System CIP includes the costs of the projects described in Table 5 above. In the event the City fails to obtain successive Modified Permits, the capital costs of the Wastewater System CIP could increase substantially. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Treatment of Sewage."

TABLE 6
SOURCES AND USES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
Fiscal Years Ending June 30, 2016 through June 30, 2020
($ in thousands)
(Unaudited)

	2016	2017	2018	2019	2020	Total
Source of Funds:						
Proceeds of Authority Bonds[1]	–	–	–	–	$ 64,944	$ 64,944
SRF Loans	$ 21,627	$ 19,719	$28,496	$14,651	10,012	94,505
Federal and State Grants	–	1,236	1,945	1,533	3,405	8,119
Capacity Fees	18,000	16,000	16,080	16,160	16,241	82,481
Cash Funding	56,247	94,329	93,220	64,153	16,235	324,184
Total Sources[2]	$95,874	$131,284	$139,741	$96,497	$110,837	$574,233
Use of Funds						
Municipal System Expenditures	$67,854	$94,559	$84,397	$67,937	$71,451	$386,198
Metropolitan System Expenditures	28,020	36,725	55,344	28,560	39,386	188,035
Total System[2]	$95,874	$131,284	$139,741	$96,497	$110,837	$574,233

Source: Public Utilities Department, City of San Diego
[1] Includes proceeds of Authority Bonds that will be provided to the City under the Installment Purchase Agreement. The Installment Payments relating to the Authority bonds are expected to be secured by a pledge of Net System Revenues on parity with the Installment Payments relating to the Series 2016A Bonds.
[2] Amounts may not total due to rounding.

Environmental Compliance

The projects contained in the Wastewater System CIP are generally subject to the California Environmental Quality Act ("CEQA"), as amended (Division 13 of the California Public Resources Code). Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process. This review process may require the preparation of an Environmental Impact Report ("EIR"), Mitigated Negative Declaration ("MND"), Negative Declaration (described below) or Notice of Exemption ("NOE") depending on the significance of project impacts on the environment. An EIR reflects not only an independent technical analysis of the project's potential impacts, but also may include comments from other agencies with some form of jurisdiction over the project and comments from interested members of the public. Contents of an EIR include a detailed statement of the project's potentially significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to eliminate or minimize such effects; alternatives to the proposed project; and any significant irreversible environmental changes which would result from the project. If the City, as the lead agency, determines that the project itself will not have a significant effect on the environment, it may adopt a written statement (called a "Negative Declaration") to that effect and need not prepare an EIR. An MND is appropriate for projects that could potentially result in a significant environmental impact, but revisions or standard mitigation measures are incorporated into the project that clearly mitigate the impact. Statutory exemptions are activities that are exempt from CEQA. Wastewater System CIP projects can also be exempted if they fit a specific "category" of activities identified by the

State Legislature. Once an agency approves or determines to carry out a project, either following an EIR process or after adopting a Negative Declaration or an MND, it must file a Notice of Determination ("NOD"). If the NOD is filed within five days, any action or proceeding challenging the agency's determination must be brought within 30 days following the filing of such notice. If the NOD is filed after the five-day period, the statute of limitations for any challenges is 180 days.

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

The Wastewater System CIP involves replacement, upgrading and increasing capacity of existing facilities. There are no current or anticipated environmental considerations that would adversely affect the completion of the Wastewater System CIP within the contemplated budget or current timeline.

Project Management for the Wastewater System Capital Improvement Program

The Department and the City Public Works Department ("Public Works") are responsible for the implementation of the Wastewater System CIP. The Department is responsible for selecting the projects that are included in the Wastewater System CIP. Selection of such projects involves, among other things, assessing conditions, sewer modeling, preparing planning reports, prioritizing projects, scheduling and allocating the budget. Once the Department determines that a particular project should proceed, the Department sends to Public Works a scope of work, a planning report or 10% design, as appropriate, and the proposed schedule and budget. Public Works is responsible for the design, construction and start-up of the majority of all Wastewater System CIP projects, except for the Pure Water Program. As described below, Public Works will not be responsible for the design, construction and start-up of the Pure Water Program.

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

Due to the size and scope of the Pure Water Program, the Department has secured a five-year, $30 million, as-needed, engineering technical services contract with MWH. MWH will provide engineering support, planning, design, and assist the Department with permitting and regulatory review, cost estimating, financial studies, rate design, economic impact, procurement strategies, public education and stakeholder outreach for the Pure Water Program. The Department will be responsible for the delivery of the Pure Water Program, including project management and construction.

Insurance for Construction

Pursuant to the City's Municipal Code, the City is authorized to require consultants and contractors to provide insurance coverage for public works contracts (including Wastewater System CIP projects). Provisions and limitations have been set forth in the City's General Contract Terms and Provisions guidelines for commercial general liability, commercial automobile liability, worker's compensation and professional liability requirements. Additional insurance requirements may apply depending on the type of contract for commercial pollution liability, contractor's hazardous transporters pollution liability, and contractor's builder's risk property liability. Further, depending upon the size and scope of a project, the City's Risk Management Department may require increased insurance coverage at any time and from time to time based upon its assessment of the degree of risk for such project.

The guidelines provide for commercial general liability coverage that will cover liability arising from any and all bodily injury, personal injury, advertising injury or property damage in the amount of $1 million per occurrence and subject to an annual aggregate of $2 million. Provisions for commercial automobile liability require contractors to provide coverage for bodily injury and property damage for a combined single limit of $1 million per occurrence. The requirement for worker's compensation insurance is a minimum of $1 million of employer's liability coverage along with the professional liability requirement with limits of at least $1 million per occurrence and $2 million aggregate, covering the risk of errors and omissions, negligent acts and costs of claims/litigation, including investigation and court costs.

WASTEWATER SYSTEM FINANCIAL OPERATIONS

General

The Department manages and operates the Wastewater System with funds derived primarily from service charges which are deposited in the Sewer Revenue Fund. The Sewer Revenue Fund was established in 1956 pursuant to the City Municipal Code. Funds in the Sewer Revenue Fund are used for the operation, maintenance and capital improvement of the Metropolitan Sub-System and the Municipal Sub-System. See "—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue" below.

The primary sources of moneys deposited in the Sewer Revenue Fund are derived from revenues generated by sewer service charges collected from City residents and commercial enterprises, capacity charges on new, additional or larger connections to the Wastewater System within the City, revenues from the Participating Agencies pursuant to the Regional Wastewater Disposal Agreement and the Transportation Agreements, and interest income on fund balances. See "THE WASTEWATER SYSTEM—Participating Agencies."

Budgetary Process

The City budgets revenues and expenditures to support the costs the Department incurs to operate and maintain the Wastewater System. Each April, the Mayor submits the Department's budget for the following Fiscal Year to the City Council for approval. Budget estimates for the Wastewater System CIP are prepared based upon the needs of the Metropolitan Sub-System and the Municipal Sub-System. Cost information and schedules provided by the design and operations staff are used to prepare the capital budget for the Wastewater System. The Department prepares a multi-year Wastewater System CIP each year as part of its internal budget process. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM—Background." The Wastewater System CIP consists of anticipated costs and a schedule for projects planned for completion and is based on planning information from prior years,

progress toward stated goals and objectives, future and long-term needs and planning information developed during the Wastewater System CIP planning cycle. The Wastewater System CIP provides the basis for review of the annual budget for the Wastewater System CIP and near-term projects and is divided into projects for each of the Municipal Sub-System and the Metropolitan Sub-System to address their respective requirements.

The Department commissions a wastewater cost of service, rate design and capacity fee study periodically. The goal of each study is to develop recommendations for the establishment of fair and equitable sewer rates for the users of the Wastewater System and a revenue program that will be acceptable to the State Water Resources Board. Each study includes a review of the City's financial plan or rate case, usage characteristics, and rate structure. The City expects the next wastewater cost of service study to be completed in Fiscal Year 2016. See "—Calculation and Collection of Capacity Charges."

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

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

The City establishes fees based upon the costs incurred by the City to collect, treat and discharge wastewater and pay for required capital improvements. Department staff and senior management within the City analyze rates and charges to determine the amounts necessary to support the Wastewater System based upon revenue and expenditure data from the Department. On an ongoing basis, Department staff evaluates the adequacy of revenues and recommends rate adjustments to correspond with projected changes in maintenance and operations costs and the timing and magnitude of capital expenditures. Periodically, these recommendations are analyzed and validated by a third party consultant through the cost of service study process. See "—City Council Actions Relating to Sewer Rate Changes."

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

Each single family residential customer's individualized flat sewer rate is based upon the amount of water used during the previous winter, and includes a usage cap of 20 hundred cubic feet and an assumed return factor of 95%. See "RISK FACTORS—Risks Relating to the Water Supply." Every winter, primarily during the months of December through March, the City monitors the amount of water each customer uses. The winter months are when the measuring takes place because that is when the highest percentage of water used is returned to the sewer system. The City monitors water usage during the two billing cycles, and uses the total from the cycle with the least amount of usage to calculate the sewer rate. Once the monitoring period is finished, an individualized flat rate is figured for each customer, and that rate goes into effect beginning with the bill that includes July 1 of the following year. The rate is in effect for one year and will be updated with new data every July 1. This system, rather than a flat rate for all customers, more fairly apportions the costs of running the sewer system. Multifamily residential rates are based on 95% of actual water use. Chemical Oxygen Demand ("COD") and TSS

loadings components of the charge are the same for both single family residential and multifamily accounts and do not vary from month-to-month. These fixed strength loadings are incorporated into the class-specific fixed charges for commercial and industrial accounts and based on actual monthly water use and the percentage return COD loading and TSS loading, which varies between industries.

Treatment Plant Services Revenue. Pursuant to the terms of the Regional Wastewater Disposal Agreement, the City bills each Participating Agency based on its use of the Wastewater System and its capacity rights. See "THE WASTEWATER SYSTEM—Participating Agencies." The City bills the Participating Agencies quarterly based on the budget for the corresponding Fiscal Year. An audit is performed at the end of each Fiscal Year to confirm the amount of Metropolitan Sub-System expenditures. Actual expenditures are compared to the budget used to bill each Participating Agency and each Participating Agency is then issued either a refund or invoiced for any underpayment. The adjustments, which have ranged from $1 million to $10 million, reflect a reconciliation of the estimated amounts charged by the Department to the actual expenditures of the Department. The adjustments have historically been revenue-neutral to the Wastewater System. The Participating Agencies set the sewer service and capacity charges that are used to bill their respective customers in order to meet their own wastewater needs and their share of the Metropolitan Sub-System costs. The sewer service charges currently in effect for the various Participating Agencies are varied and are not controlled by the City. Any failure by a Participating Agency to generate sufficient sewer revenues does not affect the obligation of such Participating Agency to pay amounts owed to the City under the Regional Wastewater Disposal Agreement.

Table 7 below sets forth the sources of sewer service charge revenues of the Sewer Revenue Fund for the Fiscal Years 2011 through 2015.

TABLE 7
WASTEWATER SYSTEM
HISTORICAL SOURCES OF SEWER SERVICE CHARGE REVENUES[1]
Fiscal Years Ended June 30, 2011 through June 30, 2015
($ in thousands)
(Unaudited)

Source	2011	2012	2013	2014	2015
Single Family Domestic	$119,482	$112,996	$114,356	$114,746	$121,313
Multifamily (Other Domestic)	90,221	90,069	80,527	80,881	78,969
Commercial[2]	68,198	89,677	92,523	94,706	92,583
Industrial[2]	7,050	0	0	0	0
Treatment Plant Service for Others[3]	66,943	71,366	67,940	67,834	65,771
TOTAL[3]	$351,894	$364,108	$355,346	$358,167	$358,636

Source: Comptroller's Office, City of San Diego

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

[2] Starting in Fiscal Year 2012, "Commercial" and "Industrial" were combined into one customer type. In addition to this consolidation, the significant increase in revenue between Fiscal Year 2011 and Fiscal Year 2012 can be attributed to the implementation of a new customer billing system in July 2011 due to which approximately $5 million earned in Fiscal Year 2011 was recognized in Fiscal Year 2012, resulting in a one-time variance of approximately $10 million.

[3] Includes sewer service charge revenues from Participating Agencies, the United States Navy and other agencies.

Table 8 below sets forth the ten largest customers of the Municipal Sub-System for Fiscal Year 2015. In Fiscal Year 2015, the ten largest customers of the Municipal Sub-System, in terms of billings, accounted for approximately 7.38% of the Wastewater System's total operating revenues. The largest

customer of the Municipal Sub-System is the United States Navy, which accounted for 3.42% of the Sewer Revenue Fund's total operating revenues in Fiscal Year 2015. No other Municipal Sub-System customer accounted for more than 1% of the Wastewater System's total operating revenues.

TABLE 8
MUNICIPAL SUB-SYSTEM
TEN LARGEST CUSTOMERS
Fiscal Year Ended June 30, 2015[1]
(Unaudited)

Customer	Sewer Billings	Percent of Total Operating Revenue[2]
U.S. Navy	$12,473,412	3.42%
C.P. Kelco	3,386,439	0.93
University of California, San Diego	3,006,526	0.82
Federal Government[3]	1,686,055	0.46
City of San Diego	1,494,651	0.41
R.J. Donovan Correctional Facility	1,350,275	0.37
San Diego Unified School District	1,018,569	0.28
San Diego State University	887,113	0.24
County of San Diego	872,829	0.24
SeaWorld	766,924	0.21
TOTAL[4]	$26,942,793	7.38%

Sources: Public Utilities Department (billings) and the Comptroller's Office (revenues), City of San Diego

[1] Does not include Participating Agencies or customers served by Participating Agencies.

[2] Reflects percentage of total operating revenues of $364,466,281 for the Wastewater System; includes revenues from Participating Agencies. See the line item entitled "Total Operating Revenues" in TABLE 13—"SEWER REVENUE FUND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS."

[3] Excludes the United States Navy.

[4] May not add up due to rounding.

City Council Actions Relating to Sewer Rate Changes

The Wastewater System's sewer billing rate under the existing rate structure is determined separately for each water meter based upon three factors: (1) "The Percent Return to Sewer," calculated as the water delivered to the facility through the water meter less any water lost from the facility as evaporation, irrigation, or in products leaving the site divided by the water delivered to the facility; (2) "Total Suspended Solids" in the wastewater; and (3) effective October 1, 2004, COD of the wastewater. Incorporation of COD into the rate structure was designed to help the City meet requirements of certain grants issued pursuant to the Clean Water Act and loans granted pursuant to the State Water Resources Board's SRF loan program. Under this rate structure, revenues derived from sewer fees and charges are used solely for the purpose of defraying costs incurred to provide sewer collection and transportation, treatment and disposal services; facilities and equipment maintenance, and capital projects. On February 26, 2007, the Mayor and the City Council approved sewer rate increases of 8.75%, 8.75%, 7.00% and 7.00% effective on May 1, 2007, May 1, 2008, May 1, 2009 and May 1, 2010, respectively.

In addition to the rate increases set forth above, the City Council temporarily adjusted rates for all City sewer customers in connection with a class action lawsuit (known as the "Shames Case") filed on

June 16, 2004 on behalf of all single family residential account holders in the City's Municipal Sub-System who held sewer accounts during any period between May 23, 1994 through September 30, 2004. The lawsuit alleged the City failed to include a COD cost component in the rate structure during the aforementioned period, which led to overcharges on residential sewer fees that were disproportionate to the cost of service attributable to the parcel or land on which service was provided, as required by Article XIIID, Section 6(b)(3) of the California State Constitution. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID." The lawsuit also included a claim for breach of contract based on the receipt of Federal and State grants requiring a strength based revenue structure. In 2007, the City settled the Shames Case (the "Shames Settlement") and agreed to reimburse certain "eligible" single family residential customers in the aggregate amount of $35 million and to pay attorneys' fees to the plaintiffs' counsel in the amount of $5 million. The City also adopted a COD cost component in its rate structure on June 8, 2004, pursuant to City Council Resolution R-299322, which was implemented on October 1, 2004. To satisfy the terms of the Shames Settlement, the City temporarily increased existing sewer rates for all City sewer customers by 3.05% on November 1, 2007 and increased existing sewer rates by an additional 3.05% on May 1, 2008. For "eligible" single family residential sewer customers, the City provided a monthly credit of $3.25 as part of the Shames Settlement. The City raised and distributed the $40 million according to the Shames Settlement prior to the end Fiscal Year 2012. The monthly credit for single family residential customers ended in December 2011 and the City terminated the two 3.05% rate increases in March 2012.

Table 9 below sets forth the sewage service charges approved by the City Council since Fiscal Year 2007, including sewer service charges that are currently in effect.

TABLE 9
WASTEWATER SYSTEM
APPROVED RATE INCREASES FOR SINGLE FAMILY RESIDENTIAL, MULTIFAMILY AND COMMERCIAL AND INDUSTRIAL CUSTOMERS
(Unaudited)

						Commercial & Industrial Customers		
Effective Date	Single Family Domestic[1]	All Classes % Rate Increase/ (Decrease)	Uniform Base Fee	Single Family Residential $/HCF[4] water	Multifamily (Other Domestic) Usage Fee $/HCF[4] water	Monthly Wastewater Flow $/HCF[4]	Total Suspended Solids $/LB[5]	Chemical Oxygen Demand $/LB[5]
May 1, 2007	$38.32	8.75%	$12.31	$2.890	$4.038	$3.0257	$0.4431	$0.1801
November 1, 2007[2]	39.49	3.05	12.69	2.978	4.161	3.1180	0.4566	0.1856
May 1, 2008	42.94	8.75	13.80	3.239	4.525	3.3908	0.4966	0.2018
May 1, 2008[2]	44.25	3.05	14.22	3.338	4.663	3.4942	0.5117	0.2080
May 1, 2009	47.35	7.00	15.21	3.571	4.990	3.7388	0.5475	0.2225
May 1, 2010	50.67	7.00	16.28	3.821	5.339	4.0005	0.5859	0.2381
March 1, 2012[2,3]	47.71	(5.83)	15.33	3.598	5.028	3.7672	0.5517	0.2242

Source: Public Utilities Department, City of San Diego
[1] Represents the average monthly amount and new customer amount.
[2] Shames Settlement Agreement started in November 2007 and ended in March 2012.
[3] Includes sewer service charges that are currently in effect. There have been no rate changes since March 2012.
[4] HCF = hundred cubic feet.
[5] LB = pound.

Accounts Receivable

Typically, the City seeks to collect unpaid bills by: (a) issuing a payment reminder notice 25 days after a bill is issued; (b) issuing a shut-off notice 38 days after a bill is issued; and (c) shutting off the customer's water service 48-54 days after a bill is issued. This procedure results in almost all past due bills being paid. If necessary, the City establishes a payment plan for customers who are unable to pay a past due amount. Open accounts closed with an amount due and unpaid are referred to the City Treasurer

for collection activities 75 days after the bill is issued but unpaid. Bills on closed accounts are referred to the City Treasurer for collection activities 91 days after the bill is issued as unpaid. An allowance is taken each Fiscal Year for accounts receivable that are not expected to be paid. During Fiscal Years 2011 through 2015, accounts receivable amounts outstanding for more than 120 days ranged from approximately $3.1 million to approximately $4.6 million. Sewer service charges to City utility customers are collected on the municipal utility bill, which also includes water charges, storm drain fees and other related fees. Bills are currently invoiced every two months for most customers and on a monthly basis for higher consumption customers.

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

TABLE 10
WASTEWATER CUSTOMER ACCOUNTS RECEIVABLE AND SHUT-OFFS
For Fiscal Years Ended June 30, 2011 through June 30, 2015
($ in thousands)
(Unaudited)

	2011	2012	2013	2014	2015
Sewer Service Revenue	$351,894	$364,108	$355,346	$358,167	$358,636
Accounts Receivable[1,2]	$41,595	$43,056	$44,228	$45,798	$41,929
Accounts Receivable Over 120 Days[2]	$3,115	$4,607	$3,680	$4,065	$4,247
Number of Shut-Offs[3, 4]	23,271	23,156	19,815	20,079	19,833

Sources: Comptroller's Office and Public Utilities Department, City of San Diego
[1] Fiscal Years 2011 through 2014 have been revised.
[2] Excludes amounts payable by Participating Agencies.
[3] Shut-offs for non-payment may include multiple shut-offs associated with the same account throughout the Fiscal Year.
[4] Fiscal Years 2012 through 2014 have been revised.

Calculation and Collection of Capacity Charges

A capacity charge is a one-time fee based on EDUs for a new, additional or larger connection to the Municipal Sub-System within the City. The calculated capacity fee is based on the capital costs of existing facilities and the growth-related portion of future improvement costs. Capacity fees are not treated as operating income for financial reporting purposes but are considered System Revenues, deposited in the Sewer Revenue Fund, and included in the calculation of debt service coverage. Pursuant to State law, capacity fees are applied only to capital expansion, bonds, contracts, or other indebtedness of the Wastewater System related to expansion. Capacity fees are primarily collected on new construction within the City and revenues therefrom vary based upon construction activity. See TABLE 12 "ESTIMATED AND PROJECTED SERVICE AND CAPACITY CHARGES" below for a schedule of projected capacity charges for the Municipal Sub-System.

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Table 11 below sets forth the Wastewater System's EDUs and Capacity Charge Revenues for Fiscal Years 2011 through 2015.

TABLE 11
WASTEWATER SYSTEM - MUNICIPAL SUB-SYSTEM
HISTORICAL EQUIVALENT DWELLING UNITS
AND CAPACITY CHARGE REVENUES
Fiscal Years Ended June 30, 2011 through June 30, 2015
($ in thousands)
(Unaudited)

Fiscal Year	Equivalent Dwelling Units	Capacity Charge Revenues
2011	2,474	$ 9,256
2012	1,864	9,290
2013	3,781	14,041
2014	4,819	20,300
2015	4,992	21,813

Source: Public Utilities Department and the Comptroller's Office, City of San Diego

The City Council reviews capacity charges on a periodic basis. Pursuant to State Water Resources Board guidelines and City policy, the City must use a fair and equitable apportioning of costs based on each user class' contributions of flow and strength of wastewater pollutants discharged. The current sewer capacity charge (which was originally adopted by City Council in February 2007) is $4,124 per EDU.

Projected Service and Capacity Charges

Table 12 below sets forth the projected service and capacity charges and revenues for Fiscal Years 2016 through 2020. New system hook-ups (measured in EDUs) are projected, on a conservative basis, based on population growth and building permits. The projected decrease in Fiscal Year 2016 reflects a return to moderate building activity, following strong growth in Fiscal Years 2013 ($14 million) and 2014 ($20.3 million) subsequent to the economic downturn in Fiscal Year 2009. See "—Calculation and Collection of Capacity Charges" for a schedule of historical capacity charge revenues. The Department does not expect to request any increases in service or capacity charges with respect to the Wastewater System between Fiscal Years 2016 and 2020.

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TABLE 12
PROJECTED SERVICE AND CAPACITY CHARGES
Fiscal Years Ending June 30, 2016 through June 30, 2020
(Unaudited)

	2016	2017	2018	2019	2020
Single Family Monthly Service Charge[1]	$47.71	$47.71	$47.71	$47.71	$47.71
Single Family Residential Accounts	230,175	231,326	232,483	233,645	234,813
Total Service Charge Revenues[2,3]	$350,935	$357,621	$359,396	$361,177	$367,985
Capacity Charge (per EDU)	$4,124	$4,124	$4,124	$4,124	$4,124
Annual EDUs	4,365	3,880	3,899	3,919	3,938
Total Capacity Charge Revenue[2]	$18,000	$16,000	$16,080	$16,160	$16,241

Source: Public Utilities Department, Rate Model as of January 2016
[1] Based on average usage of 9 hundred cubic feet/month.
[2] In thousands.
[3] Sewer Service Charge Revenues reflect a 5% decrease in flow related to the drought and mandated water reductions, starting in Fiscal Year 2016 for multi-family residential and commercial and industrial customers, and in Fiscal Year 2017 for single family residential. The increase in Fiscal Year 2017 reflects an increase in revenue from the Participating Agencies primarily related to the Pure Water Program.

Historical Revenues and Expenses

Table 13 below sets forth the Statements of Revenues, Expenses and Changes in Fund Net Assets for the Sewer Revenue Fund for Fiscal Years 2011 through 2015. See also "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015." For purposes of calculating the Net System Revenues available to pay the City's Obligations under the Installment Purchase Agreement, including the 2016-1 Installment Payments securing the Series 2016A Bonds, the following are not taken into account: amounts set forth in the line item "Depreciation," interest earnings with respect to the Acquisition Fund set forth in the line item "Earnings on Investments," amounts set forth in the line item "Gain (Loss) on Sale/Retirement of Capital Assets," amounts set forth in the line item "Interest Expenses" and amounts relating to assets contributed by developers (which constitute a portion of the amount set forth in the line item "Capital Contributions"). For Net System Revenues available to pay the City's Obligations under the Installment Purchase Agreement for Fiscal Years 2011 through 2015, see TABLE 15 "CALCULATION OF HISTORICAL PARITY AND AGGREGATE DEBT SERVICE COVERAGE."

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TABLE 13
SEWER REVENUE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS[1]
Fiscal Years Ended June 30, 2011 through 2015
($ in thousands)
(Audited; except as otherwise noted)

	2011	2012	2013	2014	2015
OPERATING REVENUES					
Sewer Service Charges:					
Inside City:					
Domestic[2]	$209,703	$203,065	$194,883	$195,627	$200,282
Commercial and Industrial[2]	75,248	89,677	92,523	94,706	92,583
Outside City:					
Treatment Plant Service for Others[2]	66,943	71,366	67,940	67,834	65,771
Subtotal: Sewer Service Charges[2]	$351,894	$364,108	$355,346	$358,167	$358,636
Services provided to City departments[2]	2,189	1,779	1,870	1,556	1,618
Total Charges for Services	$354,083	$365,887	$357,216	$359,723	$360,254
Other Operating Revenues, Net	3,648	4,412	4,421	4,824	4,213
TOTAL OPERATING REVENUES	$357,731	$370,299	$361,637	$364,547	$364,467
OPERATING EXPENSES					
Maintenance and Operations	$134,696	$129,343	$121,990	$151,522	$138,941
Administration	63,875	65,191	73,648	50,427	56,393
Depreciation	63,488	65,186	68,452	70,585	70,762
TOTAL OPERATING EXPENSES	$262,059	$259,720	$264,090	$272,534	$266,096
OPERATING INCOME (LOSS)	$95,672	$110,579	$97,547	$92,013	$98,371
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	$7,454	$6,266	$647	$4,177	$4,162
Federal Grant Assistance	380	336	9	–	–
Other Agency Grant Assistance	–	–	–	–	–
Gain (Loss) on Sale/Retirement of Capital Assets	(1,961)	(1,387)	(1,647)	(1,556)	(1,942)
Debt Service Interest Expense	(51,112)	(49,586)	(53,580)	(51,652)	(49,621)
Other	6,404	5,116	8,260	6,829	17,396
TOTAL NONOPERATING REVENUES (EXPENSES)	$(38,835)	$(39,255)	$(46,311)	$(42,202)	$(30,005)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	$56,837	$71,324	$51,236	$49,810	$68,366
Capital Contributions	12,345 [3]	17,883	23,228	33,081	27,807
Transfers In	147	130	92	77	3,743
Transfers from Governmental Funds	–	–	275	19	–
Transfers Out	(10)	(1,103)	(1,346)	(2,077)	–
Transfers to Governmental Funds	(192)	(6,495)	(8,232)	(6,955)	(24)
Extraordinary Gains	–	1,180 [4]	(1,180) [5]	–	–
CHANGE IN NET ASSETS	$69,127	$82,919	$64,073	$73,955	$99,892
Net Assets at Beginning of Year	$2,074,799	$2,143,926	$2,226,845	$2,275,423 [6]	$2,218,826[7]
NET ASSETS AT END OF YEAR	$2,143,926	$2,226,845	$2,290,918	$2,349,378	$2,318,718

Source of Table: Fiscal Years 2011-2015 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego
Source of Footnotes: Public Utilities Department (Unaudited), City of San Diego

[1] Terms used in this table are derived from the City's Comprehensive Annual Financial Report for the indicated year. Certain terms included in this table do not have the meanings ascribed to them in the Installment Purchase Agreement. Also, amounts included in this table reflect the application of generally accepted accounting principles ("GAAP") and, as such, do not match tables in this Official Statement that were not prepared in accordance with GAAP.
[2] Unaudited.
[3] Reflects fewer developer contributed infrastructure asset installations and related capacity fee receipts.
[4] Extraordinary Gain resulting from the dissolution of the Former RDA.
[5] Extraordinary Loss resulting from prior year unpaid loan receivable from the Former RDA that will not be repaid.
[6] Beginning balance restated due to the net effects of Governmental Accounting Standards Board Statement No. 65 implementation and reclassification of workers' compensation.
[7] Beginning balance restated due to the net effects of Governmental Accounting Standards Board Statement Nos. 68 and 71 implementation.

Management's Discussion and Analysis

The following discussion relates to certain items set forth in Table 13. The information below, in connection with the financial condition and results of operations of the Sewer Revenue Fund for Fiscal Year 2015, is unaudited and should be read in conjunction with certain information contained in "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015," and, specifically, the portion of the basic financial statements relating to the operation of the Sewer Revenue Fund.

Operating Revenues. Total operating revenues for Fiscal Year 2015 were $364.5 million, which remain unchanged from total operating revenues in Fiscal Year 2014.

Operating Expenses. Total operating expenses for Fiscal Year 2015 were $266.1 million, a decrease of $6.4 million from Fiscal Year 2014, which was made up of an increase in administrative expenses of $6.0 million, and a decrease in maintenance and operations of $12.6 million. This was primarily the result of the Department's efforts to reallocate expenses between administrative and maintenance and operations to reflect the true nature of the expenditures. There was also an impact as a result of the City's implementation of Governmental Accounting Standards Board Statement No. 68 ("GASB 68") and Governmental Accounting Standards Board Statement No. 71. These implementations resulted in the Sewer Revenue Fund reporting its Fiscal Year 2015 pension contributions as a deferred outflow of resources instead of as an expense.

Administrative expenses during Fiscal Year 2015 include long range strategic planning, policy, information systems, and general and administrative expenses. Such expenses represented 21.2% of total operating expenses and totaled $56.4 million for Fiscal Year 2015. The increase of $6.0 million was 11.8% higher than the corresponding amount for Fiscal Year 2014 due to the reallocation between administrative and maintenance and operations expenses and the implementation of GASB 68.

Maintenance and operations expenses include expenses for three treatment plants, pump stations, and a biosolids center. All costs associated with the operations and maintenance of the facilities are included. Maintenance and operations were 52.2% of total operating expenses and totaled $138.9 million for Fiscal Year 2015. The decrease of $12.6 million was 8.3% lower than the corresponding amount for Fiscal Year 2014 due to the reallocation between administrative and maintenance and operations expenses, and the implementation of GASB 68.

Non-Operating Revenues. Non-operating revenues increased by $10.6 million in Fiscal Year 2015 due to a combination of items including low flow diversion back-charge transfers of over $4 million from the City's Transportation and Storm Water Department, and to record the principal forgiveness of over $6 million for the state revolving fund loan program.

Non-Operating Expenses. Non-operating expenses decreased by $1.6 million which primarily reflects a reduction in interest payments for bond indebtedness per the scheduled amortization schedule.

Contributions and Transfers. Capital contributions decreased in Fiscal Year 2015 from Fiscal Year 2014 by $5.3 million. This decrease was due to a reduction in donated assets from Fiscal Year 2014. There were no transfers to governmental funds or operating transfers out in Fiscal Year 2015 which resulted in a total reduction of $9 million dollars. This was the result of an effort to classify certain information technology related expenses as Operating Expenses to more accurately reflect the nature of the services.

Sewer Revenue Fund Reserves

The City has established accounts within the Sewer Revenue Fund for three reserve funds: the Rate Stabilization Fund Reserve ("Rate Stabilization Fund"), the Emergency Operating Reserve ("Operating Reserve"), and the Emergency Capital Reserve ("Capital Reserve"). The Department operates these reserve funds in accordance with the City's reserve policy (the "City Reserve Policy"). The City's goals with respect to the City Reserve Policy are to provide adequate cash balances to ensure that the City meets its cash flow obligations, maximizes earnings on investments, minimizes borrowing costs and maintains the highest credit on its bonds and financial obligations. In the event amounts contained in a particular reserve are below the anticipated reserve level as stated in the City Reserve Policy, the Mayor is to propose a plan as part of the budget for the subsequent fiscal year to replenish such reserve in a reasonable timeframe. As of June 30, 2015, the Sewer Revenue Fund had total reserves of approximately $104.1 million.

The Rate Stabilization Fund was established and is maintained pursuant to the Installment Purchase Agreement. Transfers in and out of this fund serve as a revolving mechanism to mitigate potential fluctuations in the rates for the Wastewater System operations, and maintain stable debt service coverage ratios for the outstanding Obligations. The permitted uses of the Rate Stabilization Fund are limited to the operations and maintenance costs of the Wastewater System. The City Reserve Policy establishes a baseline target for the Rate Stabilization Fund in an amount equal to 5% of the prior Fiscal Year Wastewater System total operating revenues. The funding level in the Rate Stabilization Fund can go up or down depending on year to year changes in the Wastewater System's operating revenues and expenditures. The Rate Stabilization Fund will be treated as a coverage stabilization tool enabling transfers into and out of the fund, as necessary by the Chief Financial Officer, upon recommendation of the Department. Transfers may be made into the Rate Stabilization Fund, increasing the balance above the 5% baseline, if there are excess Net System Revenues in any given Fiscal Year. In contrast, if Net System Revenues decrease in any given Fiscal Year, amounts can be withdrawn from the Rate Stabilization Fund to cover current Fiscal Year operations and maintenance costs. If amounts on deposit in the Rate Stabilization Fund decrease below the baseline amount of 5% of the prior Fiscal Year Wastewater System total operating revenue, it will be replenished to the target level from any surplus Net System Revenue in the next Fiscal Year or in conjunction with the City Council authorization of a future cost of service study and rate adjustments. As of June 30, 2015, the balance in the Rate Stabilization Fund was $51 million, which included a transfer of $29.7 million of Fiscal Year 2015 Net System Revenues to such fund.

The Operating Reserve is intended to be used in the event of a catastrophe that prevents the Wastewater System from operating in its normal course of business. The reserve level is defined as the number of days of operation it could support in the event of a major disruption to the Wastewater System. It is calculated based on the annual operating budget for the Fiscal Year, less the budgeted operating contingency and the budget for all debt service on the Obligations. The Operating Reserve target is equivalent to 70 days of operations. Any reserves provided by the Participating Agencies for their proportionate share of the Metropolitan Sub-System are counted toward the 70 day target. This reserve level target of 70 days recognizes that the Wastewater System has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs. Use of the Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future cost of service study and rate adjustment. As of June 30, 2015, there was approximately $48.1 million in the Operating Reserve.

The Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at $5.0 million in the Wastewater System CIP budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required. As of June 30, 2015, there was $5.0 million in the Capital Reserve.

Table 14 below sets forth the reserve amounts in the Sewer Revenue Fund and the total cash and cash equivalents on deposit in the Sewer Revenue Fund for the Fiscal Years ended June 30, 2011 through 2015.

TABLE 14
RESERVES AND TOTAL CASH AND CASH EQUIVALENTS IN SEWER REVENUE FUND
Fiscal Years Ended June 30, 2011 through 2015
($ in thousands)
(Unaudited; except as noted)

	2011	2012	2013	2014	2015
Reserve Funds[1]					
Operating Reserve	$33,926	$35,250	$43,724	$48,099	$48,099
Rate Stabilization Fund	21,300	21,300	21,300	21,300	51,000
Capital Improvement Reserve	5,000	5,000	5,000	5,000	5,000
Dedicated Reserve for Efficiencies and Savings[2]	36,273	28,681	27,044	–	–
Total Reserve Funds	$96,499	$90,231	$97,068	$74,399	$104,099
Total Cash and Cash Equivalents in Sewer Revenue Fund[3]	$422,010	$432,872	$423,226	$455,531	$432,707

Source: Reserve Funds: Public Utilities Department and Comptroller's Office, City of San Diego. Total Cash and Cash Equivalents in Sewer Revenue Fund: Fiscal Years 2011-2015 Comprehensive Annual Financial Reports

[1] Established in accordance with City Reserve Policy.

[2] The Dedicated Reserve for Efficiencies and Savings was discontinued per the 2014 update to the City Reserve Policy and the remaining balance was applied to capital costs of the Wastewater System.

[3] Audited.

Historical Debt Service Coverage

Table 15 below sets forth the total System Revenues of the Wastewater System, the total maintenance and operation costs of the Wastewater System (excluding depreciation) and the resulting debt service coverage for the Outstanding Parity Obligations and all of the outstanding Obligations for Fiscal Years 2011 through 2015.

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TABLE 15
CALCULATION OF HISTORICAL PARITY AND AGGREGATE DEBT SERVICE COVERAGE
Fiscal Years Ended June 30, 2011 through June 30, 2015
($ in thousands)
(Unaudited)

				Parity Obligations[1]				All Obligations[2]	
Fiscal Year Ended June 30	Total System Revenues[3,4]	Total Maintenance and Operations Costs[5]	Net System Revenues	Principal	Interest	Total	Parity Debt Service Coverage	Total Debt Service	Aggregate Debt Service Coverage
2011	$380,575	$198,773	$181,802	$42,620	$59,868	$102,488	1.77x	$108,547	1.67x
2012	391,587	202,132	189,455	44,230	58,253	102,483	1.85	108,542	1.75
2013	385,211	205,215	179,996	46,120	56,368	102,488	1.76	108,547	1.66
2014	396,042	210,981	185,061	48,821	54,473	103,294	1.79	109,353	1.69
2015 [6]	382,164	195,358	186,806	51,576	52,461	104,037	1.80	110,096	1.70

Source: Statistical Section (Unaudited) of the Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2015; Comptroller's Office, City of San Diego
Source of Footnotes: Public Utilities Department (Unaudited), City of San Diego.

[1] Parity Obligations includes the Outstanding Bonds and the Existing Parity SRF Loans.

[2] All Obligations includes Parity Obligations (including the Outstanding Bonds and the Existing Parity SRF Loans) and the Existing Subordinated SRF Loans.

[3] System Revenues, as defined in the Installment Purchase Agreement, include operating and non-operating receipts (i.e. interest earnings, capacity charges, and other income) as well as transfers and the cash-based components of capital contributions. System Revenues are net of any transfers to the Rate Stabilization Fund.

[4] Pursuant to an Administrative Protocol, the Participating Agencies are required to make annual contributions towards the 1.20 times debt service coverage requirement on Parity Obligations that were incurred to finance improvements to the Metropolitan Sub-System.

[5] Total Maintenance and Operations Costs, as defined in the Installment Purchase Agreement, include expenses related to maintenance and operations, administration, and transfers to other funds (including governmental funds for general City services allocable to the Wastewater System (i.e., SAP system) and other funds).

[6] In Fiscal Year 2015, $29.7 million was transferred to the Rate Stabilization Fund. The last transfer to the Rate Stabilization Fund occurred in Fiscal Year 2010. If the transfer to the Rate Stabilization Fund had not occurred, System Revenues in Fiscal Year 2015 would have been $411.9 million, Parity Debt Service Coverage would have been 2.08x and Aggregate Debt Service Coverage would have been 1.97x.

Financial Projections

Table 16 below sets forth the financial forecast for Fiscal Years 2016 through 2020. Table 16 incorporates certain assumptions adopted by the Department, including assumed inflation and interest rates. Additionally, Table 16 incorporates the following assumptions: (a) Net Revenues reflect a 5% decrease in flow related to the drought and mandated water reductions, starting in Fiscal Year 2016 for multi-family residential and commercial and industrial customers, and in Fiscal Year 2017 for single family residential; (b) Net Revenues for Fiscal Year 2016 reflect a 13.0% increase in Maintenance and Operation Costs of the Wastewater System from Fiscal Year 2015 (the increase in Maintenance and Operation Costs for Fiscal Year 2016 is attributable to lower than average Maintenance and Operation Costs for Fiscal Year 2015, primarily due to the implementation of GASB Statement Nos. 68 and 71, and the inclusion of the start of Pure Water Program expenditures in Fiscal Year 2016); (c) Net Revenues for Fiscal Years 2017 through 2020 reflect Maintenance and Operation Costs increasing at a 1% rate per Fiscal Year for personnel expenses, at a 3.5% rate per Fiscal Year for supplies and contracts, and at a 3.3% rate per Fiscal Year for energy/utilities; (d) Net Revenues for Fiscal Years 2017 and 2018 reflect prior year revenue from the sale of recycled water from the South Bay Plant from Fiscal Years 2002 through 2014; and (e) Net Revenues will increase in Fiscal Year 2017 through Fiscal Year 2020 due to an increase in revenue from the Participating Agencies for costs primarily related to the Pure Water Program.

The achievement of certain results or other expectations contained in Table 16 involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements reflected in Table 16 to be materially different from any future results, performance or achievements expressed or implied by such Table. Although, in the opinion of the Department, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results.

The Department does not expect to request any increases in service or capacity charges with respect to the Wastewater System between Fiscal Years 2016 and 2020.

TABLE 16
PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
Fiscal Years Ending June 30, 2016 through June 30, 2020
($ in thousands)
(Unaudited)

Description	2016	2017	2018	2019	2020
System Revenues					
Operating Revenue	$363,596	$376,131	$380,482	$378,429	$387,134
Interest Income	7,947	7,470	8,071	8,189	9,351
Capacity Charge Revenue[1,2]	18,000	16,000	16,080	16,160	16,241
Total System Revenues	$389,543	$399,601	$404,633	$402,778	$412,726
Maintenance and Operation Costs	$220,498	$226,703	$231,557	$236,567	$241,737
Net System Revenues[3]	$169,045	$172,898	$173,076	$166,211	$170,989
Projected Parity Debt Service[4]	$102,724	$104,871	$105,428	$106,567	$106,563
Parity Debt Service Coverage	1.65x	1.65x	1.64x	1.56x	1.60x
Projected Parity Debt Service[4]	$102,724	$104,871	$105,428	$106,567	$106,563
Projected Subordinated Debt Service	6,059	6,059	6,059	6,059	6,059
Aggregate Parity and Subordinated Debt Service[5]	$108,783	$110,930	$111,487	$112,626	$112,622
Aggregate Parity and Subordinated Debt Service Coverage	1.55x	1.56x	1.55x	1.48x	1.52x

Source: Public Utilities Department and Department of Debt Management, City of San Diego

1 Capacity Charge revenue is based on projected population growth and building permits. The decrease in Fiscal Years 2016 and 2017 reflects a return to moderate building activity, following the strong growth that occurred in Fiscal Years 2014 and 2015, subsequent to the economic downturn in Fiscal Year 2009.

2 See TABLE 12 "ESTIMATED AND PROJECTED SERVICE AND CAPACITY CHARGES" for the components of the Capacity Charges.

3 Net System Revenues consists of Total System Revenues less Maintenance and Operation Costs.

4 Reflects actual debt service on the Series 2009A Bonds, the Series 2009B Bonds, the Series 2010A Bonds, the Series 2015 Bonds and the Existing Parity SRF Loans, and projected debt service on additional loans the City expects to receive from the State Water Resources Board to finance the Pure Water Program. Does not reflect the issuance of the Series 2016A Bonds, the refunding of the Refunded Bonds or debt service on the future Additional Parity SRF Loan of $43 million.

5 Includes Parity Obligations and the Existing Subordinated SRF Loans.

Labor Relations

Unless otherwise indicated, the information under this heading "Labor Relations" is a discussion of labor relations for all employees of the City.

General. The table below shows the City's several recognized employee organizations which represent City employees. Certain classified and unclassified City employees are unrepresented.

The City's Employee Organizations

Organization[1]	Represented Employees[3]
San Diego Municipal Employees' Association ("MEA")	4,915
American Federation of State, County, and Municipal Employees, Local 127 ("AFSCME Local 127")	2,020
San Diego Police Officers Association ("POA")	2,030
the San Diego City Firefighters, International Association of Firefighters, Local 145 ("IAFF Local 145")	906
California Teamsters Local 911 ("Teamsters Local 911")	161
Deputy City Attorneys Association ("DCAA")[2]	146

Source: Financial Management, City of San Diego
[1] Represents classified employees, except where otherwise noted.
[2] Represents unclassified deputy city attorneys.
[3] As of the City's Fiscal Year 2016 Adopted Budget

As of December 31, 2015, there were approximately 872 regular full time employees of the Department (Wastewater Branch), of which approximately 492 were represented by the MEA, and approximately 328 were represented by AFSCME Local 127. The remaining 52 employees were unrepresented.

Collective Bargaining Agreements. In 2013, the City entered into a collective bargaining agreement with each of its recognized employee organizations, for a five-year term, from July 1, 2013 through June 30, 2018. Each agreement includes terms consistent with Proposition B, an initiative approved by City voters in June 2012 to reform the City's retirement system. Under Proposition B, and specifically Charter section 70.2, the City must comply with certain procedural requirements, from July 20, 2012, the effective date of Proposition B through June 30, 2018, if it intends to negotiate increases to pensionable pay. The City Council must obtain an actuarial analysis from its retirement system actuary that discloses the impact of any proposed pay increases and must approve any negotiated increases by a two-thirds vote of the City Council. The City and each recognized employee organization agreed that they would not negotiate any general salary increases, which are pensionable, during the five-year period covered by Charter section 70.2. However, individual employees may still receive merit increases or promotions within the parameters of the Fiscal Year 2011 salary schedules. In exchange for the agreement to limit pensionable pay of employees during this five-year period, the City agreed to increases in non-pensionable pay. Each of the collective bargaining agreements includes non-pensionable pay increases in Fiscal Year 2016, with reopeners in Fiscal Years 2017 and 2018 to meet and confer solely regarding increases to non-pensionable compensation. Flexible benefit credits are non-pensionable. Each collective bargaining agreement remains in effect through June 30, 2018; however, the City and POA have negotiated modifications to the POA's five-year agreement, which, was approved by the City Council to amend the agreement for a term from July 1, 2015 through June 30, 2020. In addition, the City and MEA negotiated a successor collective bargaining agreement, which was approved by City Council on December 8, 2015 and will go into effect for a new term from July 1, 2017 through June 30, 2020.

MEA: In 2015, the City and MEA mutually agreed to reopen negotiations to meet and confer on terms for Fiscal Years 2017 through 2020. The City and MEA have negotiated a successor collective

bargaining agreement for a new term from July 1, 2017 through June 30, 2020. MEA-represented employees will receive a 3.3 percent increase in pensionable compensation in Fiscal Year 2019 and a 3.3 percent increase in pensionable compensation in Fiscal Year 2020. In addition, effective in Fiscal Year 2019 there will be special salary adjustments ranging from 5 percent to 7 percent for certain classifications experiencing recruitment and retention issues. The agreement also contains non-pensionable compensation increases in Fiscal Years 2017 through 2020. The non-pensionable compensation includes increases to flexible benefits credits for all MEA-represented employees.

AFSCME Local 127: AFSCME Local 127-represented employees received increased annual flexible benefit credits in Fiscal Year 2016. AFSCME Local 127 has exercised its option to reopen negotiations solely for the purpose to meet and confer on non-pensionable compensation increases in Fiscal Years 2017 and 2018. The City has begun meeting and conferring with AFSCME Local 127.

POA: In 2014, the City and POA mutually agreed to reopen negotiations to meet and confer on terms for Fiscal Years 2016 through 2020. The City and POA have agreed to amend the collective bargaining agreement for a new term from July 1, 2015 through June 30, 2020. POA-represented employees will receive a 3.3 percent increase in pensionable compensation in Fiscal Years 2019 and a 3.3 percent increase in pensionable compensation in Fiscal Year 2020. The agreement also contains non-pensionable compensation increases in Fiscal Years 2016 through 2020. The non-pensionable compensation includes increases to flexible benefit credits for all POA-represented employees with additional credits for employees with eight or more years of service. Employees with eight or more years of service will also receive increases to annual uniform and equipment allowances, as will new recruits. Employees will also receive up to 40 hours of discretionary leave for full-time employees with proportionally reduced hours for part-time employees.

IAFF Local 145: IAFF Local 145-represented employees received increased annual flexible benefit credits in Fiscal Year 2016. IAFF Local 145 has exercised its option to reopen negotiations solely for the purpose to meet and confer upon non-pensionable compensation increases in Fiscal Years 2017 and 2018. The City has begun meeting and conferring with IAFF Local 145.

Teamsters Local 911: Teamsters Local 911-represented employees received increased annual flexible benefit credits in Fiscal Year 2016. The employee organization has exercised its option to reopen negotiations solely for the purpose to meet and confer over further increases to non-pensionable compensation in Fiscal Years 2017 and 2018. The City has begun meeting and conferring with Teamsters Local 911.

DCAA: DCAA-represented employees received an increase in their annual flexible benefit credit in Fiscal Year 2016. The employee organization has exercised its option to reopen negotiations solely for the purpose to meet and confer upon non-pensionable compensation increases in Fiscal Years 2017 and 2018. The City has begun meeting and conferring with DCAA.

Insurance and Liability Claims

The City is self-insured for workers' compensation and long-term disability and for public liability claims exposure up to $3 million per occurrence. For liability between $3 million and $50 million, the Department is covered by the City, which purchases insurance in collaboration with the California State Association of Counties—Excess Insurance Authority ("CSAC-EIA"), a statewide joint powers authority risk pool, in layers for its public liability exposure.

The City participates in the joint purchase of property insurance and flood insurance through the CSAC-EIA pool, which includes flood and earthquake coverage for scheduled locations, including bond

financed locations of the Wastewater System. This joint purchase of the City's "all risk" property insurance, insuring approximately $4.6 billion of City property, provides coverage for loss to City property under the primary policy up to approximately $25 million per occurrence, with a $25,000 deductible. Depending on availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future. The City maintains casualty insurance on many of the assets of the Wastewater System, including, among other assets, treatment plants, pump stations, administration buildings, garages, warehouses, concession buildings and labs. The City does not maintain any casualty insurance on the pipelines of the Wastewater System because such insurance is not commercially available. See Note 14 "—RISK MANAGEMENT" contained in "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for additional information on the City's insurance coverages.

Table 17 below sets forth the liabilities claims budget and expenditures for liability claims of the Wastewater System for Fiscal Years 2011 through 2015.

TABLE 17
LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years Ended June 30, 2011 through June 30, 2015
(Unaudited)

Fiscal Year	Budget	Expenditures[1]
2011	$1,001,422	$2,015,806
2012	851,702	2,562,934
2013	851,702	2,209,086
2014	1,511,709	1,256,302
2015	1,412,415	1,006,659

Source: Public Utilities Department and Risk Management Department, City of San Diego

[1] Over-budget expenditures are paid from the Sewer Revenue Fund balance available for appropriation.

Investment of Funds

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

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

Oversight and Reporting Requirements. The City Treasurer provides both a monthly and quarterly investment report to the Chief Financial Officer, the City Comptroller and the City Council and annually presents the City Treasurer's Investment Policy to the Chief Financial Officer, the City Treasurer's Investment Advisory Committee (the "IAC"), the Budget and Government Efficiency Committee, and the City Council. The IAC is comprised of two City employees, currently the Chief

Financial Officer and the Director of Debt Management, and three outside investment professionals and is charged with overseeing the review of the City Treasurer's Investment Policy and practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

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

Authorized Investments. Investments in the City Pool are governed by State law and further restricted by the City Treasurer's Investment Policy. The Investment Policy is prepared with safety of principal being the foremost objective. Permitted investments include, but not limited to, U.S. Treasury securities, U.S. Agency securities, U.S. Agency mortgage backed securities, corporate medium term notes, money market instruments, non-negotiable Federal Deposit Insurance Corporation-insured certificates of deposit and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") and securities lending arrangements are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. The main operating funds of the City are managed in two separate portfolios, the Liquidity and Core portfolios. In its management of the "Liquidity" portfolio, comprising approximately 35% of total funds, the City invests in a variety of debt securities with maturities typically ranging from one day to one year; performance is measured against the Bank of America Merrill Lynch three-to-six month Treasury Bill Index. 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 Bank of America Merrill Lynch one- to three-year U.S. Treasury Index. The 35% Liquidity/65% Core portfolio split serves as a guideline. The actual split may vary due to market conditions or other factors. Safety of principal and liquidity are paramount considerations in the management of both portfolios.

Pool Liquidity and Other Characteristics. The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. Based on unaudited month-end data as of December 31, 2015, approximately 7% of the City Pool's investments mature within 62 days, 9% within 92 days, 19% within 184 days, 40% within 1 year, 76% within 2 years, 99% within 3 years, and 100% within 5 years (on a cumulative basis). As of December 31, 2015, the City Pool had a weighted average maturity of 1.38 years (504 days) and its weighted average yield was 0.75%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.37 years and the Core portfolio had a duration of 1.65 years as of December 31, 2015. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.37% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.65% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

Table 18 below sets forth the investments in the City Pool as of December 31, 2015.

TABLE 18
CITY OF SAN DIEGO POOLED INVESTMENT FUND
at December 31, 2015
($ in thousands)
(Unaudited)

Investment Instrument	Book Value	Fair Value	Percent of Total[1]
U.S. Treasury Notes	$ 899,429	$ 896,789	43.44%
Agency Discount Notes	235,543	235,651	11.38
Agency Notes & Bonds	364,750	364,254	17.62
Supranationals[2]	69,927	69,485	3.38
Commercial Paper	49,805	49,838	2.41
Corporate Notes & Bonds	145,636	145,716	7.03
Local Agency Investment Fund	49,958	49,958	2.41
Negotiable Certificates of Deposit	175,001	175,018	8.45
Asset Back Securities	80,327	80,192	3.88
TOTAL INVESTMENTS[3]	$2,070,377	$2,066,902	100.00%

Source: Office of the City Treasurer, City of San Diego
[1] Based on book value.
[2] Supranationals are entities formed by two or more central governments through international treaties. Examples are the International Bank for Reconstruction and Development and the Inter-American Development Bank.
[3] Approximately 19% of the City Pool is allocable to the Sewer Revenue Fund.

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

San Diego City Employees' Retirement System

Unless otherwise indicated, the information under this heading "San Diego City Employees' Retirement System" is a discussion of the San Diego City Employees' Retirement System as it relates to all employees of the City.

General. The City faces significant financial challenges in addressing an unfunded pension liability to the San Diego City Employees' Retirement System ("SDCERS"), which, as of June 30, 2015, was approximately $2.00 billion. However, as explained below under the caption, "City and Sewer Revenue Fund Pension Contributions," the Sewer Revenue Fund's proportionate share of the City's actuarially determined contribution to SDCERS is approximately 6.2% (equal to approximately $15.7 million, assuming a City pension payment of $254.9 million) for Fiscal Year 2016. *Please note that the Annual Actuarial Valuation of SDCERS for Fiscal Year 2015 (the "2015 Actuarial Valuation") has not been completed. Certain information that will be included in the 2015 Actuarial Valuation has been provided to the SDCERS Board by Cheiron, the SDCERS actuary. Where indicated, such information has been included herein. Please be aware that information related to the Fiscal Year 2015 Actuarial Valuation is preliminary, subject to change, and has not been approved by the SDCERS Board.*

SDCERS is a public employee retirement system established in Fiscal Year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (the "Port") and the San Diego County Regional Airport Authority (the "Airport"). The assets of the three separate plans and trusts are pooled in the

SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. Benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS.

Due to the implementation of Proposition B, discussed below, as of July 20, 2012, SDCERS is closed to new City employees, except for the Police plan, which will remain open. SDCERS is considered part of the City's financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a pension trust fund. See Note 11, "PENSION PLANS" in "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015." SDCERS also prepares its own Comprehensive Annual Financial Report, the most recent of which is for Fiscal Year 2015.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the Series 2016A Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the Series 2016A Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change. Prospective purchasers of the Series 2016A Bonds should also be aware that some of the information presented under this caption contains forward-looking statements and the actual results of the pension system may differ materially from the information presented herein.

The information disclosed herein relates solely to the City's participation in SDCERS and not to the participation of the Airport or the Port. City employment classes participating in the City's defined benefit plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

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TABLE 19
CITY OF SAN DIEGO PLAN MEMBERSHIP
as of June 30, 2015

	General	Safety	Total by Classification
Active Members	4,870	2,180	7,050
Inactive Members	2,329	569	2,898
Retirees	4,861	3,111	7,972
DROP Participants[1]	696	435	1,131
Total Members	12,756	6,295	19,051

Source: SDCERS Comprehensive Annual Financial Report 2015.

[1] Participants in the Deferred Retirement Option Plan ("DROP") no longer accrue service credits and do not make contributions to SDCERS. They continue to work for the City and contribute 3.05% of their salary, with an employer match, into a personal DROP account. Their service retirement benefit is also deposited into their DROP account and they must retire within five years of entering DROP. Employees hired after June 30, 2005 are ineligible for DROP.

The City is required to make contributions to the pension system as determined by the SDCERS Board. Pension contributions are authorized and appropriated annually in accordance with the adoption of the City's annual budget. The City's Actuarially Determined Contribution ("ADC")[1] is calculated by the SDCERS' actuary, Cheiron, Inc. ("Cheiron") and approved by the SDCERS Board. Cheiron conducts an actuarial analysis for SDCERS annually, the most recent of which is the June 30, 2014 Annual Actuarial Valuation of SDCERS, dated February 26, 2015 (the "2014 Actuarial Valuation"). The 2014 Actuarial Valuation serves as the basis for the City's pension contribution for Fiscal Year 2016. The City's actual annual pension contribution may differ from the ADC based on a number of factors discussed below, but the pension contribution is not expected to be less than the ADC in any Fiscal Year.

Actuarial Assumptions and Methods.

Funding Method. Cheiron calculates the City's contribution using the Entry Age Normal ("EAN") actuarial funding method. Under EAN, there are two components to the total contribution: the normal cost and an amortization payment on any unfunded actuarially accrued liability ("UAAL"). For Fiscal Year 2016, a third component was added representing a portion of SDCERS expected administrative expenses, as discussed below. The normal cost (associated with active employees only) is the present value of the benefits that SDCERS expects to become payable in the future attributable to the current year's employment. Normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The difference between the EAN actuarial liability and the actuarial value of assets is the UAAL.

Amortization Periods and Methodology. The UAAL as of June 30, 2014 for the Police portion of SDCERS is amortized over several different closed periods as follows: changes in the UAAL due to changes in methods and assumptions are amortized over 30 years, changes in the UAAL due to benefit changes are amortized over five years, the outstanding balance of the Fiscal Year 2007 UAAL is amortized over a closed 20 year period (such that, as of Fiscal Year 2015, 13 years of amortization remain), and subsequent yearly experience gains and losses are amortized over 15 years. As a result of

[1] Actuarially Determined Contribution ("ADC") has replaced the Annual Required Contribution ("ARC") as the funding policy for SDCERS. This change, in accordance with GASB 67, was approved by the SDCERS Board in November 2013. This action formalized a funding policy that is based on the existing practices formerly used to develop the ARC, which are described above under the caption "Funding Method."

Proposition B and in compliance with then-current GASB standards, the non-Police portion of UAAL is amortized over 15 years. Finally, if necessary, there is an additional UAAL cost component to ensure that there is no negative amortization in any year. Also as a result of Proposition B, the non-Police portion of the UAAL is amortized using the level dollar method while the Police portion is amortized using the level percentage of payroll method. Level dollar amortization generally results in decreasing inflation-adjusted payments over time whereas level percentage of payroll amortization generally results in level inflation-adjusted payments over time.

In January 2015, the SDCERS Board voted to account for expected administrative expenses explicitly as a cost component in the ADC. The administrative expense component was $4.2 million for Fiscal Year 2016, based on a three-year phase in of $12.5 million in expected expenses. In Fiscal Year 2017, two-thirds of expected administrative expenses will be added to the ADC, and beginning in Fiscal Year 2018 100% of expected administrative expenses will be added to the ADC.

Actuarial Assumptions. The following are the principal actuarial assumptions used by Cheiron in preparing the 2014 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in November 2013 and were also used in the preparation of the Annual Actuarial Valuation of SDCERS for Fiscal Year 2013 (the "2013 Actuarial Valuation"), with the exception of the assumption related to administrative expenses.

1. Investment Return Rate: 7.25% per year, net of investment expenses.

2. Inflation Rate: 3.3% per year, compounded annually.

3. Administrative Expense Assumption: Administrative expenses are assumed to be $12.5 million for Fiscal Year 2016, increasing by 2.5% annually. Of this amount, one-third, or $4.2 million, has been included in the Fiscal Year 2016 ADC. For Fiscal Year 2017, there will be two-thirds recognition, and for all fiscal years following, 100% of the expected administrative expenses will be added to the ADC.

4. Interest Credited to Member Contributions: 7.25% compounded annually.

5. Projected Salary Increases Due to Inflation: 0% in Fiscal Years 2015-2018, 3.3% thereafter.

6. Cost-of-Living Adjustments: 2.00% per year, compounded annually.

7. Additional Assumptions: Additional assumptions were used regarding rates of separation from active membership, post-retirement mortality, active member mortality, and rates of retirement.

On November 13, 2015, the SDCERS Board voted to change certain actuarial assumptions that will be used in the 2015 Actuarial Valuation. In particular, the SDCERS Board voted to decrease the investment return rate by .25% over two years such that the rate will be 7.125% for Fiscal Year 2016 (effective for the June 30, 2015 valuation), and 7.0% for Fiscal Year 2017 (effective for the June 30, 2016 valuation and thereafter). The SDCERS Board also voted to reduce the wage inflation rate by .25% phased in over two years in similar fashion.

Actuarial Value of Assets (Asset Smoothing Method). SDCERS uses an actuarial value of assets to calculate the City's pension contribution each year and uses an asset smoothing method to dampen the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset

smoothing method is consistent with the long-term nature of the actuarial valuation process. The actuarial value of assets each year is equal to 100% of the expected actuarial value of assets[2] plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. The market value of assets represents, as of the valuation date, the value of the assets as if they were liquidated on that date. This means that changes in the market value of assets are factored into the actuarial value of assets roughly over a four year period. The actuarial value of assets will also be adjusted, if necessary, to ensure that the actuarial value of assets will never be less than 80% of the market value of assets, nor greater than 120% of the market value of assets. The consequence of the smoothing methodology is that the actuarial value of assets increased by 9.6%, while the market value of assets increased by 16.6% from June 30, 2013 to June 30, 2014. As of June 30, 2014, the market value of plan assets was approximately $6.293 billion, and the actuarial value was approximately $5.829 billion.

Implementation of GASB Statements No. 67 and 68. In Fiscal Year 2014, GASB Statement No. 67 ("GASB 67"), which applies to pension plans, replaced GASB Statement No. 25, and in Fiscal Year 2015, GASB Statement Nos. 68 and 71 ("GASB 68 and 71"), which applies to plan sponsors, replaced the current GASB Statement No. 27 ("GASB 27"). GASB 67 is intended to enhance note disclosures and schedules of required supplementary information that will be presented by pension plans in their audited financial statements. GASB 67 was implemented by SDCERS in Fiscal Year 2014. The 2014 Actuarial Valuation reflects the funding policy adopted by SDCERS to calculate the ADC. This funding policy requires the ADC to be calculated in the same manner previously used to calculate the City's annual required contribution ("ARC").

The City implemented GASB 68 and 71 in Fiscal Year 2015. This resulted in significant financial accounting and reporting changes to the City's financial statements. The most significant change stems from the requirement that the City record, in its Statement of Net Position, the Net Pension Liability ("NPL") related to defined benefit retirement plans offered to City employees. The NPL represents the difference between the Total Pension Liability and the fair value of pension assets. The City elected to use Fiscal Year 2014 as its measurement date, which means that the NPL reported in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015 is based on the fair value of pension assets as of June 30, 2014 and the Total Pension Liability as of the valuation date, June 30 2013, updated to June 30, 2014. GASB 68 and 71 also require that certain pension related inflows and outflows be deferred and recognized in subsequent periods. As of June 30, 2015, the City reported an NPL of $1.535 billion, of which $112.9 million was allocated to the Sewer Revenue Fund. See Table 21 for the Wastewater System's share of the ADC from Fiscal Year 2012 through 2016.

The measurement of the City's NPL assumes a long-term expected rate of return of plan investments of 7.25% (the "Discount Rate"). A change in the assumed Discount Rate would have a significant effect on the measurement of the NPL. For example, a 1% decrease in the assumed Discount Rate to 6.25% would increase the City's Fiscal Year 2015 NPL by $880 million, or 57%; and a 1% increase in the assumed Discount Rate to 8.25% would decrease the City's Fiscal Year 2015 NPL by $731 million, or 48%. Any increase or decrease to the City's NPL would have a corresponding increase or decrease to the amount allocated to the Sewer Revenue Fund.

Funding Status. According to the 2014 Actuarial Valuation, at June 30, 2014, the City had a UAAL of $2.030 billion and a funded ratio, based on the actuarial value of assets, of 74.2%. The UAAL decreased by $207.6 million over the UAAL set forth in the 2013 Actuarial Valuation, which was $2.237 billion, and the funded ratio increased by 3.8%. The primary cause for the decrease in the UAAL was

[2] The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased by actual contributions made, decreased by actual disbursements made, all items further adjusted with the expected investment returns for the year.

investment experience greater than projected. This decreased the UAAL by $131.8 million. Partially offsetting this was a liability experience loss which increased the UAAL by $28.1 million. Preliminary data from Cheiron shows the UAAL at June 30, 2015 decreasing to $2.002 billion and the funded ratio increasing to 75.6%. The UAAL at June 30, 2015 is higher than expected and the funded ratio is lower than expected due principally to the SDCERS Board's reduction of the assumed investment return rate discussed above.

Table 20 below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2005 through 2014. Additionally, see Note 11, "PENSION PLANS" in "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

TABLE 20
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years Ended June 30, 2005 through June 30, 2014
($ in thousands)
(Unaudited)

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	AAL (C)	Funded Ratio (Actuarial)	Funded Ratio (Market)	UAAL (Actuarial) (C) – (A)	AAL Less Market Value of Assets (C) – (B)	Covered Payroll[4]	UAAL to Covered Payroll
2005	$2,983,080	$3,205,722	$4,377,093	68.2%	73.2%	$1,394,013	$1,171,371	$557,631	250.0%
2006 [1]	3,981,932	3,981,932	4,982,699	79.9	79.9	1,000,767	1,000,767	534,103	187.4
2007 [2]	4,413,411	4,641,341	5,597,653	78.8	82.9	1,184,242	956,312	512,440	231.1
2008 [3]	4,660,346	4,408,719	5,963,549	78.1	73.9	1,303,203	1,554,830	535,774	243.2
2009	4,175,229	3,479,357	6,281,636	66.5	55.4	2,106,408	2,802,279	536,591	392.6
2010	4,382,047	3,900,537	6,527,224	67.1	59.8	2,145,177	2,626,687	530,238	404.6
2011 [3]	4,739,399	4,848,054	6,917,175	68.5	70.1	2,177,776	2,069,121	514,265	423.5
2012	4,982,442	4,799,827	7,261,731	68.6	66.1	2,279,289	2,461,904	511,091	446.0
2013 [5]	5,317,778	5,395,158	7,555,527	70.4	71.4	2,237,749	2,160,369	499,463	448.0
2014	5,828,594	6,292,855	7,858,703	74.2	80.1	2,030,110	1,565,848	480,536	422.5

Source: Cheiron Actuarial Valuations for Actuarial Value of Assets, Market Value of Assets, AAL, Funded Ratio (Actuarial), Funded Ratio (Market) (2011-2014), UAAL, Covered Payroll, UAAL to Covered Payroll (2005 to 2013); Comptroller's Office, City of San Diego for Funded Ratio (Market) (2005-2010), AAL less Market Value of Assets, UAAL to Covered Payroll (2014)

[1] Reflects revised actuarial methodologies.

[2] Reflects revised actuarial assumptions, including the return to EAN actuarial funding method.

[3] Reflects revised actuarial methodologies and assumptions.

[4] Covered payroll includes all elements of compensation paid to active City employees (who are in the SDCERS defined benefit plan) on which contributions to the pension plan are based.

[5] Current year methodologies and assumptions are discussed above. Methodologies and assumptions were not changed from 2013 to 2014.

Preservation of Benefits Plan. The Preservation of Benefits ("POB") Plan is a qualified governmental excess benefit arrangement ("QEBA") under Internal Revenue Code ("IRC") section 415(m). The POB Plan allows for the payment of promised benefits that exceed IRC section 415(b) limits and therefore cannot be paid from SDCERS assets. The POB Plan is unfunded within the meaning of federal tax law and the City may not prefund the POB Plan to cover future liabilities. Because the POB Plan is not administered by a trust, GASB 27 remains applicable for accounting and disclosure purposes. Pursuant to GASB 27, Cheiron prepares an annual actuarial valuation ("POB Valuation") for the POB Plan. This valuation is separate from the actuarial valuation for the pension plan, and the POB

ADC included in the POB Valuation is not used to calculate the City's POB contribution. Contributions to the POB Plan are funded annually on a pay-go basis by the City and the payments are calculated by Cheiron based on the amount of pension benefits earned in excess of the IRC Section 415(b) limit in any particular fiscal year. See TABLE 21 "CITY AND WASTEWATER SYSTEM PENSION CONTRIBUTION" below. The actuarial liability for the POB Plan as of June 30, 2014, the most recent year for which the City has data, was $7.9 million, and this entire amount is unfunded.

City and Sewer Revenue Fund Pension Contributions. The City's Pension Plan ADC for Fiscal Year 2016 is $254.9 million. The Sewer Revenue Fund's proportionate share of the City's $254.9 million ADC for Fiscal Year 2016 is $15.7 million, or 6.2%. Preliminary data related to the actuarial valuation at June 30, 2015 shows the City's Pension Plan ADC for Fiscal Year 2017 increasing to $261.1 million. Based on the Fiscal Year 2016 Budget, the ADC allocable to the Sewer Revenue Fund in Fiscal Year 2017 is projected to be $16.2 million. The Fiscal Year 2017 amounts are subject to change pending the preparation and adoption of the 2015 Actuarial Valuation and the development of the Fiscal Year 2017 Proposed Budget.

The City's pension plan payment is typically made on July 1 of each fiscal year, including Fiscal Year 2016. POB Plan contributions are made on a monthly basis as payments are owed to beneficiaries.

The following Table 21 sets forth the City's ADC and pension payments for Fiscal Years 2012 through 2016 (budgeted), as well as the amounts related specifically to the Wastewater System. Prior to Fiscal Year 2014, in addition to the City contributions set forth in the table below, the City made certain pension contributions on behalf of certain employee groups. As of Fiscal Year 2015, the City no longer pays any portion of employee pension contributions.

TABLE 21
CITY AND WASTEWATER SYSTEM
PENSION CONTRIBUTION
Fiscal Years Ended June 30, 2012 through June 30, 2016
($ in thousands)
(Unaudited)

Fiscal Year Ended June 30	Pension Plan ARC/ADC	POB Plan ARC	Total Plan ADC/ARC	Pension Plan Contribution	POB Plan Contribution	Total Pension Contribution[1]	Wastewater System Contribution	Wastewater System Contribution (% of O&M)
2012	$231,200	$1,269	$232,469	$231,200	$1,626	$232,828	$14,198	5.5%
2013	231,100	1,314	232,414	231,100	1,572	232,672	13,636	5.2
2014	275,400	708	276,108	275,400	1,403	276,803	17,849	6.5
2015	263,600	876	264,476	263,600	1,349	264,949	14,474	5.4
2016 [2]	254,900	842	255,742	254,902	1,500	256,402	15,711	6.2

Source: SDCERS Comprehensive Annual Financial Reports; Cheiron Actuarial Valuations for Pension Plan ARC/ADC; SDCERS for POB Plan ARC; Comptroller's Office, City of San Diego for Total Plan ARC/ADC, Pension Plan Contribution, POB Plan Contribution, Total Pension Contribution, Wastewater System Contribution (2012-2015); Financial Management, City of San Diego for Wastewater System Contribution (2016)

[1] Comprised of the pension plan contribution and the POB Plan contribution; may not sum due to rounding.

[2] Except for Pension Plan ARC/ADC all other amounts are budgeted.

Prospective Funding Status. As part of its actuarial valuations for SDCERS, Cheiron prepares projected financial trends to show the City's expected cost progression. The following Table 22 uses the actuarial assumptions and methodologies discussed above, including the revised assumptions that will be used for the 2015 Actuarial Valuation. The table also assumes the validity of Proposition B, which is discussed below. It is important to note that the table uses investment returns as assumed, 7.125% in Fiscal Year 2016 and 7% annually thereafter. These exact returns are unlikely given the historical

variability in annual investment returns. The City expects investment returns will vary, and may vary significantly from year to year, which will potentially result in greater volatility and higher (or lower) ADC payments than presented in the table.

TABLE 22
CITY OF SAN DIEGO
ACTUARIAL FUNDING PROJECTIONS
Fiscal Years Ending June 30, 2016 through June 30, 2025
(earnings as assumed)
(Unaudited)

Fiscal Year Ending June 30	Assumed Investment Return Rate	Actuarially Determined Contribution ($ millions)	UAAL ($ billion)
2016	7.125%	$254.9	$2.03
2017	7.000	261.1	2.00
2018	7.000	267.9	1.99
2019	7.000	265.5	1.87
2020	7.000	263.8	1.74
2021	7.000	262.9	1.60
2022	7.000	262.5	1.47
2023	7.000	262.5	1.33
2024	7.000	263.0	1.18
2025	7.000	263.3	1.03

Source: Cheiron presentation to SDCERS Board, January 8, 2016

Supplemental COLA. On August 5, 2013, the City Council amended the San Diego Municipal Code to provide a method for funding for a supplemental cost-of-living benefit (the "Supplemental COLA") previously given to a closed group of retirees who retired on or before June 30, 1982. The Supplemental COLA was established in 2000 to increase retirement benefits up to a determined amount according to a formula in the Municipal Code. Pursuant to the Municipal Code, the funding for this benefit is an annual appropriation by the City, however, the City is not required to pay the benefit. The City is invoiced by SDCERS at the beginning of each fiscal year for the full cost of the benefit during that fiscal year. In Fiscal Year 2016, the cost of the benefit citywide was $2,076,000 and the Sewer Revenue Fund share of this cost was approximately $169,107. In Fiscal Year 2015, the cost of the benefit citywide was $2,060,000 and the Sewer Revenue Fund share of this cost was $179,426. SDCERS has estimated that, for Fiscal Year 2017, the cost of the benefit citywide will be approximately $2.1 million and the Sewer Revenue Fund share of this cost will be approximately $178,370. SDCERS maintains Supplemental COLA funding separate from SDCERS assets and no system assets can be used to pay the benefit.

Proposition B. Proposition B was approved by voters on June 5, 2012 and implemented by the City in Fiscal Year 2013. Generally, the measure amends the City Charter to provide all new City employees hired on or after July 20, 2012, except sworn police officers, with a 401(a) defined contribution plan instead of a defined benefit plan. The initiative contains other provisions intended to limit pension costs for existing employees by directing the City to seek, through labor negotiations, to limit City employees' compensation used to calculate pension benefits. Effective in Fiscal Year 2014, the City reached agreements with each employee organization that will freeze pensionable pay and cost of

living increases for Fiscal Years 2014 through 2018. See "—Labor Relations" above. The labor agreements may be reopened at the option of employee organizations in Fiscal Years 2017 and 2018.

Proposition B is the subject of ongoing litigation before the California Public Employment Relations Board ("PERB"). The labor agreements discussed above are not being challenged as a part of this litigation and are not expected to be affected regardless of the outcome. On February 11, 2013, a PERB administrative law judge ("ALJ") issued a proposed decision finding that the City violated state labor laws by failing to meet and confer with City labor organizations prior to placing Proposition B on the ballot. The City filed exceptions to the proposed decision. On December 29, 2015, PERB issued Decision No. 2464 M (the "PERB Decision"), which affirmed and adopted the ALJ's proposed decision with minor modifications. On January 12, 2016, the City Council directed the City Attorney's Office to appeal the PERB Decision to the Fourth District Court of Appeal. On January 25, 2016, the City filed an appeal with the Court of Appeal. The litigation could potentially repeal or unwind the implementation of some or all of the requirements of Proposition B. The City is unable to quantify the cost impact of any repeal or unwind of Proposition B. Notwithstanding the PERB Decision and on-going litigation, the 2014 Actuarial Valuation assumes the validity of Proposition B, the City has fully implemented its requirements and the City intends to comply with those requirements under the terms specified in the initiative unless ordered otherwise by a court of law.

Other Retirement Plans

In addition to the defined benefit plan administered by SDCERS, the City offers various defined contribution plans to its employees that include employer contributions. In Fiscal Year 2015, the City contributed approximately $24.5 million as an employer match for the plans discussed below.

Supplemental Pension Savings Plan. Pursuant to the City's withdrawal from the federal Social Security system, effective January 8, 1982, the City established its Supplemental Pension Savings Plan ("SPSP"). SPSP is a 401(a) plan. SPSP was previously available to General members, lifeguards and elected officers. SPSP was closed to new General members as of July 1, 2009, lifeguards as of January 1, 2011 and elected officers as of July 20, 2012.

SPSP requires both the City and the employee to contribute an amount equal to 3% of the employee's salary each pay period. Employees hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% of salary and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of salary. City contributions for employees vest at 20% per year and are fully vested after 5 years of employment. Employee mandatory and voluntary contributions have been made on a post-tax basis. Employee mandatory contributions on or after January 1, 2016 are made pre-tax. The voluntary contributions will remain post-tax. The City match has always been and will remain to be made as a pre-tax contribution.

SPSP-H Plan. Pursuant to the City's withdrawal from the federal Social Security system, the City established the Supplemental Pension Savings Plan-H ("SPSP-H Plan") for hourly (no standard hour) employees. These employees contribute a mandatory 3.75%. All bargaining groups except MEA and Teamsters Local 911 have a City match equal to the employee contribution (3.75%). MEA and Teamsters Local 911 for FY 2015 had an employer contribution of 4.25% and 6.0% for Fiscal Year 2016. All contributions are always 100% vested. Employee mandatory contributions on or before December 31, 2015 are made post-tax. Employee mandatory contributions made on or after January 1, 2016 are made pre-tax and the City match remains pre-tax.

Pursuant to Proposition B, newly hired standard hourly employees hired on or after July 20, 2012, except sworn police officers, are not eligible to participate in SDCERS and are provided with a 401(a)

plan that is administered along with the SPSP-H Plan but with different contribution rates and employer match. Non-public safety employees and elected officers contribute an amount equal to 9.2% of salary and firefighters, lifeguards, and police recruits contribute 11% of salary on a mandatory basis. The City matches all such contributions and contributions are fully vested immediately upon employment. Police recruits participate in SDCERS when they become sworn. All contributions are always 100% vested. Employee mandatory contributions on or before December 31, 2015 are made post-tax. Employee mandatory contributions on or after January 1, 2016 are made pre-tax and the City match remains pre-tax.

2009 401(a) Plan. The City established a separate 401(a) plan for General employees hired between July 1, 2009 and July 19, 2012. These employees are not eligible for SPSP-H but are SDCERS members. Employees contribute an amount equal to 1% of salary on a mandatory basis with a matching City contribution. Both employee and City match are made on a pre-tax basis. Voluntary contributions, made on a post-tax basis, are permitted up to IRS limits but there is no City match for voluntary contributions. All contributions are always 100% vested.

The City also provides a variety of other tax-advantaged retirement plans that are funded exclusively through employee contributions and do not require an employer match.

Postemployment Healthcare Benefits

Unless otherwise indicated, the information under this heading "Postemployment Healthcare Benefits" is a discussion of the postemployment benefits provided to all employees of the City.

General. The only postemployment benefits provided by the City are retiree healthcare benefits, also known as other postemployment benefits ("OPEB"), to certain health-eligible retirees and employees through a variety of defined benefit and defined contribution plans. Plan determination is based on several factors including hire date, termination date and individual employee election. Effective April 1, 2012, pursuant to the memoranda of understanding described below ("PEHB MOU"), OPEB benefits were modified and a significant group of participants opted out of the defined benefit plan and into a defined contribution plan. Accordingly, those participants have been removed from the GASB Statement No. 45 ("GASB 45") valuation information below because they no longer represent a GASB 45 liability. The City's defined benefit OPEB plan ("DB OPEB Plan") includes 6,103 retirees, and 1,334 active employees as of June 30, 2015. All other health-eligible employees, former employees and retirees are now participating in the defined contribution retiree healthcare plan ("DC Plan"). The City closed the DB OPEB Plan to employees hired on or after July 1, 2005.

The City initiated actuarial funding of its DB OPEB Plan in 2008 and has entered into an agreement with the California Public Employees Retirement System ("CalPERS") as a participating employer in the California Employers' Retiree Benefit Trust ("CERBT") to pre-fund future DB OPEB Plan expenses. As of June 30, 2015, the City's assets invested in CERBT totaled $121.1 million.

See Note 12, "OTHER POSTEMPLOYMENT BENEFITS" in "APPENDIX A—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for information regarding the City's OPEB plans.

Actuarial Assumptions and Methods. The City commissions an actuarial valuation of its DB OPEB Plan liability annually for the purpose of determining the City's annual cost in accordance with GASB 45. The valuation as of June 30, 2015 ("2015 OPEB Valuation"), dated December 1, 2015, was performed by Buck Consultants ("Buck"). The following are the major actuarial assumptions and methods employed by Buck in performing the 2015 OPEB Valuation:

1. Actuarial Cost Method: Entry Age Normal (see description under San Diego Employees' Retirement System for more information).

2. Amortization Rate: Level Dollar.

3. Remaining Amortization Period: 22 years in Fiscal Year 2015 (commencing with 23 years in Fiscal Year 2014), closed.

4. Actuarial Asset Valuation Method: Market Value.

5. Discount Rate: 6.73%.

6. Inflation Rate: N/A (benefits are determined based on Health Care Cost Trend Rate).

7. Projected Payroll Increase: N/A (benefits are determined based on Health Care Cost Trend Rate).

8. Health Care Cost Trend: 7.5% for Fiscal Year 2015, grading down 0.5% each year to an ultimate rate of 4.5% in Fiscal Year 2021.

9. Mortality Rates: RP-2000 Combined Healthy Mortality Tables for future and current retirees. Base rates for disabled retirees are consistent with experience study of SDCERS members.

The OPEB Valuation is also required to use the actuarial assumptions adopted by the SDCERS Board with respect to assumptions such as termination, disability, and retirement rates because the health-eligible employee and retiree population is very similar to the City's SDCERS membership.

Funding Status. According to the 2015 OPEB Valuation, at June 30, 2015, the City had a DB OPEB Plan UAAL of $537.3 million and a funded ratio of 18.4%. The DB OPEB Plan UAAL increased by approximately $57.8 million over the OPEB UAAL in the 2014 valuation of the DB OPEB Plan, which was $479.5 million, and the funded ratio increased from 21.1%.

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The City began prefunding the DB OPEB Plan in 2008. The following Table 23 shows the DB OPEB Plan funding progress for Fiscal Years 2008 through 2015:

TABLE 23
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS (DB OPEB PLAN)
Fiscal Years Ended June 30, 2008 through 2015
($ in thousands except for percentages)
(Unaudited)

Fiscal Year Ended June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Covered Payroll[1]	UAAL as % of Covered Payroll
2008	$ 29,637	$1,235,707	$1,206,070	2.40%	$556,857	216.6%
2009	41,497	1,359,377	1,317,880	3.05	549,012	240.0
2010	72,720	1,200,910	1,128,190	6.06	472,561	238.7
2011	116,608	1,248,151	1,131,543	9.34	455,537	248.4
2012	104,304	553,432	449,128	18.85	124,675	360.2
2013	113,404	557,551	444,147	20.34	112,782	393.8
2014	128,238	607,712	479,474	21.10	98,742	485.6
2015	121,115	658,408	537,293	18.40	87,252	615.8

Source: Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego
[1] Represents DB OPEB Plan participation only.

Citywide and Sewer Revenue Fund OPEB Contributions. In Fiscal Year 2012, the City entered into the 15-year PEHB MOU through Fiscal Year 2027, which significantly reduced its OPEB liabilities and created the DC Plan for certain health-eligible employees and former employees. Pursuant to the PEHB MOU, the City's total retiree healthcare annual contribution $57.8 million for Fiscal Year 2015 ("MOU Contribution"), distributed among the City's pay-go contribution to the DB OPEB Plan ("DB OPEB Paygo") and its contribution to the DC Plan. The City's MOU Contribution will increase by up to 2.5% annually thereafter. The PEHB MOU also requires that certain employees contribute towards the DB OPEB Plan to fund a portion of the DB OPEB Paygo ("Employee Contributions"). The terms of PEHB MOU may be renegotiated with a two-thirds vote of the City Council. As of the date of this Official Statement, there are no discussions ongoing to renegotiate the PEHB MOU.

The City's annual payment for the DB OPEB Plan and the DC Plan are made on a pay-go basis. The City funds these payments through its MOU Contribution, Employee Contributions and withdrawals from the CERBT ("Healthcare Obligations"). In Fiscal Year 2015, the Healthcare Obligations totaled $65.3 million and were funded by a $57.8 million MOU Contribution, a $1.0 million Employee Contributions and a withdrawal of $6.5 million from the CERBT. For Fiscal Year 2016, the total City retiree healthcare contribution is budgeted at $59.2 million with a Sewer Revenue Fund proportionate share of $4.8 million (1.9% of the Fiscal Year 2016 budgeted Maintenance and Operation Costs of the Wastewater System).

Table 24 below sets forth the City's DB OPEB ARC and the City's contributions for Fiscal Years 2011 through 2015, as well as the amounts related specifically to the Sewer Revenue Fund.

TABLE 24
CITY OF SAN DIEGO AND WASTEWATER SYSTEM
RETIREE HEALTH CONTRIBUTION
Fiscal Years Ended June 30, 2011 through June 30, 2015
($ in thousands)
(Unaudited

Fiscal Year Ended June 30	DB OPEB ARC	City CERBT Contribution[1]	City DB OPEB Paygo[2]	City DC Plan Contribution	Total City Retiree Health Contribution	Sewer Fund Retiree Health Contribution	Sewer Fund Contribution % of O&M
2011	$120,324	$25,000	$33,868	N/A	$58,868	$5,285	2.0%
2012	49,061	0	23,857	$34,424	58,281	7,057	2.7
2013	35,348	1,820	36,283	19,679	57,782	4,362	1.7
2014	38,097	0	32,143	25,639	57,782	4,844	1.8
2015	41,740	0	31,515	26,267	57,782	4,285	1.6

Source: Risk Management, Financial Management, Comptroller's Office, City of San Diego
[1] In Fiscal Years 2012, 2014 and 2015, the City withdrew $13.8 million, $2.6 million and $6.5 million, respectively from the CERBT to fund DB OPEB Paygo costs.
[2] Includes administrative costs for DB OPEB Plan.

Implementation of GASB Statement No. 75. In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("GASB 75"), which applies to state and local government employers who provide other postemployment benefits to employees. GASB 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. GASB 75 requires the recognition of the total OPEB liability in the Statement of Net Position. GASB 75 must be implemented by Fiscal Year 2018.

Retiree Medical Trust

In addition to the retiree healthcare plan discussed above, the City created a Retiree Medical Trust for certain City employees hired on or after July 1, 2009. The Retiree Medical Trust contributions are separate from and in addition to the $57.8 million required by the PEHB MOU and the City's obligation is limited to an employer match of 0.25% of the salary of eligible employees. Total Retiree Medical Trust City contribution for Fiscal Year 2015 was $205,755, and the budgeted contributions for Fiscal Year 2016 is $303,515.

RISK FACTORS

The ability of the City to pay principal of and interest on the Series 2016A Bonds depends primarily upon the receipt by the City of Net System Revenues. Some of the events which could prevent the City from receiving a sufficient amount of Net System Revenues to enable it to pay the principal of and interest on the Series 2016A Bonds are summarized below. The following description of risks is not intended to be an exhaustive list of the risks associated with the purchase of the Series 2016A Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

Litigation and Potential Regulatory Enforcement Actions

No Litigation Challenging the Series 2016A Bonds. There is no litigation challenging the Series 2016A Bonds. California Code of Civil Procedure Section 863 (made applicable to the Series 2016A Bonds through California Government Code Section 6516.6(e)) provides that any interested person seeking to challenge the validity of the Authority's or the City's action approving the issuance of the Series 2016A Bonds and the related documents must do so within 60 days of the Authority's or the City's adoption of the resolution or ordinance approving such actions. Challenges to such approvals brought after 60 days following the adoption of such approvals should be time barred. The date of final adoption of both the City's ordinance and the Authority's resolution approving the issuance of the Series 2016A Bonds and the related documents was June 16, 2015.

Tecolote Creek Sewage Spill. As described under "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Recent Sewage Spill in Tecolote Creek" above, between January 5, 2016 and January 10, 2016, a major sewer main break resulted in approximately 5.7 million gallons of sewage escaping from the sewer main and entering Tecolote Creek and Mission Bay. Pursuant to California Water Code Section 13385(c), the Regional Water Board has the authority to impose fines on wastewater agencies of up to $10 per gallon of sewage spilled plus up to $10,000 per day that a spill continued. The Department estimates that the maximum possible fine the Regional Water Board could impose on the Department for this sewer spill would be approximately $68 million. Based upon its past experiences with the Regional Water Board, however, the Department believes any such fine would be substantially less than the maximum. If the Regional Water Board were to determine that the Department should be subject to a fine for the spill, the Department would enter into negotiations with the Regional Water Board in order to minimize the fine as much as possible. Historically, this process has taken 2 to 3 years from the date of the initial spill. In the unlikely event the Department were fined the maximum of $68 million, such a fine would be payable at one time and, while not impacting the Net System Revenues securing the payment of the Installment Payments, including the 2016-1 Installment Payments, such a payment could affect the Department's cash reserves that it expects to use to pay for projects in the Wastewater System capital improvement program. See "WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM." If the Department's cash reserves were affected by a large payment to the Regional Water Board, the Department would explore different solutions to minimize the impact of such a payment on the Wastewater System capital improvement program such as adjusting the timing of certain projects and/or seeking other sources of funding in place of using cash.

Challenges to Other Authority Bonds. There are, however, two pending actions challenging the validity of certain other lease revenue bonds issued by the Authority. The Authority, the City, the City as Successor Agency and the Housing Authority (the "San Diego Entities") are defendants in litigation challenging the Authority's Lease Revenue Bonds 2015 Series A (Capital Improvement Projects) (the "2015A CIP Bonds"), and 2015 Series B (Capital Improvement Projects) (the "2015B CIP Bonds," and together with the 2015A CIP Bonds, the "2015 CIP Bonds"). In the actions with respect to the 2015A CIP Bonds (the "2015A CIP Bonds Action") and the 2015B CIP Bonds (the "2015B CIP Bonds Action," and together with the 2015A CIP Bonds Action, the "2015 CIP Bonds Actions") the claimant challenged the City ordinance and the Authority resolutions approving the 2015 CIP Bonds and related documents (the "CIP Bond Approvals"). The San Diego Entities denied the challenges and sought judgments validating and affirming the 2015 CIP Bonds and the CIP Bond Approvals. The trial court entered judgment in favor of the San Diego Entities with respect to both 2015 CIP Bonds Actions. The California Court of Appeal subsequently affirmed the trial court's judgment with respect to the 2015A CIP Bonds Action, which the claimants have petitioned the California Supreme Court to review. Additionally, the claimants filed an appeal with the California Court of Appeal with respect to the 2015B CIP Bonds Action. The Court of Appeal remanded the 2015B CIP Bonds Action to the Superior Court for further proceedings. Such proceedings will include a hearing on the San Diego Entities' motion for summary

judgment upholding the validity of the 2015B CIP Bonds. The City expects the San Diego Entities to prevail on the summary judgment motion because the Superior Court will be required to follow the law set forth by the Court of Appeal in the opinion issued in the 2015A CIP Bonds Action. See "CHALLENGES TO OTHER AUTHORITY BONDS" for additional information with respect to the status of the appeals of the 2015 CIP Bonds Actions.

The 2015 CIP Bonds were successfully issued and sold on April 21, 2015. The 2015 CIP Bonds are not secured by Net System Revenues, but are secured by lease payments made by the City from available moneys in the City's General Fund. In its opinions on the validity of the 2015 CIP Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, opined that the plaintiff's allegations in the complaints challenging the 2015 CIP Bonds and the CIP Bond Approvals were without merit in that such counsel believed under the law as in effect on the dates of such opinions, based on the analysis set forth in such opinions, the California Supreme Court, acting reasonably and properly briefed on the issues, would not conclude that the CIP Bond Approvals were invalid based on such allegations. The San Diego City Attorney also opined that the plaintiff's allegations in the complaints challenging the 2015 CIP Bonds and the CIP Bond Approvals were without merit in that such counsel believed under the law as in effect on the date of such opinion, based on the analysis set forth in such opinion, the California Supreme Court, acting reasonably and properly briefed on the issues, would not conclude that the CIP Bond Approvals were invalid based on such allegations. The official statement for the 2015 CIP Bonds in which the forms of such opinions may be found is available on EMMA at http://emma.msrb.org/ER861762-ER673384-ER1075145.pdf. Such 2015 CIP Bonds official statement is not incorporated by reference in this Official Statement.

In addition to the litigation with respect to the 2015 CIP Bonds, on May 18, 2015, a complaint for declaratory and injunctive relief was filed against the San Diego Entities challenging the Authority's Lease Revenue Refunding Bonds Series 2015 (Ballpark Refunding) (these bonds have been redesignated as Lease Revenue Refunding Bonds Series 2016 (Ballpark Refunding) (the "2016 Ballpark Refunding Bonds"). The challenge to the 2016 Ballpark Refunding Bonds (the "2016 Ballpark Refunding Bonds Action") is based on the same legal theories asserted in the 2015 CIP Bonds Actions. Additionally, the claimant in the 2016 Ballpark Refunding Bonds Action claims that the transaction is invalid due to an alleged violation of California Government Code Section 1090. The claimants in the 2015 CIP Bonds Actions and the 2016 Ballpark Refunding Bonds Action are the same. On December 14, 2015, the trial court hearing the 2016 Ballpark Refunding Bonds Action entered judgment in favor of the San Diego Entities on all claims, causes of action and legal theories. On January 4, 2016, the claimant in the 2016 Ballpark Refunding Bonds Action filed a notice of appeal. If issued, the 2016 Ballpark Refunding Bonds will not be secured by Net System Revenues, but will be secured by lease payments made by the City from available moneys in the City's General Fund.

The Series 2016A Bonds are not the subject of the 2015 CIP Bonds Actions or the 2016 Ballpark Refunding Bonds Action or any other litigation and a decision adverse to the City and/or the Authority regarding the 2015 CIP Bonds and/or the 2016 Ballpark Refunding Bonds should not, in and of itself, have a material adverse effect on the obligation of the City to make the 2016-1 Installment Payments under the Installment Payment Agreement sufficient to make timely payments of principal of and interest on the Series 2016A Bonds. While the City believes it unlikely given the passage of more than 60 days since the requisite approvals, such a final adverse decision could generate litigation directed at the Series 2016A Bonds and could have a material adverse effect on the liquidity or market price of the Series 2016A Bonds.

Limited Obligations

The obligation of the City to pay the 2016-1 Installment Payments securing the Series 2016A Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues. The obligation of the City to make the 2016-1 Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the Installment Purchase Agreement to make the 2016-1 Installment Payments solely from Net System Revenues.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2016-1 Installment Payments. Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide sewer service to its retail customers and the Participating Agencies, the ability of the City to establish, maintain and collect charges for the Wastewater Service to its retail customers and the Participating Agencies and the ability of the City to establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance costs and the 2016-1 Installment Payments. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Historical Revenues and Expenses."

Wastewater System Expenses and Collections

The City expects that in the future demands on the Wastewater System will increase due to population growth and regulatory requirements. Although the City has covenanted to prescribe, revise and collect rates and charges for services provided by the Wastewater System in amounts necessary to pay the 2016-1 Installment Payments, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to pay the 2016-1 Installment Payments sufficient to provide for the payment of the Series 2016A Bonds. See "—Risks Relating to the Water Supply" below.

Rate-Setting Process Under Proposition 218

Proposition 218 (as defined under "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID"), which added Articles XIIIC and XIIID to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. During the last two Proposition 218 rate increase hearings with respect to the Wastewater System, the Office of the City Clerk received approximately 6% of the aggregate protests required to prevent the increase. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the Installment Purchase Agreement to pay 2016-1 Installment Payments. Proposition 218 also affects the Participating Agencies' ability to collect sewer service charges and impose future rate increases in amounts sufficient to make payments under the Regional Wastewater Disposal Agreement and the Transportation Agreements. There can be no assurance that the Participating Agencies have complied or will comply with the provisions of Proposition 218 or that the Participating Agencies' ability to impose future rate increases will not be adversely affected by majority protests or initiatives. The Participating Agencies are required to pay the amounts due under the Regional Wastewater Disposal Agreement regardless of the source of payment. However, if the Participating Agencies are unable to pay amounts due and payable for any reason, the City's ability to generate Net System Revenues in the amounts required by the

Installment Purchase Agreement to pay 2016-1 Installment Payments could be adversely affected. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID."

Notwithstanding the foregoing, the City has covenanted to fix, prescribe and collect rates and charges for Wastewater Service at a level at least sufficient to meet its debt requirements, as set forth under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Rate Covenant." The current sewer rates for customers within the City have been approved by the Mayor and the City Council and have been imposed in compliance with Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIIC and XIIID."

Statutory and Regulatory Compliance

Claims against the Wastewater System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the Wastewater System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency wastewater systems such as that operated by the Department may also lead to administrative orders issued by Federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Sewer Revenue Fund. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS." No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the Wastewater System to generate Net System Revenues sufficient to pay the 2016-1 Installment Payments. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Collection of Sewage," "—Treatment of Sewage," "—Pure Water Program" and "—Discharge and Disposal of Sewage." However, the City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Wastewater System which will yield Net System Revenues for each fiscal year sufficient to pay debt service on the Parity Obligations, including the 2016-1 Installment Payments securing the Series 2016A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS—Rate Covenant." All proposed increases for such rates and charges for the Wastewater System are subject to the restrictions and requirements of Articles XIIIC and XIIID of the California Constitution.

Earthquakes, Wildfires and Other Natural Disasters

Although the City has not experienced any significant damage from seismic events, the geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions which represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. The San Andreas, Rose Canyon, Elsinore and San Jacinto fault zones are all capable of producing earthquakes of sufficient magnitude to cause significant damage in the San Diego area. In anticipation of such potential disasters, the City designs and constructs all facilities of the Wastewater System to the seismic codes in effect at the time the project is designed. The Wastewater System has not experienced any significant losses of facilities or services as a result of earthquakes. Earthquakes or other natural disasters could interrupt operation of the Wastewater System and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2016-1 Installment Payments securing the payment of the Series 2016A Bonds. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Insurance and Liability Claims."

Facilities within the Wastewater System generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. The above-ground facilities within the Wastewater System are designed to be tolerant to damage by wildfires

through the use of fire resistant material where possible, such as concrete and masonry blocks. In addition, the Department works closely with the City's Fire Department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Wastewater System. The Department monitors wildfires that may threaten the facilities of the Wastewater System and dispatched operations and maintenance crews as necessary to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Department works closely with the City's Fire Department and law enforcement officers to monitor and protect the facilities of the Wastewater System to ensure continuous operation.

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

Risks Relating to the Water Supply

The ability of the Wastewater System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment that is currently subject to drought conditions. Over the last four years, California has experienced an ongoing drought, which has resulted in critically-low water supply levels. In April 2015, Governor Jerry Brown declared a drought state of emergency and called for all Californians to significantly reduce water use. In May 2015, the Regional Water Board adopted an emergency regulation resulting in a reduction of 16% in total water consumption to the City (beginning February 8, 2016, the Department may apply to the Regional Water Board to reduce the 16% mandated reduction to as low as 8% by providing the Regional Water Board supporting data that qualifies it for a reduction, which data the Regional Water Board will use in determining whether to approve the requested reduction). As water restrictions are implemented, the Department anticipates outdoor watering to be the largest and most likely source for customer water reductions. Because outdoor irrigation is not returned to the Wastewater System for treatment, the water restrictions would have minimal impact on the flows to the treatment plants. However, if water restrictions increase, they may eventually result in stronger pollutant concentrations and potentially alter the treatment costs. The chemical and energy costs would fluctuate depending on the methodology and the level of treatment, whether advanced primary or secondary. For secondary treatment, the aeration rate would increase the treatment cost as a result of slightly higher energy use. However, for advanced primary, the overall treatment cost would not change or may decrease slightly due to lower flow rates and increased efficiency and effectiveness in plant operations, as the added chemicals remove more available solids. In response to the reduction of 16% in total water consumption, the Department's revenue projections include a 5% reduction in usage which translates to approximately $11.2 million or 4% of sewer service charge revenue, based on drought flow projections. Further, the City's residential sewer rate is based on winter monitoring, which develops an individualized, annual flat rate for each residential customer. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Establishment, Calculation and Collection of Sewer Service Charge Revenue and Treatment Plant Services Revenue." As such, any fluctuations in water usage throughout the year are expected to have a minimal impact on sewer service charge revenue. The Department anticipates that any such reduction in Net System Revenues would be offset in part by reductions in the amount of sewage collected and treated by the Department, which would reduce operational expenses. If the water supply decreases significantly, whether by operation of

mandatory supply restrictions, prohibitively high water costs or otherwise, flow within the Wastewater System will decrease and Net System Revenues available to pay the 2016-1 Installment Payments may be adversely impacted.

Security of the Wastewater System

The safety of the Wastewater System within the operational areas of the Department is maintained via a combination of regular inspections by the Department employees, physical security, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the Wastewater Treatment and Disposal Division, including the Point Loma Plant, the Metropolitan Biosolids Center, the North City Plant and the South Bay Plant, and pumping stations within the Wastewater System, are controlled access facilities with fencing, gates, roving security patrols, and security officers at appropriate points. Critical facilities additionally include monitored closed circuit television systems. Security services are provided at facilities, and this service was recently renewed through a contract award in January 2015 for five years, which will continue the consistent and reliable security guard services at Wastewater System facilities. Smaller, above-ground and subterranean pumping stations, operated and maintained by Wastewater Collection Division are locked with padlock or internal locking mechanisms. Security improvements are evaluated on an ongoing basis. The electronic operations and controls have been evaluated and exposure reduced through a series of technology systems, enhancements, and integration.

Military conflicts and terrorist activities may adversely impact the operations and finances of the Wastewater System. The Department continually plans and prepares for emergencies and immediately responds to ensure sewer services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Wastewater System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Wastewater System could require the City to increase expenditures for repairs to the Wastewater System significantly enough to adversely impact the City's ability to pay the 2016-1 Installment Payments. The City has established within the Sewer Revenue Fund the Operating Reserve, which is currently funded at a level equal to 70 days of operating costs and may be used under certain circumstances for repairs to the Wastewater System. See "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Sewer Revenue Fund Reserves."

Utility Costs

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

Acceleration; Limitations on Remedies

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Bonds, including the Series 2016A Bonds, then Outstanding and the interest accrued thereon to be due and payable immediately. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the Series 2016A Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Further, enforceability of the rights and remedies of the Owners of the Series 2016A Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Series 2016A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Potential Limitation of Tax Exemption of Interest on Series 2016A Bonds

From time to time, the President of the United States, the United States Congress and/or state legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the Series 2016A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended, or court decisions may also cause interest on the Series 2016A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Internal Revenue Code of 1986, as amended, or court decisions may also affect the market price for, or marketability of, the Series 2016A Bonds. Prospective purchasers of the Series 2016A Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. See "TAX MATTERS—Changes in Federal and State Tax Law."

CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES

Article XIIIA

Article XIIIA of the State Constitution provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value," which is defined as "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction and except with

respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

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

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

Article XIIIB

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

To the extent that assessments, fee and charges collected by the City are used to pay the costs of maintaining and operating the Wastewater System and payments due on the Series 2016A Bonds (including the funding of the Reserve Fund), the City believes that such moneys are not subject to the annual appropriations limit of Article XIIIB.

Articles XIIIC and XIIID

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

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

increase any such taxes in the future to meet increased expenditure requirements. The City has not enacted, imposed, extended or increased any tax since the effective date of Proposition 218.

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

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

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

The Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's sewer service fees and charges, which are the source of Net System Revenues pledged to the payment of 2016-1 Installment Payments securing the Series 2016A Bonds.

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

Article XIIID defines a "fee" or "charge" as any levy other than an ad valorem tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership." In the Bighorn Decision, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within

the meaning of Article XIIID. Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

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

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

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

Implementing legislation pertaining to Proposition 218 may be introduced in the State legislature from time to time. Moreover, Proposition 218 was adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be adopted to modify Proposition 218. No assurances can be given as to the terms of such legislation or initiatives or their potential impact on the various fees and charges that constitute System Revenues, however, there could be a material negative impact on the City's ability to collect such System Revenues.

On November 2, 2010, voters of the State approved Proposition 26 ("Proposition 26"), which amended Article XIIIC of the California State Constitution to expand the definition of "tax" so that certain fees and charges imposed by governmental entities are subject to approval by two-thirds of each

house of the State Legislature or approval by local voters, as applicable. Proposition 26 lists several exceptions to such definition of "tax," including property-related fees imposed in accordance with Article XIIID, reasonable regulatory costs of performing investigations and inspections, and charges imposed as a condition of property development. The City believes that Proposition 26 does not apply to any of its sewer service fees and charges because such fees and charges are within various exceptions to Proposition 26.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentence assume the accuracy of certain representations and compliance by the Authority and the City with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2016A Bonds. Failure to comply with such requirements could cause interest on the Series 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016A Bonds. The Authority and the City will covenant to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2016A Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

Bond Counsel is further of the opinion that interest on the Series 2016A Bonds is exempt from present State of California personal income taxes.

Special Considerations With Respect to the Series 2016A Bonds

The accrual or receipt of interest on the Series 2016A Bonds may otherwise affect the federal income tax liability of the owners of the Series 2016A Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2016A Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2016A Bonds.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2016A Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments

made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2016A Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Series 2016A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2016A Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2016A Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2016A Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2016A Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Premium

The Series 2016A Bonds maturing on May 15, 20__ through, and including, May 15, 20__ (collectively, the "Premium Bonds") are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Tax Treatment of Original Issue Discount

The Series 2016A Bonds maturing on May 15, 20__ through, and including, May 15, 20__ (collectively, the "Discount Bonds") are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described under "—General" above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at

maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the City (the "Disclosure Certificate"), the City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board ("MSRB") in the manner prescribed by the Securities Exchange Commission (the "SEC") certain annual financial information and operating data and notice of certain Notice Events (as described in the Continuing Disclosure Certificate). The form of the Disclosure Certificate is attached hereto as "APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE." The City's covenants in the Continuing Disclosure Certificate have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the "Rule"). A failure by the City to comply with any of the covenants therein is not an event of default under the Indenture or the Installment Purchase Agreement.

The City has established an issuer's page on the MSRB's Electronic Municipal Market Access System ("EMMA") with respect to the Sewer Revenue Bonds. The City's home page can be accessed at the following Internet address: http://emma.msrb.org/IssuerHomePage/Issuer?id=0DE747245AA355FEE053151E0A0A98D6&type=M. Neither the home page nor any information on the home page is made a part of this Official Statement, nor is it incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2016A Bonds.

The City is party to a number of continuing disclosure undertakings with respect to securities payable from the Sewer Revenue Fund, the City's General Fund and the Water Revenue Fund pursuant to the Rule. During the last five years, there was one instance where the City failed to comply in all material respects with certain of its previous undertakings with regard to the Rule. The annual reports for Fiscal Year 2010 were filed late due to the unavailability of the City's audited financial statements. The delay in releasing the audited financial statements for Fiscal Year 2010 was principally due to the implementation of a new accounting reporting system for the City. The City subsequently filed its audited financial statements for Fiscal Year 2010 on October 20, 2011, and filed its annual reports for Fiscal Year 2010 in

November 2011, approximately seven months after its annual reporting deadlines under its continuing disclosure undertakings. The City timely filed its audited financial statements and annual reports for Fiscal Years 2011, 2012, 2013 and 2014 in compliance with its continuing disclosure undertakings.

LITIGATION

No Litigation Challenging the Series 2016A Bonds

There is no litigation pending against the City or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2016A Bonds or in any way contesting or affecting the validity of the Series 2016A Bonds or the authorizations or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2016A Bonds or the use of the proceeds of the Series 2016A Bonds. Other than as described in this Official Statement, there are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the corporate existence of the Authority or the City, or the title of the executive officers to their respective offices. See "CHALLENGES TO OTHER AUTHORITY BONDS."

Litigation and Regulatory Enforcement Actions Relating to the Wastewater System

From time to time, the City and the Department are parties to litigation and/or are subject to regulatory enforcement actions related to the Wastewater System arising out of the normal course of business of the Wastewater System. At this time, the City is of the opinion that if any lawsuits, regulatory enforcement actions and claims related to the Wastewater System, pursuant to which the City and the Department are currently named parties, are concluded adversely to the City or the Department, they will not have a material adverse effect on the Sewer Revenue Fund's financial position. See "WASTEWATER SYSTEM REGULATORY REQUIREMENTS—Recent Sewage Spill in Tecolote Creek" and "RISK FACTORS—Litigation and Potential Regulatory Enforcement Actions—Tecolote Creek Sewage Spill."

CHALLENGES TO OTHER AUTHORITY BONDS

No Litigation Challenging the Series 2016A Bonds

There is no litigation challenging the Series 2016A Bonds. Any such litigation should be time barred under the California Code of Civil Procedure as discussed further below. There is, however, pending litigation challenging the validity of certain lease revenue bonds issued, and to be issued, by the Authority.

2015A CIP Bonds Litigation

On April 1, 2014, San Diegans for Open Government ("SDOG") filed a reverse validation lawsuit in the San Diego Superior Court against the San Diego Entities and all interested parties (*San Diegans for Open Government v. City of San Diego et al., Superior Court Case No. 37-2014-00009217-CU-MC-CTL*) (the "2015A CIP Bonds Action"). In the 2015A CIP Bonds Action, SDOG sought a judgment declaring that the City ordinance and the Authority resolutions approving and authorizing the 2015A CIP Bonds and related documents (the "2015A CIP Bond Approvals") failed to comply with all applicable laws rendering the 2015A CIP Bond Approvals null and void, invalid and without legal effect. SDOG also sought injunctive relief prohibiting the San Diego Entities from taking any of the actions contemplated by the 2015A CIP Bond Approvals. SDOG made the following primary allegations against the validity of the 2015A CIP Bond Approvals before the trial court and in the briefing for the subsequent appeal: (1)

the 2015A CIP Bond Approvals are invalid because the Authority was not lawfully formed, and they contemplate a structure contrary to the JPA Agreement and require the Authority to act in excess of its lawful powers as constituted; (2) the financing structure approved in the 2015A CIP Bond Approvals was not approved by the San Diego electorate in violation of the debt limitations contained in the California Constitution and the City Charter; (3) the financing structure approved by the 2015A CIP Bond Approvals constitutes an impressible gift or loan of the City's credit in violation of the City Charter; and (4) the 2015A CIP Bond Approvals violate the City's Municipal Code relating to the lease of City-owned property.

The San Diego Entities denied all of SDOG's claims, causes of action and legal theories and requested that the court render a judgment finding that the 2015A CIP Bond Approvals and all other resolutions and actions taken by the San Diego Entities approving the 2015A CIP Bonds are conclusively valid and binding pursuant to Code of Civil Procedure Section 870 and any other applicable law.

On November 3, 2014, the Superior Court, in an oral ruling from the bench, ruled in favor of the San Diego Entities as to all of SDOG's claims, causes of action and legal theories. On November 20, 2014, the Superior Court filed its judgment in the action. See "—2015 CIP Bonds Appeals" below for information with respect to SDOG's appeal of the Superior Court's judgment.

The 2015A CIP Bonds were successfully issued and sold on April 21, 2015. The 2015A CIP Bonds are not secured by Net System Revenues, but are secured by lease payments made by the City from available moneys in the City's General Fund.

2015B CIP Bonds Litigation

On June 6, 2014, the SDOG filed a reverse validation lawsuit in the San Diego County Superior Court against the San Diego Entities and all interested parties (*San Diegans for Open Government v. Public Facilities Financing Authority of the City of San Diego et al., Case No. 37-2014-00018335-CU-MC-CTL*) (the "2015B CIP Bonds Action," and together with the 2015A CIP Bonds Action, the "2015 CIP Bonds Actions"). In the 2015B CIP Bonds Action, SDOG sought a judgment declaring that the City ordinance and the Authority resolution approving and authorizing the 2015B CIP Bonds and related documents (the "2015B CIP Bond Approvals") failed to comply with all applicable laws rendering the 2015B CIP Bond Approvals null and void, invalid and without legal effect. SDOG also sought injunctive relief prohibiting the San Diego Entities from taking any of the actions contemplated by the 2015B CIP Bond Approvals. SDOG's claims, causes of action and legal theories set forth in the complaint initiating the 2015B CIP Bonds Action were identical to those set forth in the complaint initiating the 2015A Bonds Action.

As in the 2015A CIP Bonds Action, the San Diego Entities denied all of SDOG's claims, causes of action and legal theories. In the 2015B CIP Bonds Action, the San Diego Entities moved for summary judgment on alternate grounds: (a) that the 2015B CIP Bonds Action was procedurally deficient because SDOG failed to timely serve the Attorney General and Treasurer of the State of California; and (b) that the 2015B CIP Bonds, the 2015B CIP Bond Approvals and all other resolutions and actions taken by the San Diego Entities approving the 2015B CIP Bonds are conclusively valid as a matter of law.

On January 12, 2015, the Superior Court entered an order of dismissal with prejudice in the case on the grounds that SDOG failed to serve the Attorney General of the State of California and the Treasurer of the State of California with a copy of the complaint in the 2015B CIP Bonds Action as required by Government Code Section 6599. SDOG then filed a motion requesting relief from the Superior Court for SDOG's counsel's failure to properly serve the complaint in a timely manner. On

January 27, 2015, that motion was denied by the Superior Court. See "—2015 CIP Bonds Appeals" below for information with respect to SDOG's appeal of the Superior Court's order denying relief.

The 2015B CIP Bonds were successfully issued and sold on April 21, 2015. The 2015B CIP Bonds are not secured by Net System Revenues, but are secured by lease payments made by the City from available moneys in the City's General Fund.

2015 CIP Bonds Appeals

On December 12, 2014, SDOG filed a notice of appeal in the 2015A CIP Bonds Action (*San Diegans for Open Government v. City of San Diego et al., Court of Appeal, Fourth District Case No. D067127*). After briefing and oral argument from the parties, the California Court of Appeal for the Fourth Appellate District issued an opinion, certified for publication, affirming the trial court judgment in the 2015A CIP Bonds Action (*San Diegans for Open Government v. City of San Diego, 242 Cal.App.4th 416 (4th Dist. Nov. 20, 2015)*). On December 29, 2015, SDOG filed a petition for review with the California Supreme Court requesting that the court review the November 20, 2015 opinion of the Court of Appeal (*San Diegans for Open Government v. City of San Diego et al., Supreme Court Case No. S231508)*). The California Supreme Court has up to 60 days (which can be extended to 90 days) in which to decide whether to grant review. Therefore, the Supreme Court will decide whether to grant review in the 2015A CIP Bonds Action no later than March 28, 2016. If the California Supreme Court takes up for review and then overturns the Court of Appeal's ruling in the 2015A CIP Bonds Action, the 2015A CIP Bonds and the related indenture and leases would be invalid. In that event the Authority would not be obligated to make, and may be precluded from making, principal and interest payments on the 2015A CIP Bonds and the City would not be obligated to make, and may be precluded from making, lease payments under the facilities lease related to the 2015A CIP Bonds. Even if the ruling on appeal did not preclude the Authority from making payment on the 2015A CIP Bonds, the failure of the trustee to receive lease payments as scheduled under the related facilities lease would result in the trustee not having sufficient money available to pay debt service on the 2015A CIP Bonds.

On March 3, 2015, SDOG filed a notice of appeal in the Court of Appeal for the Fourth Appellate District seeking to overturn the Superior Court's January 27, 2015 order denying relief. On January 15, 2016, the Court of Appeal ruled that SDOG's failure to timely serve the Attorney General and the Treasurer of the State did not require dismissal of the action and remanded the 2015B CIP Bonds Action to the Superior Court for further proceedings. Such proceedings will include a hearing on the San Diego Entities' motion for summary judgment upholding the validity of the 2015B CIP Bonds. The City expects the San Diego Entities to prevail on the summary judgment motion because the Superior Court will be required to follow the law set forth by the Court of Appeal in the opinion issued in the 2015A CIP Bonds Action. However, if the California Supreme Court grants SDOG's petition for review in the 2015A Bonds Action before the Superior Court rules on the San Diego Entitles' motion for summary judgment with respect to the 2015B CIP Bonds Action, the Superior Court in the 2015B CIP Bonds Action can be expected to delay ruling on the motion for summary judgment until after the California Supreme Court issues an opinion in the 2015A CIP Bonds Action.

2016 Ballpark Refunding Bonds Litigation

On May 18, 2015, SDOG filed a reverse validation lawsuit in the San Diego Superior Court against the San Diego Entities and all interested parties (*San Diegans for Open Government v. Public Facilities Financing Authority of the City of San Diego et al., Case No. 37-2015-00016536-CU-MC-CTL*) (the "2016 Ballpark Refunding Bonds Action"). In the 2016 Ballpark Refunding Bonds Action, SDOG seeks declaratory relief to invalidate the ordinance and resolution of the City and the resolution of the Authority adopted with respect to the 2016 Ballpark Refunding Bonds (the "Ballpark Refunding Bond

Approvals"), and injunctive relief prohibiting the San Diego Entities from taking any of the actions contemplated by the Ballpark Refunding Bond Approvals. SDOG's challenge to the 2016 Ballpark Refunding Bonds is based on the same legal theories asserted in the 2015 CIP Bonds Actions. In the 2016 Ballpark Refunding Bonds Action, SDOG asserts one additional legal theory by claiming that the transaction is invalid due to an alleged violation of California Government Code Section 1090 regarding conflicts of interest by public officials/employees. On December 14, 2015, the Superior Court entered judgment in favor of the San Diego Entities on all claims, causes of action and legal theories in the 2016 Ballpark Refunding Bonds Action. As per the parties' stipulation, the Superior Court entered judgment in favor of the San Diego Entities on all claims, causes of action and legal theories similar to those adjudicated in the San Diego Entities' favor in the 2015A CIP Bonds Action. The Superior Court found that SDOG lacked standing to seek to invalidate the 2016 Ballpark Refunding Bond Approvals under Government Code Section 1090. On January 4, 2016, SDOG filed a notice of appeal to the California Court of Appeal, Fourth Appellate District. Per the parties' stipulation, the outcome of the appeal as to all claims, causes of action and legal theories in the 2016 Ballpark Refunding Bonds Action that are similar to those adjudicated in the San Diego Entities' favor in the 2015A CIP Bonds Action will be governed by the final decision on those claims, causes of action and legal theories in the 2015A CIP Bonds Action.

If issued, the 2016 Ballpark Refunding Bonds will not be secured by Net System Revenues, but will be secured by lease payments made by the City from available moneys in the City's General Fund.

Prior California Supreme Court Rulings

The City believes that some of the arguments made by SDOG in the 2015 CIP Bonds Actions and the 2016 Ballpark Refunding Bonds Action have previously been resolved in the City's favor by the California Supreme Court in earlier cases. The California Supreme Court most recently ruled on this issue in *Rider v. City of San Diego (1998) 18 Cal. 4th 1035*. Rider involved a joint powers agency (the Convention Center Expansion Financing Authority or "CCEFA") similar to the Authority that issued bonds payable from rental payments made by the City to CCEFA for the use and occupancy of the Convention Center. Rent payable by the City was equal to debt service on the bonds issued by CCEFA. Rent was payable in consideration of, and contingent upon, CCEFA annually tendering the use and occupancy of the Convention Center to the City. If the Convention Center were to be unavailable for use and occupancy by the City, the City's obligation to pay rent to CCEFA was abated. Under no circumstances could the City's obligation to pay rent be accelerated.

Citing previous California Supreme Court cases from the mid twentieth century, the Rider Court found that CCEFA was a distinct legal entity separate and apart from the City, that California law provides express independent authority for the issuance of bonds by joint powers agencies such as CCEFA, that the issuance of such bonds by CCEFA is not subject to the same requirements of a two-thirds vote of the electorate that apply to bonds issued by the City under the California Constitution and the City Charter, and that the obligation of the City to pay rent under the lease was not an impermissible debt under the California Constitution because it was an obligation that was contingent each year upon CCEFA's tender to the City of the right to use and occupy the Convention Center during the forthcoming year.

The pertinent facts in the Rider case are similar to the facts underlying the 2015 CIP Bonds Actions and the 2016 Ballpark Refunding Bonds Actions. The City believes that the Rider case is controlling authority and that the City will prevail in the 2015 CIP Bonds Actions and the 2016 Ballpark Refunding Bonds Action. Nonetheless, the make-up of the Authority is not identical to the make-up of the CCEFA and the City cannot guarantee the outcome of any of the actions.

In its opinions on the validity of the 2015 CIP Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, opined that SDOG's allegations in the complaints challenging the 2015 CIP Bonds, the 2015A CIP Bond Approvals and the 2015B CIP Bond Approvals were without merit in that such counsel believed under the law as in effect on the date of such opinions, based on the analysis set forth in such opinions, the California Supreme Court, acting reasonably and properly briefed on the issues, would not conclude that the 2015A CIP Bond Approvals and the 2015B CIP Bond Approvals were invalid based on such allegations. The San Diego City Attorney also opined that SDOG's allegations in the complaints challenging the 2015 CIP Bonds, the 2015A CIP Bond Approvals and the 2015B CIP Bond Approvals were without merit in that such counsel believed under the law as in effect on the date of such opinion, based on the analysis set forth in such opinion, the California Supreme Court, acting reasonably and properly briefed on the issues, would not conclude that the 2015A CIP Bond Approvals and the 2015B CIP Bond Approvals are invalid based on such allegations. The official statement for the 2015 CIP Bonds in which the forms of such opinions may be found is available on EMMA at http://emma.msrb.org/ER861762-ER673384-ER1075145.pdf. The 2015 CIP Bonds official statement is not incorporated by reference in this Official Statement.

The Series 2016A Bonds

Some of the arguments made by SDOG in the 2015 CIP Bonds Actions and the 2016 Ballpark Refunding Bonds Action could be equally applicable to the Series 2016A Bonds. However, the Series 2016A Bonds are not the subject of such litigation and an appellate decision adverse to the City and the Authority regarding the 2015 CIP Bonds and/or the 2016 Ballpark Refunding Bonds should not, in and of itself, have a material adverse effect on the obligation of the City to make 2016-1 Installment Payments under the Installment Payment Agreement sufficient to make timely payments of principal of and interest on the Series 2016A Bonds. While the City believes it unlikely for the reasons discussed below, such a final adverse decision could generate litigation directed at the Series 2016A Bonds and could have a material adverse effect on the liquidity or market price of the Series 2016A Bonds.

California Code of Civil Procedure Section 863 (made applicable to the Series 2016A Bonds through California Government Code Section 6516.6(e)) provides that any interested person seeking to challenge the validity of the Authority's or the City's action approving the issuance of the Series 2016A Bonds and the related documents must do so within 60 days of the Authority's or the City's adoption of the resolution or ordinance approving such actions. Challenges to such approvals brought after 60 days following the adoption of such approvals should be time barred. The date of final adoption of both the City's ordinance and the Authority's resolution approving the issuance of the Series 2016A Bonds and the related documents was June 16, 2015.

LEGAL OPINION

The validity of the Series 2016A Bonds and certain other matters are subject to the approving opinion of Kutak Rock LLP, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix C attached hereto. Certain legal matters will be passed upon for the Authority by Kutak Rock LLP acting as Disclosure Counsel to the Authority for the Series 2016A Bonds, and by Jan I. Goldsmith, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

RATINGS

Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have assigned the Series 2016A Bonds ratings of "AA+" and "AA," respectively, and issued "stable" outlooks in connection with their ratings. Such ratings reflect only the views of such organizations and any desired explanation of the

significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041; and 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 Series 2016A Bonds.

UNDERWRITING

The Series 2016A Bonds will be purchased by Wells Fargo Bank, National Association, Academy Securities, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Drexel Hamilton, LLC (collectively, the "Underwriters"), at a price of $_____ (which consists of the par amount of the Series 2016A Bonds, plus an original issue premium of $_____, less an original issue discount of $_____, less an underwriters' discount of $_____), subject to the terms of a bond purchase agreement (the "Bond Purchase Agreement"), between Wells Fargo Bank, National Association, as representative of the Underwriters, the Authority and the City. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2016A Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The initial public offering prices and/or yields of the Series 2016A Bonds set forth on the inside front cover hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2016A Bonds into unit investment trusts or money market funds at prices lower or yields higher than the public offering prices and yields stated on the inside front cover hereof.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the ordinary course of their various business activities, the Underwriters and their affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City or the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City and/or the Authority. The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Wells Fargo Bank, National Association ("WFBNA"), one of the underwriters of the Series 2016A Bonds, has entered into an agreement (the "Wells Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2016A Bonds. Pursuant to the Wells Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2016A Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2016A Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based

on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Academy Securities, Inc., an underwriter of the Series 2016A Bonds, has entered into distribution agreements with UBS Financial Services Inc., Wedbush Securities Inc., Sutter Securities Inc., Higgins Capital Management Inc., TD Ameritrade Inc., BNY Mellon Capital Markets LLC, Ladenburg Thalmann & Co. Inc., R. Seelaus & Co., Maxim Group LLC, Newbridge Independent Services, National Alliance Capital Markets, World First Financial Services, Inc., Commonwealth Equity Services Inc., Winslow Evans and Crocker Inc., Securevest Financial Group, Moors & Cabot, Inc., Crews and Associates, Inc., Hennion and Walsh Inc., Celadon Financial Group, Douglas & Co. Municipals, Inc., Detwiler Fenton & Co., Ross, Sinclaire & Associates, Inc., CG Capital Markets, National Securities Corp., E K Riley Investments LLC, First Integrity Capital Partners, SWBC Investment Services LLC, W.H. Mell Associates, Inc., Fulcrum Securities LLC, Intercoastal Capital Markets, Inc., Fairbridge Capital Markets, Inc., Empire Asset Management Co., UnionBanc Investment Services LLC, Chapin Davis Inc., Janney Montgomery Scott LLC, Municipal Capital Markets Group, Inc., Harvestons Securities, Inc., NBC Securities, Inc., Isaak Bond Investments, Inc., CFG Capital Markets LLC, Brean Capital LLC, PHX Financial, Inc., Empire State Financial, Inc., and Herbert J. Sims & Co., Inc. for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these distribution agreements (if applicable to the Series 2016A Bonds), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

MUNICIPAL ADVISOR

Montague DeRose and Associates, LLC, Westlake Village, California (the "Municipal Advisor") has acted as Municipal Advisor to the City in conjunction with the issuance of the Series 2016A Bonds. The Municipal Advisor has assisted the City in preparation of this Official Statement and in other matters related to the planning, structuring, execution and delivery of the Series 2016A Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the Series 2016A Bonds.

The Municipal Advisor has not audited, authenticated or otherwise independently verified the information set forth in this Official Statement, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information. The Municipal Advisor makes no guaranty, warranty or other representation respecting the accuracy or completeness of this Official Statement or any other matter related to this Official Statement.

FINANCIAL STATEMENTS FOR FISCAL YEAR 2015

The City's Comprehensive Annual Financial Report for Fiscal Year 2015, including the City's audited basic financial statements as of and for the year ended June 30, 2015, is included in Appendix A. The City's basic financial statements as of June 30, 2015 and for the year then ended, include the financial statements of the Sewer Revenue Fund as of and for the year ended June 30, 2015. The City's basic financial statements as of and for the year ended June 30, 2015 have been audited by Macias Gini & O'Connell LLP (the "Independent Auditors"), independent certified public accountants, as stated in its report dated December 8, 2015, which is included with the financial statements.

Certain of the data and information set forth in Appendix A do not pertain to the Sewer Revenue Fund but have been included in Appendix A for purposes of context. The City's Comprehensive Annual

Financial Reports for previous Fiscal Years are available in their entirety on the City's website at http://www.sandiego.gov. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2016A Bonds. The City's General Fund does not secure payment of debt service on the Series 2016A Bonds.

The Independent Auditors did not review this Official Statement. The City did not request the consent of the Independent Auditors to append the City's financial statements, or the auditor's report, to this Official Statement. Accordingly, the Independent Auditors did not perform any procedures relating to any of the information in this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2016A Bonds, Causey Demgen & Moore P.C., a firm of independent certified public accountants, will deliver to the City a report verifying the mathematical accuracy of certain computations relating to (a) the adequacy of the maturing principal amount of the securities held in the Escrow Funds, interest earned thereon and certain uninvested cash to pay the redemption price of and interest on the Refunded Bonds (as described under "PLAN OF REFUNDING") as such redemption price and interest become due and payable, and (b) the mathematical computations supporting the conclusion that the Series 2016A Bonds are not "arbitrage bonds" under Section 148 of the Code. Such verification of the accuracy of the computations will be based upon information supplied by the Underwriters and on interpretations of the Code provided by Bond Counsel.

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MISCELLANEOUS

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

There are appended to this Official Statement a summary of certain provisions of the principal and legal documents, portions of the City's 2015 Comprehensive Annual Financial Report, including financial statements of the Sewer Revenue Fund, the proposed form of opinion of Bond Counsel, and a general description of the City and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the Series 2016A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition, results of operations or any other affairs of the City, the Authority, the Department or the Wastewater System since the date hereof.

PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO

By _____
Chair

CITY OF SAN DIEGO

By _____
Chief Financial Officer

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APPENDIX A

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of San Diego

State of California

FISCAL YEAR ENDED JUNE 30, 2015

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City of San Diego

State of California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2015

Prepared Under the Supervision of:

Mary Lewis, Chief Financial Officer
Rolando Charvel, CPA, Comptroller
Scott Clark, CPA, Deputy Director
Sarah Mayen, CPA, Deputy Director

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FORWARD-LOOKING STATEMENTS

The Comprehensive Annual Financial Report (CAFR) of the City of San Diego for the fiscal year ended June 30, 2015, including the Letter of Transmittal and the section regarding Management's Discussion and Analysis, contains forward-looking statements regarding the City of San Diego's (City) business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in the CAFR. Additionally, statements concerning future matters such as City budgets and the financial outlook for future years, the level of City services, California state matters that may impact the City, contingencies, revenue and expense levels, expected completion dates for projects and other statements regarding matters that are not historical are also forward-looking statements.

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

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INTRODUCTORY SECTION
(UNAUDITED)

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THE CITY OF SAN DIEGO

December 8, 2015

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of San Diego (City) for the fiscal year (FY) ended June 30, 2015, in accordance with Section 111 of the City Charter (Charter).

The CAFR has been prepared in accordance with accounting principles generally accepted in the United States of America. The City's management is responsible for the accuracy of the data, the completeness and fairness of the presentation and the adequacy of its disclosures. This includes the design, implementation and maintenance of internal controls over the preparation and fair presentation of financial statements that are free from material misstatement and for assurance that the assets of the City are protected from loss, theft or misuse. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatements. We believe that the information presented is complete and reliable in all material respects.

The independent audit firm of Macias Gini & O'Connell LLP has audited the fiscal year 2015 financial statements of the City and has issued an unmodified opinion on the basic financial statements. The independent auditor's report is located at the front of the financial section of this report.

A narrative introduction, overview and analysis of the financial statements can be found in the Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report. The MD&A complements this letter of transmittal and should be read in conjunction with it. The notes, along with the other financial and operational data included in the City's CAFR, must be read in their entirety to obtain a complete understanding of the City's financial position as of June 30, 2015 and the respective changes in its financial position. Readers of these financial statements should pay particular attention to Notes 11, 12, 16 and 17, concerning Pension Plans, Other Postemployment Benefits, Commitments and Contingencies, respectively. These notes address certain issues underlying the City's financial condition as well as future potential or anticipated expenses/expenditures, including significant estimated compliance costs related to the City's Municipal Storm Water Permit and the Point Loma Wastewater Treatment Plant.

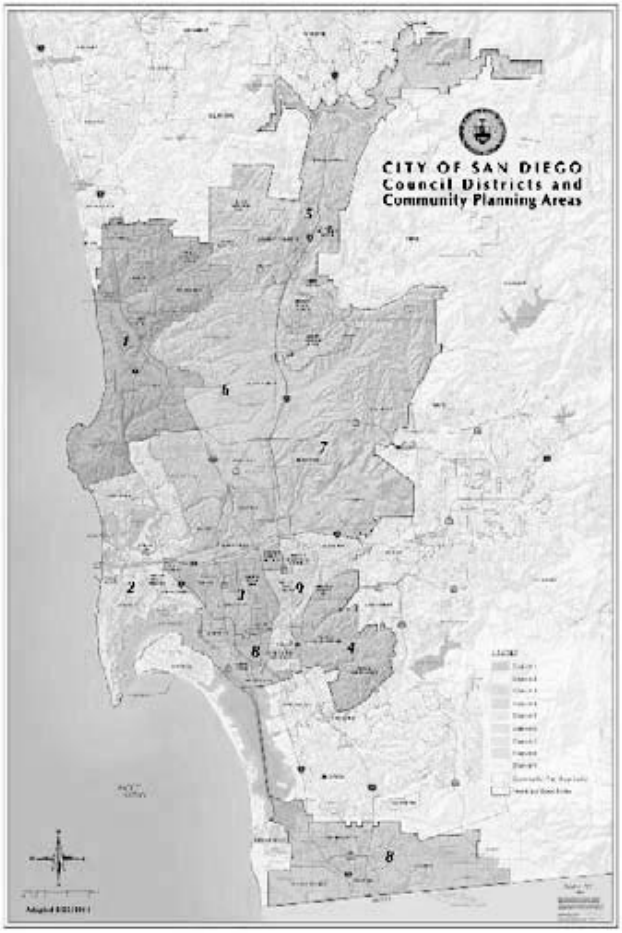
The financial statements included in this report present the balances and activity of the City and its blended, discretely presented and fiduciary component units. Blended component units are presented as funds of the City and include two not-for-profit public benefit corporations, Civic San Diego and the Tobacco Settlement Revenue Funding

Corporation, as well as several financing authorities. In addition, the CAFR includes two discretely presented component units, the San Diego Convention Center Corporation and the San Diego Housing Commission. Fiduciary component units include the San Diego City Employees' Retirement System (SDCERS) and the Successor Agency of the Redevelopment Agency of the City of San Diego.

It is important to note that the General Fund's presentation in the CAFR is different from the presentation in the City's annual budget. The General Fund in the CAFR incorporates the balances and activity of additional special revenue funds which are not included as part of the General Fund and are reported as separate funds in the budget. All references to the General Fund in the narrative below are based on the General Fund as reported in the CAFR.

PROFILE OF THE CITY OF SAN DIEGO

The City, incorporated in 1850, comprises 342 square miles. It is the eighth largest city in the nation and the second largest city in California. As of January 2015, the California Department of Finance estimated the population to be 1,368,061.



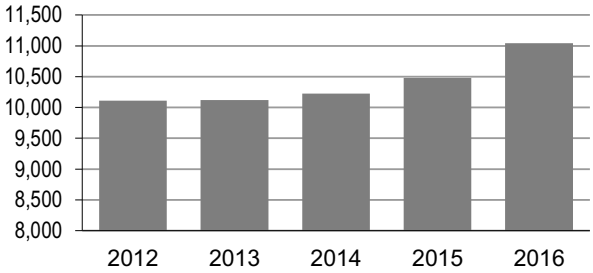
The City operates under and is governed by the laws of the State of California and its own Charter, as periodically amended since its adoption by the electorate in 1931. The City operates under a Strong-Mayor form of government. The Mayor is elected at large to serve a four-year term and may serve up to two consecutive terms. The City Council is comprised of nine members who are elected to staggered four-year terms and who are limited to two consecutive terms. The City Council is presided over in open meetings by the Council President, who is selected by a majority vote of the City Council. The Mayor presides over closed session meetings of the City Council. The City Attorney, who is elected for a four-year term, serves as the chief legal advisor and attorney for the City and all departments. The City Attorney is also limited to two consecutive terms in office.

Under the Strong-Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst (IBA), City Attorney, Ethics Commission and City Auditor departments. Under this form of government, the Council has legislative authority; however, all City Council resolutions and ordinances are subject to a veto of the Mayor except for certain ordinances including emergency declarations and the City's annual Salary and Appropriations Ordinances. The City Council may override a Mayoral veto with six votes.

CITY SERVICES

The City, with 11,041 budgeted Full-Time Equivalent (FTE) positions in fiscal year 2016, provides a full range of governmental services. The City has been able to restore and enhance services during the past several years, increasing budgeted staff from fiscal year 2012 to fiscal year 2016 by 933. In the fiscal year 2016 Adopted Budget, the City added 563 positions primarily focused on maintaining and repairing City streets, restoring services in libraries and parks as well as supporting the Capital Improvement Program for water and wastewater utilities, storm water and other infrastructure projects.

City of San Diego
Full Time Employees[1] by Fiscal Year



[1] Budgeted Full Time Equivalent Positions.

The City provides safety services to its residents and visitors, including police and fire protection, emergency medical treatment and lifeguard services. Neighborhood services include park and recreation, library, arts and culture, refuse collection, waste management, economic development, and planning. The City operates and maintains the water and sewer utilities, the Montgomery Field and Brown Field general aviation airports, and Qualcomm Stadium. It also administers the Petco Park joint use and management agreement between the City and the Padres baseball team. The City's public works program improves and adds to the City's existing infrastructure including buildings, parks, roads, sidewalks, street lights, bridges, and distribution and collection systems for sewer and water.

BUDGETING SYSTEMS AND CONTROLS

The budget is created each fiscal year by the Mayor and presented to the City Council and the public by April 15, as required by the Charter. After a series of public meetings, input from the City Council and City residents, the Mayor proposes revisions to the originally proposed budget, as necessary. The Charter requires that on or before June 15, the City Council approve the budget as submitted by the Mayor or with modifications to the proposed budget. Within five business days of City Council's approval, the Mayor has the discretion to line-item veto any budget modifications approved by the City Council. In turn, the City Council has five business days within which to override the Mayor's veto. The Appropriation Ordinance that enacts the budget into law is based on the approved budget and the adopted Salary Ordinance. All subsequent amendments to the adopted budget require City Council approval except as delegated in the Appropriation Ordinance.

Budgetary control is established at the highest level by the Charter and further defined by the City Council through the annual Appropriation Ordinance. Budgetary control is exercised at the department level for the General Fund and at the fund level for all other funds. In addition, the budget authorized for personnel expenditures (salaries and wages) for a fund or department may not be used for non-personnel expenditures. The City's financial system incorporates embedded controls in which non-personnel expenditures cannot be incurred if a budget appropriation is not available. The City also uses an encumbrance system of accounting as a mechanism to accomplish effective budgetary control.

The City's Financial Management Department and Comptroller's Office monitor fund balances, as well as revenue and expenditure projections throughout the fiscal year. The Comptroller's Office prepares monthly and periodic reports to the City Council that each serve as a summary of the year-to-date financial activity of the General Fund and other budgeted funds. The Financial Management Department prepares an analysis of actual and projected financial activity for the entire fiscal year on a quarterly basis by issuing three budget monitoring reports during the year (First Quarter, Mid-Year, and Year-End Budget Monitoring Reports). In fiscal year 2015, the Financial

Management Department, in collaboration with the Comptroller's Office, prepared a new report analyzing and explaining variances between year-end projections and unaudited year-end actual revenues and expenditures for the General Fund.

LOCAL ECONOMY

LABOR FORCE

The State of California Employment Development Department (EDD) estimates the total civilian labor force for the San Diego/Carlsbad Metropolitan Statistical Area (MSA) is approximately 1.56 million, of which about 1.39 million are non-farm jobs (see footnote 2 below). The unemployment rate in San Diego/Carlsbad MSA was 4.6% in September 2015, down from 5.1% in August 2015 and 6.1% in September 2014. Between September 2014 and September 2015, total non-farm employment increased by 46,900 jobs, or 3.5%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.9% for the nation during the same period. The following table provides estimates of total annual civilian non-farm employment by number of employees in each major industry category in the San Diego/Carlsbad MSA for calendar years 2013 through 2015.

San Diego / Carlsbad MSA[1]

Civilian Non-Farm Labor Force by Industry Sector

Industry Sector	2013	2014	2015	2015
Professional & Business Services	225,500	230,700	241,400	17.3%
Leisure & Hospitality	172,400	177,900	188,000	13.5%
Government				
State & Local Government	179,500	181,200	185,300	13.3%
Federal Government	46,400	45,700	45,600	3.3%
Health Care & Social Assistance	151,700	157,700	165,500	11.9%
Trade				
Retail Trade	140,400	143,100	145,600	10.4%
Wholesale Trade	43,100	43,800	45,700	3.3%
Manufacturing	95,100	96,600	99,100	7.1%
Financial Activities	71,200	70,300	72,100	5.2%
Construction	62,200	65,100	70,100	5.0%
Other	130,700	134,800	135,400	9.7%
TOTAL NON-FARM [2]	1,318,200	1,346,900	1,393,800	100.0%

[1]Based on California Employment Development Department data for the San Diego/Carlsbad Metropolitan Statistical Area for the month of September of each corresponding year (March 2014 Benchmark). Data excludes military uniformed personnel.

[2]Non-farm jobs exclude self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Federal Government employment in the table above includes approximately 21,500 civilians employed by the United States Department of Defense, but excludes military uniformed personnel. In its 2015 Economic Impact Study, the San Diego Military Advisory Council estimated that the military directly employs approximately 109,500 military uniformed personnel in San Diego County, which represents 6.5% of the total civilian and military labor force combined.

MAJOR INDUSTRIES

San Diego's economic base has evolved from one with a greater reliance on defense spending and tourism to one that includes more high-technology manufacturing and an expanded international trade sector. The City's Economic Development Strategy for 2014 through 2016, prepared by the City's Economic Development Department and adopted by the City Council in July 2014, identified four economic base industries in San Diego: (1) manufacturing and innovation, (2) international trade and logistics, (3) military installations, and (4) tourism. These are sectors that bring money and wealth into the region as goods and services are produced locally but sold outside of San Diego. Similarly, federal military and tourism spending also bring outside resources into the local economy.

Manufacturing and Innovation

The City's economic base is anchored by higher education and major scientific research institutions, including the University of California San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center. In October 2015, the San Diego Regional Economic Development Corporation issued a report on the economic impact of San Diego's research institutions on the local economy. The report estimates that research institutions directly employ about 42,720 people in the region and have a direct annual economic impact of approximately $2.9 billion.

San Diego's manufacturing sector is diverse, including several manufacturing clusters: biotech; cleantech; defense and security systems; electronics and telecommunications; and food and beverage production. According to the National University System Institute for Policy Research, between 2013 and 2014, gross regional product (GRP) in the manufacturing sector experienced 10% growth in output, more than three times the overall local economy.

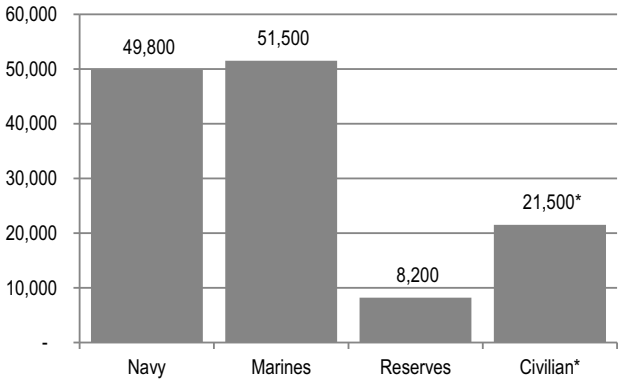
International Trade and Logistics

With its proximity to Mexico and the Pacific Rim, San Diego is in a unique geographical position that creates opportunities for growth in international trade. The proximity of Mexican manufacturing to the United States often makes "near-sourcing" of manufacturing back to Mexico attractive for American companies. The Port of San Diego, built around one of the world's great natural harbors, also facilitates international trade activity through its 10th Avenue Marine Terminal, which provides for the importation of a wide variety of bulk products and large equipment. The U.S. Department of Commerce reported that in 2014, San Diego was the 21st largest metropolitan area exporter in the United States, with merchandise shipments totaling $18.6 billion, representing a $700 million (3.9%) increase compared to 2013.

Military Installations

The military continues to play a significant role in the San Diego economy. The San Diego Military Advisory Council (SDMAC) issued a Military Economic Impact Study in September 2015 estimating that Defense-related activities and spending generated approximately $45 billion of GRP for San Diego County in fiscal year 2015 or 21.5% of the region's total GRP. Approximately 109,500 uniformed military and 21,500 U.S. Department of Defense (DoD) civilians work at various locations throughout San Diego County. There are also approximately 60,000 retired military and retired civilian DoD employees living

Military Employment in San Diego County



Source: SDMAC 2015 Economic Impact Study.
*Civilian DoD employment based on California EDD data for September 2015.

in San Diego County. In addition to the economic impact to the region from DoD wages and benefits, San Diego also benefits from DoD contracts for engineering, shipbuilding, aircraft, construction, electronic components and scientific research.

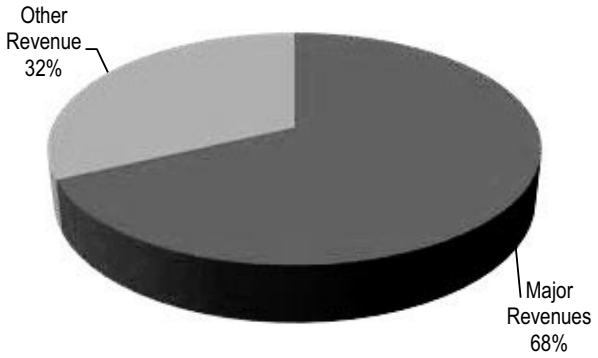
Tourism

Tourism is a major economic driver for the City. According to the San Diego Tourism Authority (SDTA), tourism employed over 165,000 people in 2014 throughout the County. The SDTA estimates that San Diego hosted 33.8 million visitors in calendar year 2014 who spent an estimated $9.2 billion at San Diego businesses and generated $223 million in Transient Occupancy Tax for the San Diego region.

Financial and Economic Trends

In fiscal year 2015, the General Fund's four major operating revenue sources - property tax, sales tax, transient occupancy tax (TOT), and franchise fees (unrestricted) - made up 68% of total General Fund revenues. Based on revenue projections for the first quarter of fiscal year 2016, major revenues for the General Fund are expected to increase by $54.9 million (6.1%) compared to major revenues reported for the General Fund in the fiscal year 2015 basic financial statements.

General Fund Revenues - Fiscal Year 2015



The table below shows historical trends for the General Fund major revenues for the past four fiscal years and the estimated revenues for fiscal year 2016 based on the Adopted Budget.

General Fund Major Revenues by Fiscal Year
(Dollars in Thousands)

	2012	2013	2014	2015	2016[1]
Property Tax	$ 408,776	$ 412,204	$ 460,592	$ 449,244	$ 470,444
Sales Tax[2]	227,650	240,922	254,219	265,295	284,349
Transient Occupancy Tax[3]	78,268	83,904	89,673	98,138	104,061
Franchise Fees (unrestricted)[4]	69,071	67,723	71,953	81,251	80,889
TOTAL	$ 783,765	$ 804,753	$ 876,437	$ 893,928	$ 939,743

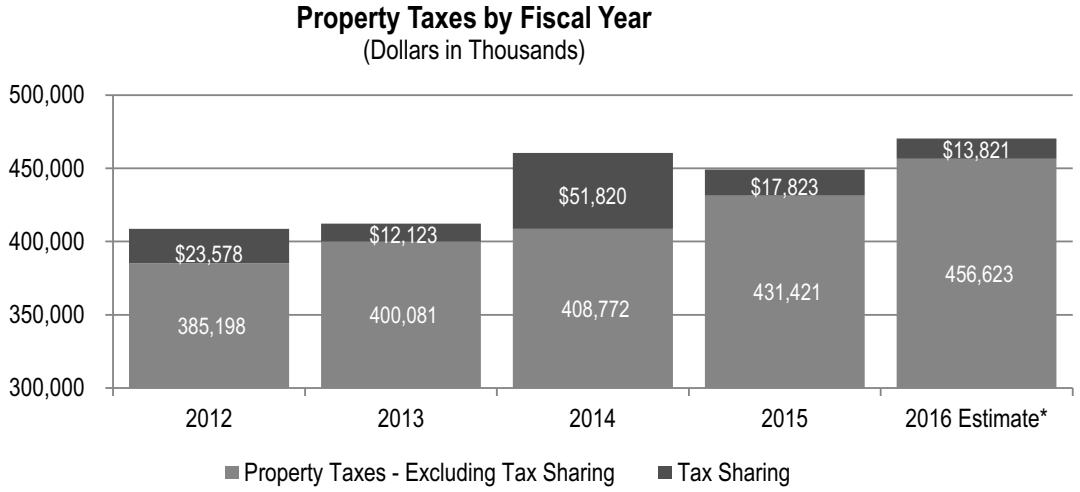
[1] Source: Fiscal Year 2016 First Quarter Budget Monitoring Report – Financial Management Department, City of San Diego.
[2] Includes Safety Sales Tax.
[3] Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy).
[4] Excludes SDG&E franchise fee revenue restricted by the Charter to preserve and enhance the environment of the City.

Property Tax

Property Tax revenue is the largest revenue source for the General Fund, representing 34.1% of total General Fund revenue collected in fiscal year 2015. There is a two year lag between the time property values are assessed by the County of San Diego and the time the property tax revenue is received by the City. Therefore, the property tax revenue received in fiscal year 2015 and the estimated revenue for fiscal year 2016 are based on assessments from January 1, 2013 and 2014, respectively. The 4.7% growth rate projected for property tax revenue in fiscal year 2016

is based on increases in the median home price, a positive 1.9% increase in California CPI in calendar year 2014, and fewer foreclosures. This positive growth rate is also attributed to an increase in Proposition 8 assessed valuation restorations and a projected decrease in property tax refunds related to an anticipated reduction in the number of property value reassessments during fiscal year 2016.

Property tax revenue trends have been affected by tax sharing distributions resulting from the dissolution of the former redevelopment agency. The City receives tax sharing distributions in accordance with redevelopment dissolution laws and a proportional share of residual property tax payments of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after Recognized Obligation Payments are made. The amount of these payments has varied over the last four fiscal years. The graph below shows property taxes, net of tax sharing amounts, for fiscal years 2012 through 2016, and the corresponding tax sharing amounts for each respective fiscal year (projected amounts for fiscal year 2016).



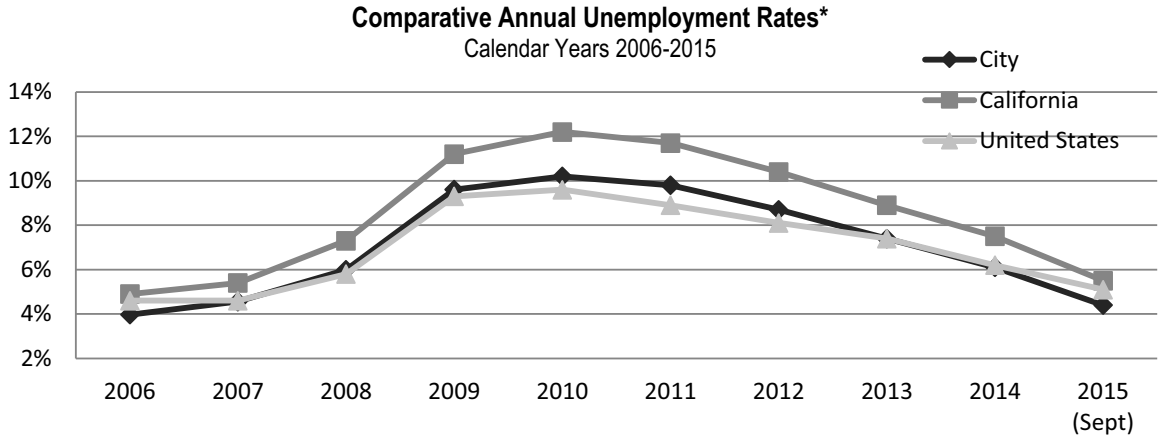
* Source: Fiscal Year 2016 First Quarter Budget Monitoring Report – Financial Management Department, City of San Diego

Sales Tax

The City's second largest revenue source for the General Fund is Sales Tax, representing 20.2% of total General Fund revenue collected in fiscal year 2015. The total citywide sales tax rate in San Diego is 8.0%, of which the City receives approximately 1.0% for general purposes, 0.5% for the TransNet program to fund transportation improvements throughout the City, and 0.5% of Safety Sales Tax for local public safety needs. General purpose and Safety Sales Tax are deposited in the General Fund, while TransNet sales tax revenue is deposited in the Transnet Capital Projects Fund.

The major local economic drivers of the City's Sales Tax revenue include the unemployment rate and consumer confidence. The unemployment rate for the City was 4.4% in September 2015, down from 4.9% in August 2015 and 5.8% in September 2014. The unemployment rate has returned to pre-recession levels, when the unemployment rate ranged between 4% and 5%. A lower local unemployment rate generally improves consumer confidence which, in turn, improves the City's sales tax receipts. Revenue projections for the first quarter of fiscal year 2016 estimate a year-over-year increase in Sales Tax revenue of approximately $19.1 million (10.6%) compared to fiscal year 2015 actual revenue collected. However, this includes an estimated one-time payment of approximately $12.3 million as a result of the end of the triple-flip, a state funding mechanism that shifted local sales tax to the state for an equivalent

amount of property tax revenue (triple-flip related revenue is recorded as Sales Tax in the General Fund). Not including the triple-flip one-time payment, sales tax is expected to increase by approximately $15.9 million (6%).



Source: Federal Bureau of Labor Statistics, California Employment Development Department.

* Unemployment rate for 2015 is based on September 2015.

Transient Occupancy Tax

The City's Transient Occupancy Tax (TOT) is levied at 10.5% of daily room prices in hotels and motels used by visitors staying in San Diego for fewer than 30 consecutive days. TOT revenue is allocated pursuant to the City Municipal Code. Of the 10.5% collected, 5.5% is allocated to the General Fund and the remaining 5% is allocated to the TOT special revenue fund, 4% of which is allocated to special programs to promote the City's tourism and the remaining 1% is allocated for any purpose approved by the City Council. A portion of the revenue allocated to the TOT special revenue fund can be used to reimburse the General Fund for tourism promotion costs or transferred to the General Fund for any purpose approved by the City Council. TOT allocated to the General Fund represented 7.5% of total General Fund revenue recognized in fiscal year 2015. In addition, the City received reimbursements and transfers from the TOT special revenue fund of $33.2 million in fiscal year 2015 for a combined total of $131.3 million, or approximately 10% of total General Fund revenue collected in fiscal year 2015.

Tourism Information - County of San Diego

	CY 2012	CY 2013	CY 2014	CY 2015[1]	CY 2016[1]
Visitors					
Total Visits (millions)	32.3	33.1	33.8	34.9	35.8
Overnight Visits (millions)	16.1	16.4	17.0	17.2	17.7
Hotel Sector					
Avg. Occupancy	70.5%	71.6%	74.7%	77.7%	78.1%
Avg. Daily Rate	$ 131.22	$134.94	$142.61	$150.03	$159.09
Revenue PAR[2]	$ 92.56	$ 96.61	$106.46	$116.51	$124.20
Room Demand (growth)	2.8%	2.4%	5.7%	5.1%	2.4%

Source: San Diego Tourism Authority and Tourism Economics.

[1] Forecast July 2015– Tourism Economics, Inc.

[2] Revenue Per Available Room (Average Occupancy multiplied by Average Daily Rate).

The table above reflects the positive trend in tourism growth over the past three calendar years (2012-2014) and the forecast for calendar years 2015 and 2016 for San Diego County. Major economic drivers for TOT revenue include seasonal and non-seasonal tourism, business travel and conventions. Sustained positive tourism growth has occurred since the economic turnaround began in fiscal year 2010, continued through fiscal year 2015, and is expected to continue through fiscal year 2016. Revenue projections for the first quarter of fiscal year 2016 estimate a year-over-year increase in General Fund TOT revenue of approximately $5.9 million (6%) compared to fiscal year 2015 actual revenue collected.

Franchise Fees

Franchise fee revenues are reported as Other Local Taxes in the General Fund's Statement of Revenues, Expenditures and Changes in Fund Balance. San Diego Gas and Electric (SDG&E), the single largest generator of franchise fee revenues for the General Fund, remits 3% of the gross sales of gas and electricity within the City, 75% of which is unrestricted and 25% of which is restricted by the Charter to preserve and enhance the environment of the City. Both restricted and unrestricted SDG&E franchise fee revenues are recorded in the General Fund. The City also collects 5% of gross revenues from Cox Communications, Time Warner Cable, and AT&T. Other franchise fee revenues include refuse hauler fees based on the total amount of refuse hauled annually and fees from the Police Department vehicle tow program. Unrestricted franchise fee revenues represented 6.2% of total General Fund revenues. Revenue projections for the first quarter of fiscal year 2016 estimate a year-over-year increase in unrestricted franchise fee revenues of $80.9 million (-0.4%), a slight decrease from fiscal year 2015, due to a portion of franchise fee revenue for refuse collection being reallocated from the General Fund to the Recycling Enterprise Fund in fiscal year 2016.

LONG-TERM FINANCIAL PLANNING AND FINANCIAL POLICIES

FIVE-YEAR OUTLOOK

Each year the City develops a Five-Year Financial Outlook (Outlook) which is the guiding document for long-range fiscal planning and serves as the framework for development of the next adopted budget. The Outlook is published annually and incorporates a range of information on items that influence projected revenues and anticipated appropriation needs over the next five fiscal years. These projections inform the City Council and the public of the long-term costs of programs in the context of the City's overall General Fund budget and projected revenue growth. The Outlook can be obtained online at www.sandiego.gov/fm/financial/index.shtml.

RESERVES

Strong financial reserves position the City to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies such as natural disasters and catastrophic events, unanticipated critical expenditures or legal judgments against the City.

The table on the following page identifies the policy goal and actual amounts for the General Fund reserves and the City's risk management reserves

Reserve	Criteria for Policy Reserve Level [2]	(Dollars in Thousands) Policy Goal	Reserve FY 2015	Funding Level
General Fund Emergency Reserve [1]	8% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	$89,922	$89,922	100%
General Fund Stability Reserve [1]	6% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	$67,441	$67,441	100%
Public Liability Reserve [3]	50% of outstanding public liability claims based on the annual actuarial liability valuations for the three most recent fiscal years	$47,401	$37,920	80%
Workers' Compensation Reserve [3]	25% of outstanding workers' compensation claims based on the annual actuarial liability valuations for the three most recent fiscal years	$48,444	$48,444	100%
Long-Term Disability Reserve [3]	100% of long-term disability claims based on the annual actuarial liability valuations for the three most recent fiscal years	$18,338	$18,338	100%

[1] For purposes of the General Fund Reserve Policy, the General Fund is the operational fund as presented in the City's annual budget document and excludes other funds which are consolidated with the General Fund for presentation in the CAFR in accordance with GASB 54.

[2] Calculated based on three most recent years' actuarial valuations for risk management reserves and three most recent audited financial statements available as of June, 30, 2015 for General Fund reserves (fiscal years 2012-14).

[3] Risk Management Reserves based on cash on hand.

The City maintains General Fund Reserves at 14%, comprised of two separate components: (1) the Emergency Reserve is maintained at 8% for the purpose of sustaining General Fund operations in the case of a public emergency, and (2) the Stability Reserve is maintained at 6% to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The Emergency Reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council, while appropriations from the Stability Reserve require approval by a simple majority of the City Council.

The General Fund's Emergency Reserve of $89.9 million is reported as restricted fund balance in the financial statements. The General Fund's unassigned fund balance as of June 30, 2015 was $99.6 million, of which $67.4 million represents the General Fund's Stability Reserve and the remaining $32.1 million is available in fund balance for appropriation as of June 30, 2015. The General Fund also reports an additional $6.2 million of fund balance that has been assigned for expenditures in the fiscal year 2016 budget.

The City also maintains reserves to manage risk (Risk Management Reserves), including public liability reserves for the payment of claims and judgments, a reserve for obligations related to workers' compensation claims, and a reserve for long-term disability payments for City employees. As of June 30, 2015, the Workers' Compensation Reserve and the Long-Term Disability Reserve were fully funded. The Public Liability Reserve was funded at 80% of the policy goal. The City sets annual funding targets in the Reserve Policy to reach the policy goal of 50% of the three year average of the outstanding liability. The City annually evaluates the funding progress of the Public Liability Reserve to meet these targets through contributions from the General Fund. Public liability and workers' compensation reserves are reported in the financial statements as part of the General Fund. The Long-Term Disability Reserve is reported as part of the Miscellaneous Internal Service Fund. Liability claims paid after the end of fiscal year 2015 could reduce Risk Management Reserve balances.

The City also maintains reserves for the following enterprise funds: the Water and Sewer Utility Funds, Development Services Fund, Environmental Services Fund, and the Golf Course Fund.

OTHER FINANCIAL POLICIES

In addition to policies related to reserves, budget development, budget monitoring and the Outlook, the City has adopted a comprehensive set of financial policies including policies on debt management, investments, Capital Improvement Program prioritization and transparency, among others. A summary of these policies can be found online at http://www.sandiego.gov/fm/annual/pdf/fy16/vol1/v1fiscalpolicies.pdf.

MAJOR ACCOMPLISHMENTS AND INITIATIVES

As a result of the continuing positive trends in revenue growth, the fiscal year 2016 Adopted Budget includes a number of service enhancements for residents of San Diego focusing on four main areas: repairing streets and investing in infrastructure, safe and livable neighborhoods, an economically prosperous city with opportunity in every community, and excellent customer service and open government. The list below highlights some of these key enhancements.

Beginning with the fiscal year 2015 Adopted Budget, Mayor Faulconer committed at least 50% of the City's new major general fund revenue growth toward infrastructure and street repairs. During fiscal year 2015, the City repaired approximately 24,000 potholes, resurfaced 56 miles of roads and replaced eight miles of concrete streets citywide. The fiscal year 2016 Adopted Budget includes a net $43.9 million in new infrastructure expenditures, which exceeds the Mayor's 50% commitment of $35.9 million. In fiscal year 2015, the City also repaired sidewalks at more than 400 locations throughout the City. Nearly 7,000 linear feet of sidewalks were replaced and 700 street trees were added to the urban canopy. In March 2015, Mayor Faulconer proposed more than 20 reforms to the City's infrastructure program. These reforms focus on technology to increase program efficiency and provide better financial oversight so taxpayer dollars are managed more effectively.

In the area of water and wastewater infrastructure, the City is moving forward on a plan to implement a potable water reuse program (Pure Water) to provide future water reliability to San Diego residents. The first phase of the Pure Water program will be to construct the infrastructure necessary to produce 30 million gallons per day of purified water. This phase is expected to be online providing drinking water to the public by 2021.

The fiscal year 2016 Adopted Budget includes funding for recruitment and retention of police officers through the implementation of a new memorandum of understanding (MOU) between the City and the San Diego Police Officers Association. The fiscal year 2016 Adopted Budget also includes funding for four police academies with an average of 43 recruits each. In fiscal year 2015, 600 body-worn cameras were deployed to uniformed police officers assigned to several area commands. In fiscal year 2016, approximately 400 additional uniformed patrol officers have been outfitted with body-worn cameras, bringing the total to 1,000 cameras deployed department-wide. The Police Department is planning on purchasing an additional 144 body-worn cameras in January 2016 to outfit graduates from the Police Academy and to have some on hand to replace cameras that malfunction or break. The Police Department expects to have approximately 1,100 body-worn cameras deployed by early 2016. The next phase of the program will include outfitting all patrol supervisors and the remainder of the Police Department's uniformed officers with body-worn cameras. The City currently employs 1,291 uniformed patrol officers and patrol supervisors.

The City continues to invest in its neighborhoods by restoring services that had been reduced during the last recession. In fiscal year 2015, the City restored library hours from 44 to 48 hours per week for 23 branches and from 48 to 55.5 hours a week for 12 branches. The Central Library hours were expanded from 49 hours per week to 54

hours per week. The fiscal year 2016 Adopted Budget adds an additional 29 full-time equivalent positions to support expanded weekend service hours by an additional 3 hours at 23 branch locations and by 7 hours at the Central Library. In addition, the fiscal year 2016 Adopted Budget adds 62 full-time equivalent positions to increase operating hours at 36 recreation centers from 45 to 60 hours per week, to provide park ranger coverage to Sunset Cliffs Natural Park and Chicano Park, and to support new park and recreation facilities to be completed in fiscal year 2016, such as the new skate park in Park de la Cruz Neighborhood Park and the Charles Lewis III Memorial Park.

As part of its economic development strategy, the City joined and is currently participating in the Global Cities Initiative, a joint use project of the Brookings Institute and JP Morgan Chase, aimed at helping leaders of metropolitan cities strengthen their regional economies by becoming more competitive in the global marketplace. The $10 million, five-year project will provide an international network of leaders the ability to discuss and foster ideas to promote expansion of Cities' economies on a global scale and learn best practices from around the world.

ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Diego for its CAFR for the fiscal year ended June 30, 2014. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the dedication and professionalism of the entire staff of the Office of the City Comptroller. We wish to thank all City departments for their valuable contributions and thank the staff of Civic San Diego, San Diego Convention Center, San Diego Housing Commission and San Diego City Employees' Retirement System for providing component unit information which has been incorporated into this report. We also want to thank the City's independent auditors, Macias Gini & O'Connell LLP for their work. Credit also is due to Mayor Faulconer for his support in maintaining the highest standards of professionalism in management of the City and to the Audit Committee for their governance role over the audit of the CAFR.

Respectfully submitted,

Scott Chadwick Chief Operating Officer	Mary Lewis Chief Financial Officer	Rolando Charvel City Comptroller

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Diego

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

City of San Diego Current Officials

Current Elected Officials

(Holding office as of the issuance date of this report)

Mayor Kevin Faulconer

District 1
Council President Sherri Lightner

District 2
Councilmember Lorie Zapf

District 3
Councilmember Todd Gloria

District 4
Councilmember Myrtle Cole

District 5
Councilmember Mark Kersey

District 6
Councilmember Chris Cate

District 7
Councilmember Scott Sherman

District 8
Councilmember David Alvarez

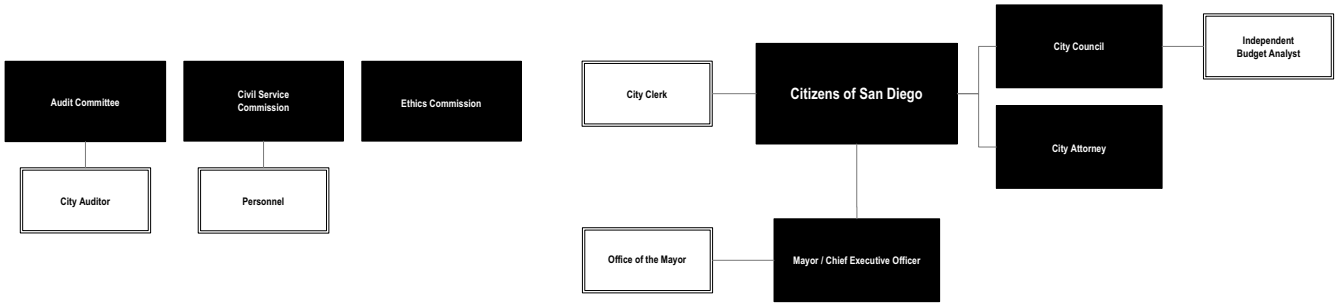
District 9
Council President Pro Tem
Marti Emerald

City Attorney
Jan Goldsmith

Other City Officials

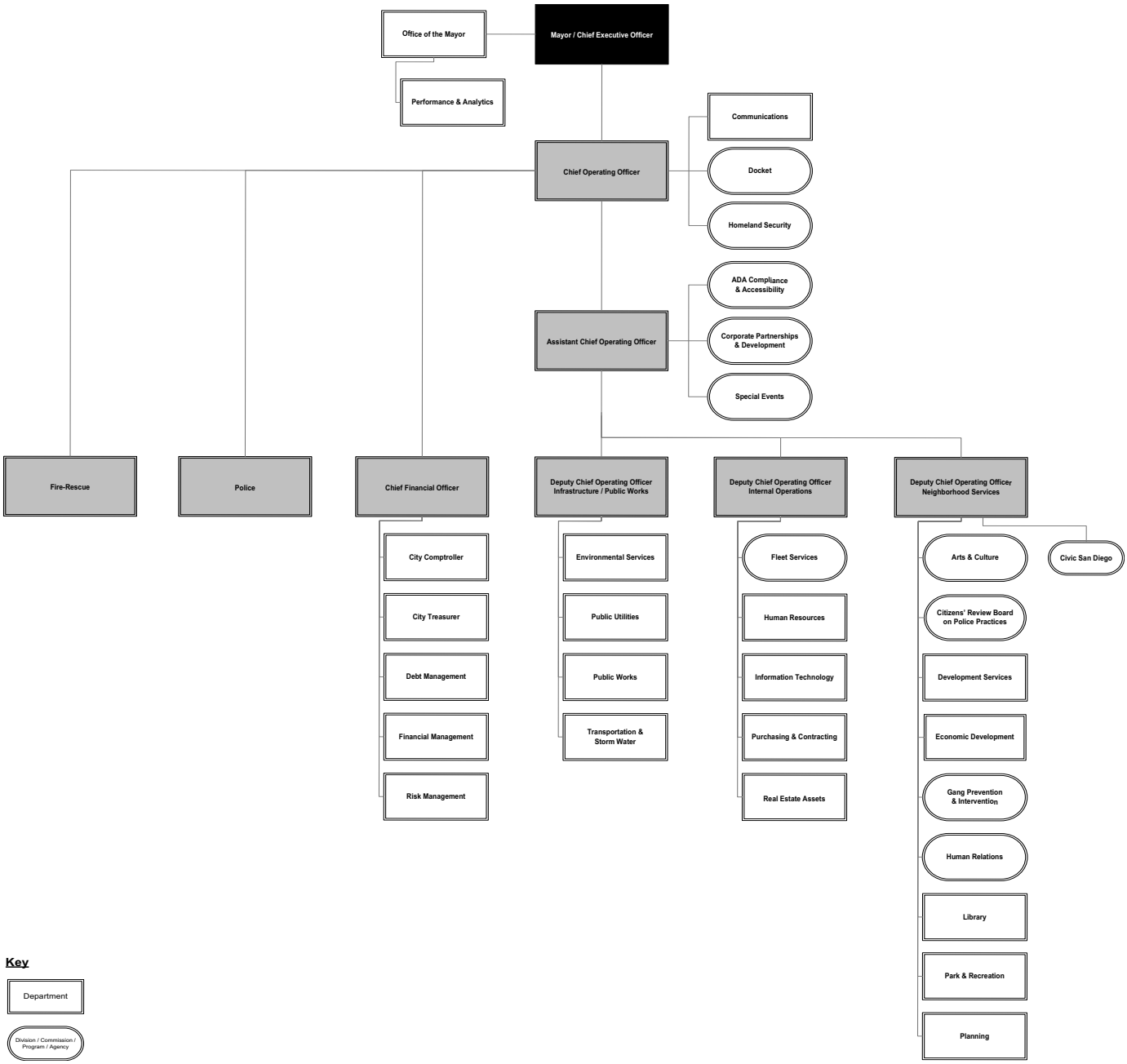
Scott Chadwick, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Rolando Charvel, City Comptroller
Gail R. Granewich, City Treasurer
Elizabeth Maland, City Clerk
Andrea Tevlin, Independent Budget Analyst
Eduardo Luna, City Auditor

City of San Diego Legislative Organization Chart*



*As of the issuance date of this report

City of San Diego Operations Organization Chart*



*As of the issuance date of this report

FINANCIAL SECTION

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mGO Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Diego, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Diego Housing Commission, a discretely presented component unit, which represent 95%, 97%, and 87%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the San Diego Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As discussed in Notes 1v and 23 to the basic financial statements, effective for the year ended June 30, 2015, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* As a result of the implementation of GASB Statement Nos. 68 and 71, the net position as of July 1, 2014, was restated and reduced, on an opinion unit basis, as follows: $1.4 billion and $349.8 million for the governmental activities and business-type activities, respectively; $130.6 million and $111.5 million for the Sewer Utility and Water Utility major enterprise funds, respectively; and $159.7 million for the aggregate remaining fund information.

Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 34-47; the preservation of benefits plan schedule of funding progress, schedule of changes in net pension liability and related ratios, schedule of employer contributions, other postemployment benefit (OPEB) trust fund schedule of funding progress, and OPEB trust fund schedule of employer contributions on pages 187-189; and the general fund schedule of revenues, expenditures and changes in fund balance – budget and actual (budgetary basis) on page 194, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
December 8, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Fiscal Year Ended June 30, 2015
(Dollars in Thousands)

As management of the City of San Diego (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. We encourage the reader to consider the information presented here in addition to the information presented in the Letter of Transmittal.

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 basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No. 27* (GASB 68), restated beginning total net position for fiscal year 2015, resulting in a significant decrease in the City's total net position. The GASB 68 beginning balance restatement represents an accounting change and does not indicate deterioration of the City's financial position.

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

The government-wide financial statements include the City (known as the primary government) and the following legally separate, discretely presented component units: San Diego Convention Center Corporation (SDCCC) and San Diego Housing Commission (SDHC). Financial information for these component units is reported separately from the financial information presented for the primary government. The City also reports fiduciary component units which are not included in the government-wide financial statements since they are not part of the primary government. Fiduciary component units include the San Diego City Employees' Retirement System (SDCERS) and the Successor Agency of the Redevelopment Agency of the City of San Diego (Successor Agency). Blended component units, also legally separate entities, are a part of the City's operations and are combined with the primary government.

Included within the primary government as blended component units are the following:

- Civic San Diego (CSD)
- Convention Center Expansion Financing Authority (CCEFA)
- Public Facilities Financing Authority (PFFA)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)

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

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

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

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

The City maintains individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is a major fund. Data for 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 Combining and Individual Fund Financial Statements and Schedules section of this report.

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

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

PROPRIETARY FUNDS

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its various business-type activities, such as Sewer and Water Utilities. Internal service funds, such as Fleet Services, Central Stores, and Publishing Services, are used to report activities that provide centralized supplies and/or services to the City.

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

FIDUCIARY FUNDS

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

The basic fiduciary funds financial statements can be found beginning on page 64 of this report.

NOTES TO THE BASIC 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 basic financial statements can be found beginning on page 66 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 changes in the net pension liability, progress in funding its obligation to provide postemployment healthcare benefits to its employees, employer contributions to the pension plan and postemployment healthcare benefits plan, and the General Fund's budgetary comparison schedule. Required supplementary information can be found beginning on page 187 of this report.

The individual fund data referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information beginning on page 211 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CITY OF SAN DIEGO CONDENSED STATMENT OF NET POSITION
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014[1]	2015	2014[1]	2015	2014[1]
Capital Assets	$ 4,597,347	$ 4,530,528	$ 5,666,425	$ 5,270,890	$ 10,263,772	$ 9,801,418
Other Assets	2,198,959	1,910,914	1,215,380	1,286,764	3,414,339	3,197,678
Total Assets	6,796,306	6,441,442	6,881,805	6,557,654	13,678,111	12,999,096
Deferred Outflows of Resources	230,944	10,164	60,850	15,660	291,794	25,824
Net Long-Term Liabilities	2,697,999	1,458,664	2,357,340	2,167,099	5,055,339	3,625,763
Other Liabilities	181,236	173,221	187,680	210,787	368,916	384,008
Total Liabilities	2,879,235	1,631,885	2,545,020	2,377,886	5,424,255	4,009,771
Deferred Inflows of Resources	344,346	-	87,180	3,276	431,526	3,276
Net Position						
Net Investment in Capital Assets	3,988,396	3,988,284	3,902,396	3,526,979	7,890,792	7,515,263
Restricted	1,309,104	1,106,353	27,776	27,284	1,336,880	1,133,637
Unrestricted	(1,493,831)	(274,916)	380,283	637,889	(1,113,548)	362,973
Total Net Position	$ 3,803,669	$ 4,819,721	$ 4,310,455	$ 4,192,152	$ 8,114,124	$ 9,011,873

[1] Fiscal year 2014 amounts have not been restated for the effects of GASB 68 and 71.

As noted earlier in the overview of the government-wide financial statements, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $8,114,124 as of June 30, 2015, a decrease of $897,749, or approximately 10%, over fiscal year 2014.

Approximately 97% of Total Net Position, or $7,890,792, represents the City's net 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 and related deferred outflows/inflows of resources. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves generally are not used to liquidate these liabilities.

Restricted Net Position is $1,336,880, or approximately 16% of total Net Position, representing resources that are subject to external restrictions on how they may be used. The amount of ($1,113,548) represents the Unrestricted Net Position deficit, mostly resulting from the recognition of the Net Pension Liability of $1,535,537 in fiscal year 2015, in accordance with GASB 68. Additional information regarding pension matters, including the City's funding policy, can be found in Note 11.

Total Net Position resulting from governmental activities decreased by $1,016,052, or approximately 21%. The Net Investment in Capital Assets remained stable, with an increase of $112. Restricted Net Position increased by $202,751, or approximately 18%. Items contributing to the increase in Restricted Net Position include the receipt of unspent redevelopment bond proceeds transferred from the Successor Agency and a large increase in Facilities Benefit Assessments revenue for several communities including Pacific Highlands Ranch, Black Mountain Ranch, and Carmel Valley. The total decrease to Unrestricted Net Position was $1,218,915, which was primarily due to the implementation of GASB 68 (See Note 11).

Total Net Position resulting from business-type activities increased by $118,303, or approximately 3%. The Net Investment in

Capital Assets increased by $375,417, or approximately 11%. Pursuant to the Emergency Storage Project Agreement between the San Diego County Water Authority (SDCWA) and the City, SDCWA built various facilities and infrastructure in order to raise the height of the San Vicente Dam and increased the reservoir's capacity. During fiscal year 2015, SDCWA conveyed the facilities and infrastructure related to the expansion, valued at approximately $330,426, to the City, which was the primary cause of the increase in capital assets. Unrestricted Net Position decreased by $257,606, or approximately 40%, primarily due to the City's implementation of GASB 68.

CITY OF SAN DIEGO CONDENSED STATEMENT OF ACTIVITIES
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014[1]	2015	2014[1]	2015	2014[1]
Revenues:						
Program Revenues						
Charges for Services	$ 474,738	$ 435,064	$ 951,600	$ 909,155	$1,426,338	$ 1,344,219
Operating Grants and Contributions	49,049	60,591	1,044	1,531	50,093	62,122
Capital Grants and Contributions	106,237	120,538	386,952	70,739	493,189	191,277
General Revenues						
Property Taxes	460,948	470,905	-	-	460,948	470,905
Transient Occupancy Taxes	182,466	173,376	-	-	182,466	173,376
Sales Taxes - Shared State Revenue	296,837	282,345	-	-	296,837	282,345
Other Local Taxes	208,970	186,747	-	-	208,970	186,747
Grants and Contributions not Restricted to Specific Programs	653	674	-	-	653	674
Investment Income	8,786	13,627	8,012	8,489	16,798	22,116
Other	133,511	80,247	21,285	12,096	154,796	92,343
Total Revenues	1,922,195	1,824,114	1,368,893	1,002,010	3,291,088	2,826,125
Expenses:						
General Government and Support	271,094	286,798	-	-	271,094	286,798
Public Safety-Police	380,344	441,803	-	-	380,344	441,803
Public Safety-Fire, Life Safety, Homeland Security	221,446	253,741	-	-	221,446	253,741
Parks, Recreation, Culture and Leisure	263,127	267,523	-	-	263,127	267,523
Transportation	198,242	192,928	-	-	198,242	192,928
Sanitation and Health	92,833	89,448	-	-	92,833	89,448
Neighborhood Services	80,299	70,191	-	-	80,299	70,191
Debt Service:						
Interest	33,790	35,226	-	-	33,790	35,226
Cost of Issuance	-	518	-	-	-	518
Sewer Utility	-	-	316,465	326,437	316,465	326,437
Water Utility	-	-	466,552	443,453	466,552	443,453
Airports	-	-	3,740	4,663	3,740	4,663
Development Services	-	-	50,244	50,825	50,244	50,825
Environmental Services	-	-	30,939	33,724	30,939	33,724
Golf Course	-	-	15,827	16,423	15,827	16,423
Recycling	-	-	17,200	20,475	17,200	20,475
Total Expenses	1,541,175	1,638,176	900,967	896,000	2,442,142	2,534,176
Change in Net Position Before Transfers and Extraordinary Loss:	381,020	185,938	467,926	106,010	848,946	291,948
Transfers	(150)	(9,315)	150	9,315	-	-
Extraordinary Loss	-	(14,828)	-	-	-	(14,828)
Change in Net Position	380,870	161,795	468,076	115,325	848,946	277,120
Net Position - July 1, as Restated	3,422,799	4,657,926	3,842,379	4,076,827	7,265,178	8,734,753
Net Position - June 30	$ 3,803,669	$ 4,819,721	$4,310,455	$4,192,152	$8,114,124	$ 9,011,873

[1] Fiscal year 2014 amounts have been reclassified to conform with current year presentation. Fiscal year 2014 amounts have not been restated for the effects of GASB 68 and 71.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by $380,870 during fiscal year 2015. Variances from fiscal year 2014 of more than 10% are discussed below.

- Operating Grants and Contributions decreased by $11,542, or approximately 19%. This was primarily due to the expiration of the support agreement between the City and the San Diego Unified Port District (Port) for Convention Center debt service. The Port's final contribution was made in fiscal year 2014. An endowment received in fiscal year 2014 for the Carroll Canyon vernal pool mitigation contributed to the decrease, as well as grant revenues recognized for Community Development Block Grant (CDBG) and Urban Areas Security Initiative (UASI) being lower in fiscal year 2015 compared to 2014.

- Capital Grants and Contributions revenue decreased by $14,301, or approximately 12%. Capital Grants and Contributions were significantly higher in fiscal year 2014, mainly due to a large donation of open space in the Sycamore Estates area from the General Dynamics Corporation. In addition, several transportation related State grants expired during fiscal year 2015. These decreases were partially offset by unspent redevelopment bond proceeds received from the Successor Agency during fiscal year 2015, in accordance with the bond expenditure agreement.

- Other Local Taxes increased by $22,223, or approximately 12%. This was primarily due to an increase in SDG&E franchise fee revenues caused by higher energy rates and consumption.

- Investment income decreased by $4,841, or approximately 36%, primarily due to interest income recognized in fiscal year 2014 related to the refinancing of a note receivable in the Low-Moderate Income Housing Fund.

- Other Revenue increased by $53,264, or approximately 66%, primarily due to the Facilities Benefit Assessments Fund experiencing an increase in revenues for several communities including Pacific Highlands Ranch, Black Mountain Ranch, and Carmel Valley. In addition, the City received settlements from various insurance companies related to the North and South Bay cleanup project required by the Regional Water Quality Control Board.

- Public Safety-Police expense decreased by $61,459, or approximately 14%, primarily due to the implementation of GASB 68 in fiscal year 2015. The decrease in expense is due to fiscal year 2015 pension contributions being reported as deferred outflows of resources, partly offset by pension expense of the current fiscal year.

- Public Safety-Fire and Life Safety and Homeland Security expense decreased by $32,295, or approximately 13%, primarily due to the implementation of GASB 68 in fiscal year 2015. The decrease in expense is due to fiscal year 2015 pension contributions being reported as deferred outflows of resources, partly offset by pension expense of the current fiscal year.

- Neighborhood Services expense increased by $10,108, or approximately 14%, primarily due to the transfer of housing funds to the Successor Agency as required by the State Department of Finance, combined with the purchase of new smart parking meters.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by $468,076 during fiscal year 2015. Variances from fiscal year 2014 of more than 10% are discussed below.

- Capital Grants and Contributions revenue increased by $316,213, or approximately 447%, primarily due to the conveyance of the San Vicente Dam and Reservoir facilities and infrastructure from the San Diego County Water Authority to the City's Water Utility Fund, valued at approximately $330,426.

- Other revenue increased by $9,189, or approximately 76%, primarily due to the partial principal forgiveness provided by the State Water Resources Control Board. Loan amounts forgiven were contingent upon the City's performance of its obligations under the agreements for three State Revolving Fund Loans (See Note 6). In addition, payments were made from the General Fund's Transportation & Storm Water Department to the Sewer Utility Fund for low flow diversion capacity charges.

- Recycling expense decreased by $3,275, or approximately 16%, primarily due to lower costs for fleet vehicles, as many recycling vehicles reached their useful lives and payment of assignment fees was suspended.

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, governmental fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported.

As of the end of fiscal year 2015, the City's governmental funds reported combined ending fund balances of $1,784,933, an increase of $273,506 from fiscal year 2014. Approximately $88,268 constitutes unassigned fund balance, which is available for spending at the City's discretion. The City maintains a stability reserve in the General Fund which accounts for $67,441 of the unassigned fund balance. The remainder is not available for new spending because it has been restricted, committed, or assigned (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual funding of various programs, (4) for use in the subsequent year's budget, (5) for emergency reserves or (6) for a variety of other purposes.

The General Fund is the principal operating fund of the City. Total Fund Balance for the General Fund was $377,815, an increase of $27,701 from fiscal year 2014, which was primarily due to increased Sales Tax revenue, increased Transient Occupancy Tax revenue caused by higher occupancy and room rates, and increased San Diego Gas and Electric franchise fee revenue due to higher energy rates and consumption. General Fund revenues totaled $1,315,944, which was an increase of $55,326, partially caused by the revenue increases previously mentioned. In addition to these revenue increases, several budgeted transfers for IT related services were reclassified from transfers to Charges for Services, to more accurately reflect the nature of the services provided. General Fund expenditures totaled $1,315,313, which is an increase of $48,273. The increase was mainly due to capital expenditures associated with the capital lease of the Civic Center Plaza building.

PROPRIETARY FUNDS

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

As of the end of fiscal year 2015, total Net Position for the Sewer Utility Fund was $2,318,719, a decrease of $30,659, or approximately 1% over fiscal year 2014. This amount is comprised of the restatement of Net Position of ($130,552) due to the City's implementation of GASB 68 and 71, offset by the current year increase to net position of $99,893. One-time items contributing to the current year increase in Net Position include the accrual of low flow diversion capacity charges due from the Storm Water Department of the General Fund, and the partial principal forgiveness of State revolving fund loans. Operating income remained stable at $98,371, an increase of $6,359, or approximately 7% over fiscal year 2014.

The Water Utility Fund had total Net Position of $1,920,362 at the end of fiscal year 2015, an increase of $236,446, or approximately 14%. This amount is comprised of the restatement of Net Position of ($111,532) due to the City's implementation of GASB 68 and 71, offset by the current year increase to Net Position of $347,978. Capital contributions accounted for $321,201 of the increase, primarily due to the conveyance of the San Vicente Dam and Reservoir facilities and infrastructure from the San Diego County Water Authority. Operating income was $25,565, a decrease of $17,504, or approximately 41%, which was primarily attributed to an increase in the cost of water purchased from the San Diego County Water Authority, partially offset by a 7.5% Council-approved water rate increase that became effective in January 2015.

GENERAL FUND BUDGETARY HIGHLIGHTS

The following General Fund budgetary highlights include only those funds associated with General Fund operations as reported in the City's budget, and exclude the additional budgeted funds included with the General Fund for GAAP reporting purposes. The final budget for General Fund expenditures and transfers out was $14,840 higher than the original budget due to increases/(decreases) in appropriations primarily attributed to the following:

- ($7,464) for General Government and Support. The decrease was due to the reallocation of budgetary savings in Citywide expenditures. This resulted from a delay in issuance of General Fund infrastructure bonds due to litigation, and election costs savings due to fewer than expected city-wide propositions on the ballot. These savings, in addition to savings from various General Fund departments, were utilized to offset increases to the Public Safety departments' workers' compensation and long-term disability fringe related costs, as well as funding contributions towards the Public Liability and Long-Term Disability Reserves.

- $7,560 for Public Safety-Police. The increase was primarily due to Workers' Compensation and Long-Term Disability fringe related costs, increases in salaries and wages for overtime and termination pay costs exceeding the budget.

- $8,363 for Public Safety-Fire. The increase was primarily due to Workers' Compensation and Long-Term Disability fringe related costs, overtime due to strike team deployments and related personnel backfill, as well as overtime needed to meet regular staffing needs.

Actual revenues received in the General Fund were $16,873 higher than budgeted. Property Taxes were over budget by $2,616, primarily due to an increase in the 1.0% property tax base and in the Redevelopment Property Tax Trust Fund (RPTTF) residual payments. Transient Occupancy Taxes were over budget by $4,406, primarily due to continued growth in the local tourism industry. Other Local Taxes were over budget by $3,295 due to increases in SDG&E franchise fees. Other revenue was over budget by $6,676, primarily due to reimbursements from other funds for expenditures incurred by the General Fund in prior years for professional services and for costs related to the Pilot Helicopter Program.

Actual expenditures for the General Fund were $14,005 under budget. General Government and Support had appropriation savings of $7,752 due to lower than anticipated consulting and engineering services, rent expenditures, and position vacancies. Police and Neighborhood Services had appropriation savings of $2,380 and $2,166, respectively, due primarily to vacant positions.

CAPITAL ASSET AND DEBT ADMINISTRATION

CITY OF SAN DIEGO'S CAPITAL ASSETS
(Net of Accumulated Depreciation/Amortization)
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land and Rights of Way	$ 1,783,398	$ 1,764,927	$ 96,685	$ 97,013	$ 1,880,083	$ 1,861,940
Easements	1,266	769	2,174	1,702	3,440	2,471
Construction in Progress	275,187	239,295	257,869	226,399	533,056	465,694
Structures and Improvements	835,363	830,048	1,437,235	1,156,089	2,272,598	1,986,137
Equipment	143,505	146,834	160,240	138,108	303,745	284,942
Intangible Equipment	11,951	12,371	15,935	18,342	27,886	30,713
Distribution and Collection Systems	-	-	3,696,287	3,633,237	3,696,287	3,633,237
Infrastructure	1,546,677	1,536,284	-	-	1,546,677	1,536,284
Totals	$ 4,597,347	$ 4,530,528	$ 5,666,425	$ 5,270,890	$ 10,263,772	$ 9,801,418

CAPITAL ASSETS

In accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 34 and 51, all major assets such as streets, signals, bridges, storm drains, distribution and collection systems for water and sewer, and intangible assets are capitalized by the City in the government-wide statements. While capital assets of both governmental and proprietary funds are capitalized at the government-wide level, only the proprietary funds capital assets are reported at the fund level. Governmental funds are reported on a modified accrual basis at the fund level. Differences between reporting at the fund level and government-wide level for these governmental assets are explained in both the reconciliation and the accompanying notes to the basic financial statements.

The City's investment in capital assets (including infrastructure) for governmental and business-type activities as of June 30, 2015 was $10,263,772 (net of accumulated depreciation/amortization). There was an overall increase in the City's investment in capital assets over fiscal year 2014 of approximately $462,354, primarily due to the conveyance of the San Vicente Dam and Reservoir facilities and infrastructure from the San Diego County Water Authority, valued at approximately $330,426. Readers interested in more detailed information on capital asset activity should refer to Note 4.

HIGHLIGHTS OF FISCAL YEAR 2015 CAPITAL IMPROVEMENT ACTIVITIES

Governmental Activities

- The asphalt overlay of approximately 56 miles of roads and the replacement of eight miles of concrete streets citywide was completed during fiscal year 2015. These projects will result in improved surface street conditions and reduce the level of transportation related deferred capital costs. Funded primarily by deferred capital bonds and TransNet, the City's fiscal year 2015 expenditures for these projects totaled $16,781.

- Several projects focused on removing barriers in the public right of way and improving access to existing City facilities as required by the Americans with Disabilities Act (ADA), are currently underway and in various stages of completion. City-wide expenditures on dedicated ADA projects in fiscal year 2015 totaled $6,021.

- Construction began on Fire Station #45 in East Mission Valley. Once complete, this project will provide the Mission Valley community with a station capable of housing 18 personnel, two engines, one ambulance, and other major fire apparatus. Total fiscal year 2015 capital expenditures for this project totaled $5,002.

- Land Acquisition for the Pacific Highlands Ranch Library was completed in fiscal year 2015. Once constructed, the new 18,000 square foot branch library will sit on a three acre site and will serve the entire north city future urbanizing area. Total project cost at completion is anticipated to be $19,324. Fiscal year 2015 capital expenditures totaled $3,164.

- The installation phase of a new citywide in-station alerting system at all fire stations neared completion in fiscal year 2015. Once completed, the new system will replace the twenty-one year old system. The updated system will help reduce response times. It is anticipated that the project will be completed during fiscal year 2016. Fiscal year 2015 capital expenditures for this project totaled $471.

- Construction began on the Charles Lewis III Memorial Park in City Heights. This project will provide for the design and construction of a 5.8 acre parcel, of which 1.9 acres will be developed to create the park. Amenities will include a basketball court, off leash dog area, picnic area with shade structure, comfort station, playground, and security lighting. Capital expenditures for fiscal year 2015 totaled $2,051.

- The Genesee Avenue Widen I-5 Crossing project began construction during fiscal year 2015. This project will widen Genesee Avenue to six lanes plus dual turn lanes. The project will also replace the existing overcrossing with a higher, wider structure, and also modify the existing freeway access ramps. The project is anticipated to significantly improve traffic flow in the area once it is completed in 2017. Capital expenditures in fiscal year 2015 totaled $5,084.

- Construction continued on the Juan Street Concrete Replacement and Rehabilitation project which will replace the existing deteriorated street as well as construct curbs, gutters, curb ramps, and sidewalks on both its east and west sides. Fiscal year 2015 capital expenditures totaled $2,295.

Business-Type Activities

During fiscal year 2015, the Water Utility Fund incurred capital expenditures of approximately $54,850 related to capital improvement projects (CIP). The following major projects continued during fiscal year 2015: Otay 1st and 2nd Pipeline Abandonment; Water Group Job 936 and Upas Street Pipeline Replacement; and the continued replacement of water mains and upgrades to water infrastructure. Capital asset write-offs (net) for fiscal year 2015 totaled approximately $2,716 and were primarily related to losses on abandoned projects and retirements of facilities and distribution and collection system assets.

During fiscal year 2015, the Sewer Utility Fund incurred capital expenditures of approximately $64,750 related to CIP, of which the Metropolitan System CIP incurred approximately $18,800, and the Municipal System CIP incurred approximately $45,950. The following major projects continued during fiscal year 2015: Point Loma grit processing Improvements; new MBC biosolids silos; new backup generators at sewer pump stations and treatment plants; and the continued replacement of sewer mains and upgrades to the sewer infrastructure. Capital asset write-offs (net) for fiscal year 2015 totaled approximately $1,870 and were primarily related to losses on abandoned projects and retirements of distribution and collection system assets.

HIGHLIGHTS OF THE APPROVED FISCAL YEAR 2016 CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGET

The Annual Adopted Capital Improvements Budget for fiscal year 2016 is $367,636. The largest funding allocation is for Water and Sewer Utility projects, which make up over 66% of the total CIP budget. The second largest allocation is for Transportation and Storm Water related projects, representing 12% of the total adopted CIP Budget. Funding for governmental projects includes TransNet funds, facilities benefit assessments, developer impact fees, developer contributions, federal, state, local, and private contributions, and deferred capital projects bonds. Highlights of the key budgets by department are as follows:

Governmental Activities

- Transportation and Storm Water: $44,812. In fiscal year 2016, approximately 94 miles of roads are planned to be resurfaced, four miles of concrete streets are planned to be replaced, eight storm water pipeline replacement projects and one water quality improvement project are scheduled to be completed. Additionally, there are plans to underground 15 miles of overhead utility lines. Additional efforts will focus on various pedestrian, vehicular traffic, and roadway improvement projects.

- Park and Recreation: $37,357. Planned project types for fiscal year 2016 include play area upgrades, new joint use fields, accessibility improvements, sports field and security lighting, open space improvements, as well as new park development and golf course improvements and upgrades.

- Fire-Rescue: $26,393. Key projects in fiscal year 2016 include initiating the construction of the Bayside Fire Station No. 2, as well as completing the design for North University City Fire Station No. 50.

- Public Works – General Services: $6,726. Projects during fiscal year 2016 will include ADA improvements and several roof replacements throughout the City. In addition, fire alarm replacements throughout the City and HVAC upgrades at the Museum of Man, Mira Mesa Library, and San Ysidro Senior Center are planned to be completed.

Business-Type Activities

- The fiscal year 2016 Public Utilities CIP budget is $241,973. Significant projects include: $47,746 for pipeline rehabilitation; $45,966 for water main replacements; $42,000 for sewer main replacements; $18,693 for the Pure Water Program; $10,405 for Large Diameter Water Transmission Pipeline Replacements; $9,858 for the University Avenue Pipeline Replacement; and $9,140 for the Pump Station 2 Power Reliability and Surge Protection Project.

COMMITMENTS AND RESTRICTIONS

The City has contractual commitments related to its CIP program which have been encumbered in the applicable funds. The following table provides a breakdown of these commitments:

Other Governmental Funds	$ 61,179
Sewer Utility	50,650
Water Utility	35,103
Other Enterprise Funds	7,428
Other Internal Service Funds	802
Total Contractual Commitments	$ 155,162

In addition, there are restrictions on City financial resources externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation, including the City Charter. Note 21 identifies restrictions on governmental fund balances. Additional restrictions exist related to enterprise funds when revenues of the fund can only be used for costs related to the particular enterprise.

LONG-TERM DEBT

CITY OF SAN DIEGO'S OUTSTANDING DEBT
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Capital Lease Obligations	$ 92,539	$ 58,094	$ 2,250	$ 2,590	$ 94,789	$ 60,684
QECB Lease Obligations	10,071	10,864	-	-	10,071	10,864
Loans Payable	5,767	13,552	158,241	161,360	164,008	174,912
Section 108 Loans Payable	3,801	4,081	-	-	3,801	4,081
Revenue Bonds/COP's/ Lease Revenue Bonds	634,010	546,930	1,702,940	1,778,310	2,336,950	2,325,240
Tobacco Settlement Asset-Backed Bonds	73,705	77,785	-	-	73,705	77,785
Totals	$ 819,893	$ 711,306	$ 1,863,431	$ 1,942,260	$ 2,683,324	$ 2,653,566

At the end of fiscal year 2015, the City, including blended component units, had total debt outstanding of approximately $2,683,324. This amount represents lease revenue bonds, tobacco settlement asset-backed bonds, loans payable, Section 108 loans, state revolving fund (SRF) loans, qualified energy conservation bonds (QECBs) and capital lease obligations.

Governmental Activities

The Public Facilities Financing Authority (PFFA) issued $62,260 of lease revenue bonds, Series 2015A (Capital Improvement Projects) and $45,030, series 2015B (Capital Improvement Projects). The 2015A and 2015B bonds are special, limited obligations of PFFA secured solely by the base rental payments paid by the City for the use and occupancy of the leased property and certain funds held under the indenture.

On February 10, 2015, the City entered into a 20 year lease-to-own agreement with CCP 1200, LLC (Lessor), a Delaware limited liability company, for the two buildings located at 1200 Third Avenue and 201 A Street. The buildings were acquired for $44,000 by the Lessor prior to the execution of the lease-to-own agreement. The lease is recognized as a capital lease since the transfer of ownership occurs at the end of the lease term. During the 20 year lease term, the minimum lease payments are recorded using the interest method, which produces a constant periodic rate of interest to amortize the total of the future lease payments using the interest rate implicit in the lease.

Total principal payments or reductions of long-term debt were $49,288. Of this amount, $24,290 was for outstanding bond principal payments. Also included were $9,297 for loans payable and $15,701 for Section 108 loans, qualified energy conservation bonds and capital lease obligation payments.

Readers interested in more detailed information regarding governmental activities long-term liabilities should refer to Note 5.

Business-Type Activities

The City's Sewer Utility Fund received the following SRF loan disbursements from the California State Water Resources Control Board:

- $3,697 for the Point Loma Grit Processing Improvement Project
- $2,906 for Segments M-1, N-1, O-1 and P-1 of the Sewer Pipeline Rehabilitation Project
- $827 for Segment Q-1 of the Sewer Pipeline Rehabilitation Project
- $1,327 for Segment R-1 and S-1 of the Sewer Pipeline Rehabilitation Project

The City's Water Utility Fund received the following SRF loan disbursements from the Department of Health Services:

- $564 for the Lindbergh Field Cast Iron Main Replacement Project
- $3,114 for the Harbor Drive Pipeline Replacement Project

Total principal payments or reductions of long-term debt were $91,264. Of this amount, $75,370 was for outstanding bond principal payments. Also included were $15,554 for loans payable, comprised of $9,360 in scheduled principal payments and $6,194 of loan amounts forgiven by the State Water Resources Control Board. Capital lease obligation payments were $340.

Readers interested in more detailed information regarding business-type activities long-term liabilities should refer to Note 6.

As of the issuance of this report, the City's Implied General Obligation (GO) / Issuer Credit Ratings and credit ratings on outstanding Lease Revenue Bonds and Revenue Bonds are as follows:

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Implied GO / Issuer Credit Rating	AA-	Aa2	AA
Outlook	Stable	Stable	Stable
Lease Revenue Bonds	A+	A1	AA-
Outlook	Stable	Stable	Stable
Wastewater System Bonds	AA	Aa3	AA
Outlook	Stable	Positive	Stable
Water System Bonds (Senior/Subordinate)	AA/AA-	Aa2/Aa3	AA-/Not Rated
Outlook	Stable	Stable	Stable

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

OTHER INFORMATION

Deferred Maintenance and Capital Expenditures on Depreciable Assets

The City owns and maintains depreciable assets, including but not limited to, infrastructure, streets, bridges, parks, public facilities, and airports. In the past, the City has deferred maintenance and capital expenditures related to some of these assets, resulting in deteriorated structures, including parts of the City's infrastructure. Beginning in fiscal year 2014, the City initiated condition assessments for sidewalks, streets, parks, and General Fund facilities occupied by the City or leased to other agencies. Preliminary results for the General Fund facilities condition assessment and the sidewalk condition assessment are described below. Also included below are recent City estimates on the cost to maintain and improve street conditions based on

data from the last streets survey performed in 2011. A new streets condition assessment and the parks and recreation facilities condition assessment are anticipated to be completed in calendar year 2016. As all of these assessments are completed, the City will have a better understanding of funding needs related to maintenance and capital expenses of its depreciable assets.

General Fund Facilities Condition Assessment - To date, the preliminary condition assessment to bring 274 out of 680 General Fund facilities to good or fair condition is $227,245 in 2014 dollars. This includes deferred capital needs of approximately $61,200 to bring 172 public and semipublic facilities to good condition and $116,044 to bring City offices to fair condition. In addition, $50,000 is estimated for facilities that will reach the end of their useful life from 2015 through 2020. As future assessments are completed, cost estimates will be revised.

Sidewalk Condition Assessment - The first condition assessment of City sidewalks was completed in April 2015, focusing on field data collection of sidewalks citywide. Based on analysis of the data collected, the City's preliminary cost estimates of total sidewalk damage repair are approximately $52,700. Per the California Streets and Highway Code Sections 5610-5618, owners of property fronting a public street are required to maintain sidewalks in a safe condition for use by members of the public, except when the unsafe condition is caused by someone other than the property owner, including damage caused by street trees. Of the $52,700 in total damage sidewalk repair identified by the assessment, the City is responsible for repairing approximately $28,331 for damage caused by street trees. In addition, the City Council has adopted policies for repairing sidewalk damage under other certain conditions and has established a Cost Sharing Program to help offset the cost of repairs of property owners. An estimate of the costs associated with implementing work under these council policies was not available as of the issuance of this report.

Streets Condition Assessment - The City rates and monitors the condition of streets using an Overall Condition Index (OCI) indicator. A street with an OCI between 40 and 69 is considered to be in fair condition while an OCI between 70 and 100 is considered to be in good condition. Data from the last street condition assessment performed in 2011 showed that 35% of City streets were in good condition, 40% were in fair condition, and 25% were in poor condition. The average OCI for all streets was 54.6, indicating that, on average, City streets were in fair condition in 2011. In March 2015, the City performed an analysis estimating the annual cost required to maintain streets at 2011 condition levels was approximately $71,400 annually over the next ten years. An additional $36,800 would be required annually over the next ten years to bring all City streets to an average OCI of 70.

In addition to deferred capital needs, the City has identified significant storm water capital projects in the Watershed Asset Management Plan needed to comply with more stringent water quality regulations (see Note 16), and capital needs of approximately $33,000 for the San Diego Convention Center, over the next five years.

Significant financial planning and implementation work to address the City's core infrastructure has occurred since 2009. The City has invested in existing and new infrastructure through a combination of pay-go funds, grants, donations, and bond financings. Approximately $333,000 in lease revenue bonds were issued to provide funding for various General Fund asset classes including buildings, streets, and storm drains between fiscal years 2009 and 2015. Additional bond funding for an estimated $270,000 in fiscal years 2017 through 2019 is planned to further invest in street repairs and other infrastructure projects citywide.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET POSITION
June 30, 2015
(Dollars in Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
ASSETS					
Cash and Investments	$ 1,314,813	$ 803,286	$ 2,118,099	$ 10,952	$ 116,421
Receivables:					
Taxes - Net of Allowance for Uncollectibles	161,651	-	161,651	-	-
Accounts - Net of Allowance for Uncollectibles	31,875	119,941	151,816	9,731	16,172
Claims	8	99	107	-	-
Special Assessments	375	-	375	-	-
Notes	261,215	-	261,215	-	265,655
Loans	68,386	-	68,386	-	-
Accrued Interest	1,935	1,882	3,817	-	37,398
Grants	19,578	618	20,196	-	-
Advances to Other Agencies	19,951	-	19,951	-	-
Internal Balances	(1,953)	1,953	-	-	-
Inventories of Water in Storage	-	56,881	56,881	-	-
Inventories	2,245	-	2,245	38	-
Land Held for Resale	32,212	-	32,212	-	-
Prepaid Expenses	1,834	-	1,834	593	779
Restricted Cash and Investments	284,834	230,720	515,554	-	10,727
Other Assets	-	-	-	132	6,849
Capital Assets - Non-Depreciable	2,059,851	356,728	2,416,579	-	75,134
Capital Assets - Depreciable	2,537,496	5,309,697	7,847,193	10,605	124,691
TOTAL ASSETS	6,796,306	6,881,805	13,678,111	32,051	653,826
DEFERRED OUTFLOWS OF RESOURCES					
Loss on Refunding	9,525	14,215	23,740	-	-
Pension Contributions	221,419	46,635	268,054	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	230,944	60,850	291,794	-	-

STATEMENT OF NET POSITION
June 30, 2015
(Dollars in Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
LIABILITIES					
Accounts Payable	$ 89,036	$ 80,296	$ 169,332	$ 1,022	$ 4,518
Accrued Wages and Benefits	54,347	12,708	67,055		1,538
Other Accrued Liabilities	2,475	22,489	24,964	1,297	8,896
Interest Accrued on Long-Term Debt	9,279	22,474	31,753	-	2,638
Long-Term Liabilities Due Within One Year	115,893	105,241	221,134	1,288	4,282
Unearned Revenue	26,099	23,999	50,098	11,597	2,316
Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	17,995	17,995	-	-
Deposits/Advances from Others	-	7,719	7,719	-	1,612
Long-Term Liabilities Due After One Year:					
Arbitrage Liability	-	12	12	-	-
Compensated Absences	39,053	6,782	45,835	55	-
Liability Claims	286,646	24,455	311,101	-	-
Reimbursement Agreement Obligations	17,715	-	17,715	-	-
Capital Lease Obligations	79,141	1,892	81,033	-	-
QECB Lease Obligations	9,260	-	9,260	-	-
Notes Payable	-	-	-	15	139,969
Loans Payable	4,974	148,633	153,607	-	-
Section 108 Loans Payable	3,507	-	3,507	-	-
Net Bonds Payable	714,240	1,686,514	2,400,754	-	-
Estimated Landfill Closure and Postclosure Care	-	23,269	23,269	-	-
Net Other Postemployment Benefit Obligation	194,492	55,943	250,435	-	-
Net Pension Obligation	1,900	240	2,140	-	-
Net Pension Liability	1,231,178	304,359	1,535,537	-	-
TOTAL LIABILITIES	2,879,235	2,545,020	5,424,255	15,274	165,769
DEFERRED INFLOWS OF RESOURCES					
Gain on Refunding	-	3,094	3,094	-	-
Unamortized Actuarial Gains	344,346	84,086	428,432	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	344,346	87,180	431,526	-	-
NET POSITION					
Net Investment in Capital Assets	3,988,396	3,902,396	7,890,792	10,588	68,872
Restricted for:					
Capital Projects	575,798	-	575,798	-	-
Debt Service	-	1,531	1,531	-	-
Low-Moderate Income Housing	286,129	-	286,129	-	-
Nonexpendable Permanent Endowments	21,300	-	21,300	-	-
Grants	67,230	-	67,230	-	-
Other	358,647	26,245	384,892	-	170,195
Unrestricted	(1,493,831)	380,283	(1,113,548)	6,189	248,990
TOTAL NET POSITION	$ 3,803,669	$ 4,310,455	$ 8,114,124	$ 16,777	$ 488,057

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

STATEMENT OF ACTIVITIES
Year Ended June 30, 2015
(Dollars in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General Government and Support	$ 271,094	$ 249,241	$ 16,940	$ 4,254
Public Safety - Police	380,344	40,304	4,888	125
Public Safety - Fire and Life Safety and Homeland Security	221,446	33,547	17,120	11
Parks, Recreation, Culture and Leisure	263,127	53,093	(4,666)	2,611
Transportation	198,242	34,459	1,290	40,405
Sanitation and Health	92,833	14,269	1,075	1,181
Neighborhood Services	80,299	49,825	12,402	57,650
Debt Service - Interest	33,790	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	1,541,175	474,738	49,049	106,237
Business-Type Activities:				
Sewer Utility	316,465	364,467	-	27,807
Water Utility	466,552	455,222	627	358,449
Airports	3,740	4,618	4	696
Development Services	50,244	56,395	-	-
Environmental Services	30,939	30,477	35	-
Golf Course	15,827	20,116	-	-
Recycling	17,200	20,305	378	-
TOTAL BUSINESS-TYPE ACTIVITIES	900,967	951,600	1,044	386,952
TOTAL PRIMARY GOVERNMENT	$ 2,442,142	$ 1,426,338	$ 50,093	$ 493,189
Component Units:				
San Diego Convention Center Corporation	$ 33,649	$ 32,708	$ 3,405	$ 270
San Diego Housing Commission	214,352	38,530	191,704	3,883
TOTAL COMPONENT UNITS	$ 248,001	$ 71,238	$ 195,109	$ 4,153

General Revenues:
Property Taxes
Transient Occupancy Taxes
Sales Taxes - Shared State Revenue
Other Local Taxes
Developer Contributions and Fees
Grants and Contributions not Restricted to Specific Programs
Investment Income
Miscellaneous
Transfers, Net

TOTAL GENERAL REVENUES AND TRANSFERS

Special Item

CHANGE IN NET POSITION

Net Position at Beginning of Year, as Restated

NET POSITION AT END OF YEAR

Net Revenue/(Expense) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	San Diego Convention Center Corporation	San Diego Housing Commission
$ (659)	$ -	$ (659)	$ -	$ -
(335,027)	-	(335,027)	-	-
(170,768)	-	(170,768)	-	-
(212,089)	-	(212,089)	-	-
(122,088)	-	(122,088)	-	-
(76,308)	-	(76,308)	-	-
39,578	-	39,578	-	-
(33,790)	-	(33,790)	-	-
(911,151)	-	(911,151)	-	-
-	75,809	75,809	-	-
-	347,746	347,746	-	-
-	1,578	1,578	-	-
-	6,151	6,151	-	-
-	(427)	(427)	-	-
-	4,289	4,289	-	-
-	3,483	3,483	-	-
-	438,629	438,629	-	-
(911,151)	438,629	(472,522)	-	-
-	-	-	2,734	-
-	-	-	-	19,765
-	-	-	2,734	19,765
460,948	-	460,948	-	-
182,466	-	182,466	-	-
296,837	-	296,837	-	-
208,970	-	208,970	-	-
86,440	-	86,440	-	-
653	-	653	-	-
8,786	8,012	16,798	3	9,749
47,071	21,285	68,356	410	-
(150)	150	-	-	-
1,292,021	29,447	1,321,468	413	9,749
-	-	-	(5,362)	-
380,870	468,076	848,946	(2,215)	29,514
3,422,799	3,842,379	7,265,178	18,992	458,543
$ 3,803,669	$ 4,310,455	$ 8,114,124	$ 16,777	$ 488,057

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

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	$ 360,958	$ 811,799	$ 1,172,757
Receivables:			
Taxes - Net of Allowance for Uncollectibles	78,648	83,003	161,651
Accounts - Net of Allowance for Uncollectibles	15,703	13,355	29,058
Claims	8	-	8
Special Assessments	-	375	375
Notes	-	261,215	261,215
Loans	-	68,386	68,386
Accrued Interest	748	1,129	1,877
Grants	-	19,322	19,322
From Other Funds	22,937	-	22,937
Advances to Other Funds	848	5,207	6,055
Advances to Other Agencies	7,627	12,324	19,951
Land Held for Resale	-	32,212	32,212
Prepaid Items	-	24	24
Restricted Cash and Investments	-	284,834	284,834
TOTAL ASSETS	$ 487,477	$ 1,593,185	$ 2,080,662
LIABILITIES			
Accounts Payable	$ 32,042	$ 47,517	$ 79,559
Accrued Wages and Benefits	52,004	639	52,643
Other Accrued Liabilities	1,441	904	2,345
Due to Other Funds	5,053	22,937	27,990
Unearned Revenue	-	26,099	26,099
Advances from Other Funds	-	6,055	6,055
TOTAL LIABILITIES	90,540	104,151	194,691

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	13,195	59,533	72,728
Unavailable Revenue - Grants	-	10,333	10,333
Unavailable Revenue - Other	5,927	12,050	17,977
TOTAL DEFERRED INFLOWS OF RESOURCES	19,122	81,916	101,038
FUND BALANCES			
Nonspendable	849	21,427	22,276
Restricted	140,358	1,288,739	1,429,097
Committed	130,891	108,239	239,130
Assigned	6,162	-	6,162
Unassigned	99,555	(11,287)	88,268
TOTAL FUND BALANCES	377,815	1,407,118	1,784,933
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 487,477	$ 1,593,185	

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported at the fund level.	4,488,680
Certain assets and deferred outflows of resources are not financial resources (uses), and therefore, are not reported at the fund level.	226,337
Unavailable revenues are not financial resources, and therefore, are reported as deferred inflows of resources.	101,038
Internal service funds are used by management to charge the costs of activities such as Fleet Services, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The assets and liabilities of internal service funds are included in governmental activities on the Statement of Net Position.	139,224
Certain liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(2,936,543)
Net Position of governmental activities (page 53)	$ 3,803,669

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, 2015
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	$ 449,244	$ 11,271	$ 460,515
Special Assessments	-	57,343	57,343
Sales Taxes	265,295	28,634	293,929
Transient Occupancy Taxes	98,138	88,552	186,690
Other Local Taxes	129,940	78,967	208,907
Licenses and Permits	24,727	32,661	57,388
Fines, Forfeitures and Penalties	30,596	3,236	33,832
Revenue from Use of Money and Property	61,852	30,600	92,452
Revenue from Federal Agencies	579	44,638	45,217
Revenue from Other Agencies	11,910	75,454	87,364
Revenue from Private Sources	2,164	69,417	71,581
Charges for Current Services	211,459	27,057	238,516
Other Revenue	30,040	19,160	49,200
TOTAL REVENUES	1,315,944	566,990	1,882,934
EXPENDITURES			
Current:			
General Government and Support	259,491	46,103	305,594
Public Safety - Police	425,645	4,766	430,411
Public Safety - Fire and Life Safety and Homeland Security	231,478	23,125	254,603
Parks, Recreation, Culture and Leisure	140,780	87,377	228,157
Transportation	69,446	50,656	120,102
Sanitation and Health	90,256	2,651	92,907
Neighborhood Services	37,642	45,170	82,812
Capital Outlay	50,321	134,697	185,018
Debt Service:			
Principal Retirement	8,945	33,867	42,812
Cost of Issuance	-	1,140	1,140
Interest	1,309	32,826	34,135
TOTAL EXPENDITURES	1,315,313	462,378	1,777,691
EXCESS OF REVENUES OVER EXPENDITURES	631	104,612	105,243
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	268	882	1,150
Transfers from Other Funds	34,628	217,792	252,420
Transfers to Proprietary Funds	(719)	-	(719)
Transfers to Other Funds	(52,182)	(200,238)	(252,420)
Proceeds from the Sale of Capital Assets	2	45	47
Capital Lease Proceeds	45,073	-	45,073
Loans Issued	-	1,512	1,512
Revenue Bonds Issued	-	107,290	107,290
Premium on Bonds Issued	-	13,910	13,910
TOTAL OTHER FINANCING SOURCES (USES)	27,070	141,193	168,263
NET CHANGE IN FUND BALANCES	27,701	245,805	273,506
Fund Balances at Beginning of Year	350,114	1,161,313	1,511,427
FUND BALANCES AT END OF YEAR	$ 377,815	$ 1,407,118	$ 1,784,933

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015
(Dollars in Thousands)

Net Change in Fund Balances of Governmental Funds (page 58)	$ 273,506
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.	81,124
The net effect of various miscellaneous transactions involving capital assets (i.e., retirements and transfers) is to decrease net position.	(8,531)
Revenues available to liquidate liabilities of the current period were recognized in the governmental funds during the current year; however, such amounts were recognized as revenue in the Statement of Activities in the prior year.	(863)
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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(111,063)
Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension liability), and therefore are not accrued as expenditures in governmental funds.	125,521
Internal service funds are used to charge the costs of activities such as Fleet Services, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The net expense of certain internal service activities is reported with governmental activities.	21,176
Change in Net Position of Governmental Activities (page 55)	$ 380,870

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

PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
June 30, 2015
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and Investments	$ 427,250	$ 241,805	$ 134,231	$ 803,286	$ 142,056
Receivables:					
Accounts - Net of Allowance for Uncollectibles	46,245	68,773	4,923	119,941	2,817
Claims	34	65	-	99	-
Accrued Interest	1,001	586	295	1,882	58
Grants	-	80	538	618	256
From Other Funds	5,053	-	-	5,053	-
Inventories of Water in Storage	-	56,881	-	56,881	-
Inventories	-	-	-	-	2,245
Total Current Assets	479,583	368,190	139,987	987,760	147,432
Non-Current Assets:					
Restricted Cash and Investments	82,202	81,106	67,412	230,720	-
Capital Assets - Non-Depreciable	181,020	156,803	18,905	356,728	3,675
Capital Assets - Depreciable	2,886,939	2,371,981	50,777	5,309,697	104,992
Total Non-Current Assets	3,150,161	2,609,890	137,094	5,897,145	108,667
TOTAL ASSETS	3,629,744	2,978,080	277,081	6,884,905	256,099
DEFERRED OUTFLOWS OF RESOURCES					
Loss on Refunding	10,336	3,879	-	14,215	-
Pension Contributions	14,963	17,300	14,372	46,635	6,417
TOTAL DEFERRED OUTFLOWS OF RESOURCES	25,299	21,179	14,372	60,850	6,417
LIABILITIES					
Current Liabilities:					
Accounts Payable	24,682	51,250	4,364	80,296	9,477
Accrued Wages and Benefits	4,793	3,905	4,010	12,708	1,704
Other Accrued Liabilities	15,373	7,091	25	22,489	130
Interest Accrued on Long-Term Debt	6,539	15,935	-	22,474	209
Long-Term Liabilities Due Within One Year	66,216	36,511	2,514	105,241	11,060
Unearned Revenue	1,373	3,129	19,497	23,999	-
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	7,288	10,707	17,995	-
Total Current Liabilities	118,976	125,109	41,117	285,202	22,580
Non-Current Liabilities:					
Non- Current Liabilities Payable from Restricted Assets:					
Deposits/Advances from Others	397	-	7,322	7,719	-
Arbitrage Liability	-	12	-	12	-
Compensated Absences	2,282	2,439	2,061	6,782	3,500
Liability Claims	8,838	9,931	5,686	24,455	9,911
Capital Lease Obligations	946	946	-	1,892	24,909
Loans Payable	85,214	63,419	-	148,633	-
Net Revenue Bonds Payable	954,584	731,930	-	1,686,514	-
Estimated Landfill Closure and Postclosure Care	-	-	23,269	23,269	-
Net Other Postemployment Benefit Obligation	20,009	19,206	16,728	55,943	9,364
Net Pension Obligation	173	67	-	240	13
Net Pension Liability	112,945	96,885	94,529	304,359	44,187
Total Non-Current Liabilities	1,185,388	924,835	149,595	2,259,818	91,884
TOTAL LIABILITIES	1,304,364	1,049,944	190,712	2,545,020	114,464
DEFERRED INFLOWS OF RESOURCES					
Gain on Refunding	-	3,094	-	3,094	-
Unamortized Actuarial Gains	31,960	25,859	26,267	84,086	11,928
TOTAL DEFERRED INFLOWS OF RESOURCES	31,960	28,953	26,267	87,180	11,928
NET POSITION					
Net Investment in Capital Assets	2,057,391	1,775,738	69,267	3,902,396	77,406
Restricted for Debt Service	774	757	-	1,531	-
Restricted for Closure/Postclosure Maintenance	-	-	26,245	26,245	-
Unrestricted (Deficit)	260,554	143,867	(21,038)	383,383	58,718
TOTAL NET POSITION	$ 2,318,719	$ 1,920,362	$ 74,474	4,313,555	$ 136,124
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				(3,100)	
Net position of business-type activities (page 53)				$ 4,310,455	

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

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2015
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Sales of Water	$ -	$ 439,744	$ -	$ 439,744	$ -
Charges for Services	360,253	6,432	121,244	487,929	115,912
Revenue from Use of Property	779	6,693	5,925	13,397	-
Usage Fees	-	-	-	-	-
Other	3,435	2,353	4,742	10,530	619
TOTAL OPERATING REVENUES	364,467	455,222	131,911	951,600	116,531
OPERATING EXPENSES					
Benefit and Claim Payments	-	-	-	-	1,609
Maintenance and Operations	138,941	79,732	84,201	302,874	48,837
Cost of Materials Issued	-	-	-	-	9,496
Cost of Purchased Water Used	-	237,274	-	237,274	-
Taxes	-	2,117	-	2,117	-
Administration	56,393	58,599	27,237	142,229	12,545
Depreciation	70,762	51,935	5,595	128,292	21,631
TOTAL OPERATING EXPENSES	266,096	429,657	117,033	812,786	94,118
OPERATING INCOME	98,371	25,565	14,878	138,814	22,413
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	4,162	2,714	1,136	8,012	695
Federal Grant Assistance	-	-	4	4	881
Other Agency Grant Assistance	-	627	413	1,040	469
Gain (Loss) on Sale/Retirement of Capital Assets	(1,942)	(2,431)	(2,648)	(7,021)	266
Debt Service Interest Expense	(49,621)	(35,771)	-	(85,392)	(593)
Other	17,397	2,432	1,456	21,285	1,063
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(30,004)	(32,429)	361	(62,072)	2,781
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	68,367	(6,864)	15,239	76,742	25,194
Capital Contributions	27,807	358,451	1,370	387,628	119
Transfers from Other Funds	3,743	58	583	4,384	-
Transfers from Governmental Funds	-	-	52	52	667
Transfers to Other Funds	-	(3,651)	(537)	(4,188)	(196)
Transfers to Governmental Funds	(24)	(16)	(566)	(606)	(544)
TOTAL CONTRIBUTIONS AND TRANSFERS	31,526	354,842	902	387,270	46
CHANGE IN NET POSITION	99,893	347,978	16,141	464,012	25,240
Net Position at Beginning of Year, as Restated	2,218,826	1,572,384	58,333		110,884
NET POSITION AT END OF YEAR	$ 2,318,719	$ 1,920,362	$ 74,474		$ 136,124
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				4,064	
Change in net position of business-type activities (page 55)				$ 468,076	

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015
(Dollars 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	$ 371,500	$ 461,868	$ 129,347	$ 962,715	$ 27,857
Receipts from Interfund Services Provided	3,843	4,156	3,735	11,734	88,282
Payments to Suppliers	(136,833)	(304,068)	(34,519)	(475,420)	(35,791)
Payments to Employees	(86,367)	(80,824)	(79,414)	(246,605)	(46,753)
Payments for Interfund Services Used	(7,687)	(6,407)	(6,713)	(20,807)	(1,495)
NET CASH PROVIDED BY OPERATING ACTIVITIES	144,456	74,725	12,436	231,617	32,100
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	3,743	58	583	4,384	-
Transfers from Governmental Funds	-	-	52	52	667
Transfers to Other Funds	-	(3,651)	(537)	(4,188)	(196)
Transfers to Governmental Funds	(24)	(16)	(566)	(606)	(544)
Operating Grants Received	-	775	431	1,206	1,807
Proceeds from Advances and Deposits	-	382	1,980	2,362	-
Payments for Advances and Deposits	-	-	(27)	(27)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	3,719	(2,452)	1,916	3,183	1,734
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Loans	8,757	3,678	-	12,435	-
Proceeds from Capital Contributions	22,096	15,906	491	38,493	-
Acquisition of Capital Assets	(97,659)	(76,575)	(5,030)	(179,264)	(12,852)
Proceeds from the Sale of Capital Assets	1	360	-	361	1,468
Principal Payments on Capital Leases	(170)	(170)	-	(340)	(6,476)
Principal Payments on Loans	(6,231)	(3,129)	-	(9,360)	-
Principal Payments on Revenue Bonds	(50,535)	(24,835)	-	(75,370)	-
Interest Paid on Long-Term Debt	(53,351)	(38,891)	-	(92,242)	(588)
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(177,092)	(123,656)	(4,539)	(305,287)	(18,448)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	51,705	174,289	-	225,994	-
Purchases of Investments	(49,687)	(174,335)	-	(224,022)	-
Interest Received on Investments	4,075	2,510	1,081	7,666	679
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,093	2,464	1,081	9,638	679
Net Increase (Decrease) in Cash and Cash Equivalents	(22,824)	(48,919)	10,894	(60,849)	16,065
Cash and Cash Equivalents at Beginning of Year	455,531	299,396	190,749	945,676	125,991
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 432,707	$ 250,477	$ 201,643	$ 884,827	$ 142,056
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Position:					
Cash and Investments	$ 427,250	$ 241,805	$ 134,231	$ 803,286	$ 142,056
Restricted Cash and Investments	82,202	81,106	67,412	230,720	-
Less Investments Not Meeting the Definition of Cash Equivalents	(76,745)	(72,434)	-	(149,179)	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 432,707	$ 250,477	$ 201,643	$ 884,827	$ 142,056

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income	$ 98,371	$ 25,565	$ 14,878	$ 138,814	$ 22,413
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:					
Depreciation	70,762	51,935	5,595	128,292	21,631
Other Nonoperating Revenue	11,203	2,432	1,456	15,091	1,063
(Increase) Decrease in Assets:					
Accounts Receivable - Net	4,603	8,338	(1,931)	11,010	(1,436)
Claims Receivable - Net	-	1	-	1	-
Due from Other Funds	(5,053)	-	-	(5,053)	-
Inventories	-	7,058	-	7,058	167
Increase (Decrease) in Liabilities and Deferred Outflows/Inflows of Resources:					
Accounts Payable	(2,704)	(6,237)	149	(8,792)	4,766
Accrued Wages and Benefits	410	337	342	1,089	44
Due to Other Agencies	(21,086)	1,327	-	(19,759)	-
Unearned Revenue	121	32	1,621	1,774	(19)
Contract Deposits	3	-	25	28	-
Arbitrage Liability	-	32	-	32	-
Compensated Absences	(319)	84	(144)	(379)	130
Liability Claims	(3,619)	(4,487)	(795)	(8,901)	(12,789)
Estimated Landfill Closure and Postclosure Care	-	-	(21)	(21)	-
Net OPEB Obligation	545	594	527	1,666	231
Net Pension Obligation	(29)	(11)	-	(40)	(2)
Net Pension Liability	(8,752)	(12,275)	(9,266)	(30,293)	(4,099)
Total Adjustments	46,085	49,160	(2,442)	92,803	9,687
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 144,456	$ 74,725	$ 12,436	$ 231,617	$ 32,100
Noncash Investing, Capital, and Financing Activities:					
Capital Leases	$ -	$ -	$ -	$ -	$ 4,000
Developer Contributed Assets	5,711	342,543	-	348,254	-
Capital Asset Acquisitions Related to Accounts Payable	724	167	(13)	878	88
Noncash Retirement of Capital Assets	(1,870)	(2,716)	(2,627)	(7,213)	(665)
Principal Forgiveness of State Revolving Fund Loans	6,194	-	-	6,194	-
Capitalized Interest and Related Amounts	1,207	927	-	2,134	-
Amortization of Bond Premiums, Discounts and Refundings	2,281	1,772	-	4,053	-
Change in Fair Value of Investments	(51)	(268)	-	(319)	-
Interest Fund Credits for Debt Service Payments	(3,490)	(1,056)	-	(4,546)	-
Transfers of Capital Assets (To) From Governmental Activities	(72)	(73)	653	508	(418)

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

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015
(Dollars in Thousands)

	Trust Funds			
	Pension	Investment	Private-Purpose	Agency
ASSETS				
Cash and Investments	$ 2,157	$ 1,370	$ 115,896	$ 17,900
Cash with Custodian/Fiscal Agent	139,149	-	-	-
Investments at Fair Value:				
Domestic Fixed Income Securities	1,781,246	-	-	-
International Fixed Income Securities	432,202	-	-	-
Domestic Equity Securities	1,671,938	-	-	-
International Equity Securities	1,201,799	-	-	-
Global Equity Securities	334,108	-	-	-
Real Estate Equity	753,721	-	-	-
Equity Mutual Funds	575,499	-	-	-
Fixed Income Mutual Funds	386,321	-	-	-
Private Equity and Infrastructure	748,337	-	-	-
Receivables:				
Accounts - Net	-	-	2	987
Special Assessments	-	-	-	230
Contributions	6,583	-	-	-
Accrued Interest	6,590	2	182	13
Notes and Contracts	-	-	6,076	-
Loans	37,662	-	-	-
Securities Sold	141,679	-	-	-
Due from Other Agency	-	-	11	-
Land Held for Resale	-	-	8,210	-
Prepaid Expenses	155	-	3,724	-
Securities Lending Collateral	207,945	-	-	-
Restricted Cash and Investments	-	-	91,997	29,333
Capital Assets - Non-Depreciable	-	-	115,936	-
Capital Assets - Depreciable	6,772	-	53,897	-
TOTAL ASSETS	8,433,863	1,372	395,931	48,463
DEFFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding	-	-	390	-
LIABILITIES				
Accounts Payable	8,414	-	15,267	11,754
Accrued Wages and Benefits	902	-	-	-
Interest Accrued on Long-Term Debt	-	-	68,474	-
Deposits/Advances from Others	-	-	-	154
Sundry Trust/Agency Liabilities	-	-	464	12,546
Due to Bondholders	-	-	562,960	24,009
Arbitrage Liability	-	-	3	-
Liability Claims	-	-	69,809	-
Loans Payable	-	-	104,271	-
Supplemental Benefits Payable	11,404	-	-	-
Securities Lending Obligations	208,245	-	-	-
Securities Purchased	319,839	-	-	-
TOTAL LIABILITIES	548,804	-	821,248	48,463
NET POSITION (DEFICIT)				
Restricted for Pension Benefits	7,885,059	-	-	-
Held in Trust for Pool Participants and Other Purposes	-	1,372	(424,927)	-
TOTAL NET POSITION (DEFICIT)	$ 7,885,059	$ 1,372	$ (424,927)	$ -

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2015
(Dollars in Thousands)

	Trust Funds		
	Pension	Investment	Private-Purpose
ADDITIONS			
Employer Contributions	$ 345,341	$ -	$ -
Plan Member Contributions:			
Employee Contributions	108,440	-	-
DROP Contributions	5,130		
Contributions to Pooled Investments	-	241	-
Redevelopment Property Tax Trust Fund	-	-	63,481
Earnings on Investments:			
Investment Income	284,398	18	2,033
Investment Expense	(31,418)	-	-
Net Investment Income	252,980	18	2,033
Securities Lending Income:			
Gross Earnings	1,208	-	-
Borrower Rebates	(310)	-	-
Net Securities Lending Income	898	-	-
Other Income	1,084	-	19,235
TOTAL ADDITIONS	713,873	259	84,749
DEDUCTIONS			
Enforceable Obligation Payments	-	-	92,942
Interest on Long-Term Debt	-	-	34,136
DROP Interest Expense	23,017	-	-
Benefit and Claim Payments	545,635	-	-
Distributions from Pooled Investments	-	5,281	-
Administration	10,274	-	-
Depreciation	-	-	1,744
TOTAL DEDUCTIONS	578,926	5,281	128,822
Extraordinary Gain, Net	-	-	123,899
CHANGE IN NET POSITION	134,947	(5,022)	79,826
Net Position (Deficit) at Beginning of Year, as Restated	7,750,112	6,394	(504,753)
NET POSITION (DEFICIT) AT END OF YEAR	$ 7,885,059	$ 1,372	$ (424,927)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Dollars in Thousands)

The City of San Diego (City) adopted its current charter on April 7, 1931 and operates as a municipality in accordance with State laws. Since adoption, the City Charter has been amended many times.

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

a. Financial Reporting Entity

As required by GAAP, these financial statements present the primary government and its component units. The City is the primary government while entities for which the primary government is considered to be financially accountable represent its component units. Component units can be blended with the primary government or discretely presented.

A blended component unit is a legally separate entity whose functions are an integral part of the primary government. A component unit is considered to be an integral part of the primary government, and hence a blended component unit, in any of these circumstances: (1) the entity and the primary government substantively have the same governing body and a financial benefit/burden relationship exists; (2) the entity and the primary government substantially have the same governing body and management of the primary government have operational responsibility; (3) if the entity exists to serve or benefit exclusively (or almost exclusively) the primary government; or (4) the total debt of the entity is repayable entirely (or almost entirely), from resources of the primary government. Blended component units are reported as funds of the primary government.

Discretely presented component units are those component units that do not function as an integral part of the primary government. They are reported in the government-wide financial statements in a column separate from the primary government. The City also reports fiduciary component units which are not included in the government-wide financial statements. Fiduciary component units are not part of the primary government and are reported as fiduciary funds to account for assets held in a trustee or agency capacity for others that cannot be used to support the government's own programs.

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

- Civic San Diego (CSD)
- Convention Center Expansion Financing Authority (CCEFA)
- Public Facilities Financing Authority (PFFA)
- San Diego Facilities and Equipment Leasing Corporation (SDFELC)
- San Diego Industrial Development Authority (SDIDA)
- Tobacco Settlement Revenue Funding Corporation (TSRFC)

A brief description of each blended component unit follows:

- Civic San Diego (CSD) is a not-for-profit public benefit corporation resulting from restructuring and reorganizing the former Centre City Development Corporation (CCDC) and the Southeastern Economic Development Corporation (SEDC) into a single corporation. CCDC and SEDC were originally established to administer certain

redevelopment project areas throughout the City. Upon dissolution of the former San Diego Redevelopment Agency (former RDA), CSD's main function is now focused on providing administrative and advisory services to the City as the Successor Agency. CSD also assists the City with downtown parking management administration and affordable housing development. The City Council elects the Board of Directors of CSD. CSD's budget and governing board are approved by the City of San Diego and services are provided exclusively to the City. CSD is reported as a governmental fund. Financial statements are available at www.civicsd.com.

- The Convention Center Expansion Financing Authority (CCEFA) was established in 1996 by the City and the San Diego Unified Port District (Port) to acquire and construct the expansion of the existing convention center. The CCEFA is governed by a board consisting of the Mayor, the City Manager, the Director of the Port, and a member of the Board of Commissioners for the Port. The current working title of the City Manager is the Chief Operating Officer. The CCEFA provides services which primarily benefit the City. CCEFA is reported as a governmental fund.

- The Public Facilities Financing Authority (PFFA) was established in 1991 by the City and the former RDA to acquire and construct public capital improvements. As of June 30, 2015, the members are the City, the Successor Agency, and the Housing Authority of the City of San Diego. PFFA is governed by a board of commissioners composed of the members of the City Council. PFFA provides services exclusively to the City. Financing for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity.

- The San Diego Facilities and Equipment Leasing Corporation (SDFELC) is a not-for-profit public benefit corporation established in 1987 for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. SDFELC is governed by a three member board consisting of the City Attorney, the Chief Financial Officer and the Mayor (as City Manager) and services are provided exclusively to the City. Financing provided through SDFELC for governmental funds is reported as a governmental activity and financing for enterprise funds is reported as a business-type activity.

- The San Diego Industrial Development Authority (SDIDA) was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes. The City Council is the governing board and the City has operational responsibility. SDIDA is reported as a governmental fund.

- The Tobacco Settlement Revenue Funding Corporation (TSRFC) is a not-for-profit public benefit corporation established in 2006 for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. TSRFC purchased from the City the rights to receive future tobacco settlement revenues due to the City. TSRFC is governed by a board of directors, which consists of the Chief Operating Officer, the Chief Financial Officer, and one independent director. The independent director is appointed by the Mayor or the remaining directors. TSRFC is reported as a governmental fund.

There are two fiduciary component units:

- San Diego City Employees' Retirement System (SDCERS) was established in 1927 by the City and administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the Port and the San Diego County Regional Airport Authority (Airport). SDCERS' Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port and Airport plans are treated as separate plans, with assets pooled for investment purposes only. SDCERS also administers certain

postemployment healthcare activities on behalf of the City. SDCERS is a legally separate, fiduciary component unit of the City. It is governed by a 13 member Board of Administration, eight of which are appointed by the City, and a Pension Administrator who does not report to or work under the direction of the elected officials or appointed managers of the City. As such, the City does not maintain direct operational oversight of SDCERS or its financial reports. SDCERS provides services primarily to the City and is reported as a pension trust fund. Complete stand-alone financial statements are available at www.sdcers.org.

- The Successor Agency of the Redevelopment Agency of the City of San Diego (Successor Agency) is a legally separate entity from the City, reported as a fiduciary component unit of the City. It was established to hold the former RDA's assets until they are distributed to other units of state and local government, or where appropriate, to private parties, and to administer the payments of the former RDA's obligations. Pursuant to ABX1 26, redevelopment agencies and their successor agencies in the State of California generally cannot enter into new projects, obligations or commitments. On January 12, 2012, the City was designated to serve as the Successor Agency subject to control of an oversight board. The Successor Agency is reported as a private-purpose trust fund in the fiduciary funds financial statements.

There are two entities which are discretely presented component units:

- San Diego Convention Center Corporation (SDCCC)

  SDCCC is a not-for-profit public benefit corporation, originally organized to market, operate, and maintain the San Diego Convention Center. The City is the sole member of SDCCC and acts through the San Diego City Council in accordance with the City Charter and the City's Municipal Code. The City appoints seven voting members to the Board of Directors of SDCCC. In accordance with the management agreement with SDCCC, the City allocates to SDCCC approved budgetary amounts for marketing, promotion, and capital projects for the Convention Center. SDCCC is discretely presented because the City appoints the voting members of the Board of Directors of SDCCC, and SDCCC provides the majority of its services directly to the citizens. Complete stand-alone financial statements are available at www.sdccc.org.

- San Diego Housing Commission (SDHC)

  SDHC is a government agency, which was formed by the City under Ordinance No. 2515 on December 5, 1978 in accordance with the Housing Authority Law of the State of California. SDHC primarily serves low-and-moderate-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 citizens. SDHC is governed by the San Diego Housing Authority, which is composed of the nine members of the San Diego City Council. The Housing Authority has final authority over the SDHC's budget and major policy changes. SDHC has seven blended component units and nine discretely presented component units which are included in the City's basic financial statements. The nine discretely presented component units are financially and legally separate entities from SDHC: Housing Development Partners of San Diego (HDP); HDP Mason Housing Corporation (Mason); Casa Colina, LP (Casa Colina); Logan Development II, LP (Logan II); HDP Broadway LP (Broadway); HDP Churchill LLC (Churchill); HDP Parker Kier, LLC (Parker Kier); Logan Development Management LLC (Logan Mgmt); and HDP Broadway Management, LLC (Broadway Mgmt). Complete stand-alone financial statements are available at www.sdhc.org.

Each blended and discretely presented component unit of the City has a June 30 fiscal year-end, with the exception of SDHC's discretely presented component units, which have a December 31, 2014 fiscal year-end.

b. Government-Wide and Fund Financial Statements

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

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

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

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

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

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 interfund services provided and used between functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues which are considered susceptible to accrual include: real and personal property taxes; special assessments collected via property taxes; sales taxes; transient occupancy taxes; other local taxes; franchise fees; fines, forfeitures and penalties; motor vehicle license fees; rents and concessions; interest; and state and federal grants and subventions, provided they are received within 60 days from the end of the fiscal year.

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

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

The governmental funds financial statements do not present long-term debt, but the related debt is shown in the reconciliation of the governmental funds Balance Sheet to the government-wide Statement of Net Position. Issuance of long-term debt, bond premiums, and discounts are reflected as other financing sources (uses) and recognized in the period in which they are issued.

Permanent funds, commonly referred to as endowment funds, are governmental funds used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support City programs. The City has received endowments for various programs, a list of which can be found in the Permanent Funds section of the Combining and Individual Fund Financial Statements and Schedules. The corpus of permanent funds is reported as Nonspendable Fund Balance and investment earnings available for expenditure are reported as Restricted Fund Balance in the fund level financial statements. The endowment principal is reported as Restricted for Nonexpendable Permanent Endowments in the Statement of Net Position. Funds are spent in accordance with the City budget, subject to State law governing the spending of endowment fund investment earnings is California Probate Code Section 18504.

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.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units, and include pension trust, investment trust, private-purpose trust and agency funds. Trust funds are reported using the same measurement focus and basis of accounting as proprietary funds. Agency funds are reported using the accrual basis of accounting and only report assets and liabilities, and therefore, do not have a measurement focus.

The following is the City's only major governmental fund:

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

The following are the City's major enterprise funds:

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

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

The following are the City's other fund types:

Internal Service Funds - These funds account for fleet vehicles and transportation, printing, and storeroom services provided to City departments on a cost-reimbursement basis. Internal service funds also account for energy conservation, risk management, unemployment insurance, unused compensatory time, unused sick leave, and long-term disability programs, which derive revenues from rates charged to benefiting departments.

Pension Trust Funds - These funds account for SDCERS, the Preservation of Benefits Plan, the Postemployment Healthcare Benefit Plan, the Supplemental Pension Savings Plan (SPSP), the 401(a) Plan and the 401(k) Plan.

Investment Trust Fund - This fund was established to account for equity that legally separate entities have in the City Treasurer's investment pool. The Abandoned Vehicle Abatement Authority (AVA) is the only legally separate entity which has cash invested in the City Treasurer's investment pool.

Private-Purpose Trust Fund - This fund was established to account for the ongoing obligations of the Successor Agency (former RDA).

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

d. Property Taxes

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

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

At the government-wide level, property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after the fiscal year and which do not meet the 60 day availability criterion are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are recorded as deferred inflows of resources in the governmental funds. The City provides an allowance for uncollectible property taxes, which is analyzed each year against the most recent data from the County. For fiscal year 2015, the allowance amount was $3,372.

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

e. Cash and Investments

The City's cash and cash equivalents for statement of cash flows purposes include cash on hand, demand deposits, restricted cash, and investments held by the City Treasurer in a cash management investment pool and reported at fair value. Cash equivalents reported in the Statement of Cash Flows for the Water and Sewer Utility Funds do not include restricted investments represented as Restricted Cash and Investments with an original maturity date greater than ninety days from the time of purchase.

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

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

It has been the City's policy to allow the General Fund to receive interest earned by certain governmental funds, internal service funds, and agency funds, unless otherwise expressly stated in the resolutions creating the individual funds. These transactions cause an increase in the "Transfers from Other Funds" amount for the General Fund and a corresponding increase in the "Transfers to Other Funds" amount for the funds earning the interest. In the case of negative interest, these transactions cause an increase to the "Transfers from Other Funds" amount for the funds transferring the negative interest and a like increase to the "Transfers to Other Funds" amount for the General Fund. During fiscal year 2015, a net increase in interest of $648 was assigned from various funds to the General Fund.

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

All City investments are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools.* Note 3 contains additional information on permissible investments per the City Treasurer's Investment Policy and other policies applicable to the cash and investments reported herein.

The discharge of fiduciary duties by SDCERS' Board is governed by Section 144 of the City Charter and Article XVI, Section 17 of the California State Constitution. Investment decisions are made on a risk versus return basis in a total portfolio context. SDCERS' Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the

investment managers it hires. Furthermore, under the California State Constitution and other relevant authorities, SDCERS' Board may, at its discretion, and when prudent in the informed opinion of the Board, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS' agents, in SDCERS' name, manage all investments.

SDCERS' investments are reported at fair value in the accompanying Statement of Fiduciary Net Position. SDCERS' custodian, State Street Bank & Trust Company, provides the fair values of exchange traded assets. Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the fair values of which are provided by the respective custodians. Directly-owned real estate assets are stated at appraised values as determined by SDCERS' real estate managers and third party appraisal firms. Private equity and infrastructure assets are valued by their respective investment managers, giving consideration to the financial condition and operating results of the portfolio companies, and other factors deemed relevant. These fair values are reviewed by SDCERS' Private Equity and Infrastructure Consultants.

f. Receivables

The City's receivables are comprised mainly of taxes, accounts and grants. Accounts receivable and taxes receivable are reported net of an allowance for uncollectible amounts. Additionally, the City has assessed the collectability of certain interfund loan receivables due from the Successor Agency to various funds (see Note 17). The allowance amounts as of June 30, 2015 are as follows:

Fund	Accounts Receivable Allowance	Taxes Receivable Allowance	Interfund Loan Allowance
General Fund	$ 11,849	$ 3,308	$ 12,265
Nonmajor Governmental Funds	25,125	64	56,619
Sewer Utility	340	-	360
Water Utility	1,225	-	617
Nonmajor Enterprise Funds	4,000	-	-
Internal Service Funds	582	-	-
Total	$ 43,121	$ 3,372	$ 69,861

g. Inventories

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

h. Land Held for Resale

Land Held for Resale is reported in the government-wide and fund financial statements at the lower of cost or net realizable value. In the governmental funds financial statements, fund balances associated with properties held for resale are reported as restricted fund balances as proceeds from the sale of such properties are restricted for the purpose of affordable housing as codified in the California Health and Safety Code. Land is originally recorded at historical cost and adjusted to net realizable value when a property is impaired, when the determination is made that a property will be sold for less than its cost, or when property values decrease due to market conditions.

i. Deferred Outflows/Inflows of Resources

Deferred Outflows of Resources represent the consumption of net position that is applicable to a future reporting period. Similarly, Deferred Inflows of Resources represent the acquisition of net position that is applicable to a future reporting period. The City reports Deferred Outflows/Inflows of Resources in the basic financial statements as follows:

Unavailable Revenues - In the governmental funds financial statements, deferred inflows of resources represent revenues which have been earned but have not met the recognition criteria based on the modified accrual basis of accounting.

Gain/Loss on Refunding - In the government-wide, proprietary funds, and private-purpose trust fund financial statements, deferred outflows/inflows of resources represent the difference between the reacquisition price of a refunded bond and its net carrying amount, which is amortized and recognized as a component of interest expense over the remaining life of the old refunded bonds or the new refunding bonds, whichever is shorter.

Pension Contributions - In relation to the City's fiscal year 2015 implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement* 27, deferred outflows of resources for pension contributions of $268,054 represent the deferral of the City's fiscal year 2015 contributions to the pension plan. Using the measurement date of June 30, 2014 per the December 2014 actuarial report produced by SDCERS' actuary, the fiscal year 2015 contributions were not factored in to the calculation of the Net Pension Liability. Additionally, the deferred inflows of resources for unamortized actuarial gains represent the impact of investment gains and are recognized over a period of five years. During the measurement year, there was an investment gain of approximately $536,000. Approximately $107,000 of that gain was recognized in the current year and an equal amount will be recognized in each of the next four years, resulting in a deferred inflow of resources of $428,432. Additional gains and losses on investments will also be deferred in future years and recognized over a five year period.

j. Capital Assets

Non-Depreciable Capital Assets, which include land, rights of way, easements, and construction in progress, are reported in the applicable Governmental or Business-Type Activities column in the government-wide financial statements, as well as in the proprietary funds and fiduciary funds financial statements.

Depreciable Capital Assets, which include structures and improvements, equipment, intangible assets, distribution and collection systems, and infrastructure, are reported net of accumulated depreciation/amortization in the applicable Governmental or Business-Type Activities column in the government-wide financial statements, as well as in the proprietary funds and fiduciary funds financial statements. To meet the criteria for capitalization, an asset must have a useful life in excess of one year and in the case of structures and improvements, equipment outlay, intangible assets, distribution and collection systems and infrastructure, must meet or exceed a capitalization threshold of five thousand dollars. Land is capitalized regardless of cost. Subsequent improvements are capitalized to the extent that they extend the initial estimated useful life of the capitalized asset, or improve the efficiency or capacity of that asset. Costs for routine maintenance are expensed as incurred. Interest expense incurred during the construction phase of business-type capital assets is reflected in the capitalized value of the asset constructed. During fiscal year 2015, $2,134 of interest expense incurred was capitalized. There was no related interest revenue to net against capitalized interest expense.

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

Assets	Years
Structures and Improvements	
Buildings	10 - 50
Building Improvements	3 - 50
Equipment	
Vehicles	4 - 20
General Machinery and Office Equipment	2 - 50
Intangible Assets	5 - 25
Distribution and Collection Systems	
Sewer and Water Infrastructure	15 - 75
Dams and Reservoirs	50 - 150
Infrastructure	
Pavement, Sidewalks, and Lighting	12 - 50
Bridges	30 - 75
Flood Control Assets	40 - 75

k. Unearned Revenue

In the government-wide and fund level financial statements, unearned revenue represents amounts received, which have not been earned. Examples include Development Services customer accounts with surplus balances, and grant revenues received in advance.

l. Interfund Transactions

The City has the following types of interfund transactions:

Loans represent amounts provided with a requirement for repayment. Interfund loans are normally reported as interfund receivables (i.e. Due from Other Funds) in lender funds and interfund payables (i.e. Due to Other Funds) in borrower funds. The non-current portions of long-term interfund loans receivable are reported as advances.

Services provided and used represent sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund Balance Sheets or fund Statements of Net Position.

Reimbursements represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. The reimbursement is reported as expenditures or expenses in the reimbursing fund and a reduction of expenditures or expenses in the fund that initially incurred the expense.

Transfers represent flows of assets (such as cash or goods) without equivalent flows of assets in return, and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the

funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

m. Long-Term Liabilities

In the government-wide, proprietary, and fiduciary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statements of Net Position. Capital appreciation bond accretion and bond premiums and discounts are amortized over the life of the bonds using a method which approximates the effective interest method. Net bonds payable reflects amortized bond accretion and unamortized bond discounts and premiums.

n. Compensated Absences

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

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

o. Claims and Judgments

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

p. Non-Monetary Transactions

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

q. Net Position

In the government-wide and proprietary funds financial statements, Net Position is categorized as follows:

- Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt and deferred outflows/inflows of resources attributed to the acquisition, construction or improvement of these assets.

- Restricted Net Position consists of restricted assets reduced by liabilities related to those assets. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position components are available. As of June 30, 2015, the amount of restricted net position due to enabling legislation was approximately $269,946.

- Unrestricted Net Position consists of net position that does not meet the definition of Net Investment in Capital Assets or Restricted Net Position.

r. Fund Balances

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based on the extent to which the City is bound to observe constraints imposed on the use of resources.

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed fund balance** - amounts that can only be used for specific purposes imposed by formal action of the City Council. Committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned fund balance** - amounts that are constrained by the City's intent to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. City Council may assign fund balance through approval of budget appropriations. The Mayor and his/her designees are authorized by the City Charter to assign fund balance through the encumbrance process. Designees generally include the Chief Operating Officer, Assistant Chief Operating Officer, Deputy Chief Operating Officers and Department Directors.

- **Unassigned fund balance** - the residual classification for the City's General Fund that includes amounts not included in other classifications. In funds other than the General Fund, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned and unassigned as they are needed.

s. Reserves

The City's formal reserve policy, which was adopted in fiscal year 2008 via City Council ordinance, last amended in July 2014, was created in accordance with Charter Section 91 and defines the General Fund Reserve. The City's General Fund Reserve is comprised of two separate components: (1) the Emergency Reserve and (2) the Stability Reserve. For the purpose of the policy, the General Fund is the operational fund as presented in the City's annual budget document.

- **Emergency Reserve** - maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event. This reserve may be expended when an event is determined to be a public emergency by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety of the City's residents and their property. This reserve is reported as restricted fund balance.

- **Stability Reserve** - maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not serve as an alternative funding source for new programs. Recommendations to appropriate from the Stability Reserve are brought forward by the Mayor and require approval by a majority of the City Council. This reserve is a component of unassigned fund balance.

The target level for total General Fund Reserves is 14% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis). The Emergency Reserve is set at a target level of 8%, and the Stability Reserve is set at a target level of 6%. The balances of the Emergency Reserve and the Stability Reserve, as of June 30, 2015, were $89,922 and $67,441 respectively, meeting policy target levels. In the event either reserve component is reduced below the amount established by this policy, the Mayor will prepare a plan as promptly as conditions warrant to replenish the reserve to the policy level. Spendable and unrestricted fund balance that is not part of General Fund Reserves is available for appropriation.

Information regarding other reserves maintained by the City is contained in Council Policy No. 100-20.

t. Participating Agencies Revenue Recognition

The Regional Wastewater Disposal Agreement between the City and the Participating Agencies (PA) in the Metropolitan Sewerage System allows for quarterly invoicing of local area member municipalities and utility districts to collect and process sewage waste using the City's facilities. The invoicing is based on an estimated allocation of costs associated with each PA and may not represent each PA's proportionate allocation of actual maintenance and operating costs of the sewage system, resulting in an overstatement or understatement of revenue reported in the Sewer Utility Statement of Revenues, Expenses, and Changes in Fund Net Position.

u. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

v. New Governmental Accounting Standards Implemented During Year Ended June 30, 2015

The requirements of the following accounting standards are effective for the purpose of implementation, if applicable to the City, for the year ended June 30, 2015.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* (GASB 68), requiring recognition of the entire net pension liability, a more comprehensive measure of pension expense, new note disclosures and additional required supplementary information. The City elected to use June 30, 2014 as its initial measurement date, resulting in a Net Pension Liability of $1,535,537 and an overall decrease to the City's Net Position as of June 30, 2015 of $1,562,494.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. It requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. There were no government combinations or disposals affecting the City in fiscal year 2015.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of GASB 68. The statement requires that, in the year of implementation of GASB 68, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. As of June 30, 2015, the government-wide Statement of Net Position reported a deferred outflow of resources of $268,054 related to its pension contributions made in fiscal year 2015. See Note 23 for additional details on the restatements for GASB 68 and 71.

w. Upcoming Governmental Accounting Standards Implementation

The requirements of the following accounting standards become effective in future periods, if applicable to the City. Management is currently in the process of evaluating the potential impacts to the City's basic financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement will become effective in fiscal year 2016.

In February 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The requirements of this statement extend the approach to accounting and financial reporting established in GASB 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB 68 should not be considered pension plan assets. It also requires that information similar to that required by GASB 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. This statement also clarifies the application of certain provisions of GASB 67 and 68. Certain requirements of this statement will become effective in fiscal year 2016 while others will become effective in fiscal year 2017.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), which establishes financial reporting standards for state and local governmental OPEB plans—defined benefit OPEB plans and defined contribution OPEB plans—that are administered through trusts or equivalent arrangements. It applies to entities that have all of the characteristics of an OPEB plan, as defined by GASB 74. GASB 74 replaces previously issued statements related to accounting and financial reporting for OPEB. This statement will become effective in fiscal year 2017.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which applies to state and local government employers who provide OPEB to employees, such as the City. GASB 75 replaces previously issued statements related to accounting and financial reporting for OPEB and establishes new accounting and financial reporting requirements for OPEB plans. GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet specific criteria, and for employers whose employees are provided with defined contribution OPEB. For OPEB that is administered through trusts, GASB 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. GASB 75 requires implementation by fiscal year 2018.

On June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement establishes the hierarchy of generally accepted accounting principles (GAAP) for all state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. This statement will become effective in fiscal year 2016.

On August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. For financial reporting purposes, this statement requires certain disclosures when a government enters into tax abatement agreements with a third party. This statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This statement will become effective in fiscal year 2017.

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

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

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

The Governmental Funds Balance Sheet includes a reconciliation between "Total Fund Balances" and "Total Net Position" of governmental activities as reported in the Government-Wide Statement of Net Position. One element of the reconciliation states, "Certain assets and deferred outflows of resources are not financial resources (uses), and therefore, are not reported at the fund level." The details of this $226,337 difference are as follows:

Prepaid Insurance, July 1, 2014	$ 1,923
Amortization Expense	(113)
Prepaid Insurance, June 30, 2015	1,810
Deferred Outflows of Resources - Loss on Refunding	
Loss on Refunding, July 1, 2014	10,164
Amortization Expense	(639)
Loss on Refunding, June 30, 2015	9,525
Deferred Outflows of Resources - Pension Contributions	215,002
Net Adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 226,337

Another element of the reconciliation states: "Unavailable revenues are not financial resources, and therefore, are reported as deferred inflows of resources." The details of this $101,038 difference are as follows:

Deferred Inflows of Resources - Unavailable Revenue:	
Taxes Receivable	$ 72,728
Grants Receivable	10,333
Special Assessments Receivable	375
Revenue from Other Agencies	6,272
Charges for Services	7,490
Other	3,840
Net Adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 101,038

Another element of the reconciliation states: “Certain liabilities and deferred inflows of resources, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.” The details of this ($2,936,543) difference are as follows:

Interest Accrued on Long-Term Debt	$ (9,070)
Compensated Absences	(63,642)
Liability Claims	(314,094)
Reimbursement Agreement Obligations	(17,715)
Capital Lease Obligations	(61,277)
QECB Lease Obligation	(10,071)
Loans Payable	(5,767)
Section 108 Loans Payable	(3,801)
Net Bonds Payable	(744,682)
Net Other Postemployment Benefits Obligation	(185,128)
Net Pension Obligation	(1,887)
Net Pension Liability	(1,186,991)
Deferred Inflows of Resources - Unamortized Actuarial Gains	(332,418)
Net adjustment to decrease "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ (2,936,543)

Another element of the reconciliation states: "Internal service funds are used by management to charge the costs of activities such as Fleet Services, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Position." The details of this $139,224 difference are as follows:

Assets:	
Capital Assets - Non-Depreciable	$ 3,675
Capital Assets - Depreciable	104,992
Internal Balances	3,100
Current Assets	147,432
Total Assets	259,199
Deferred Outflows of Resources - Pension Contributions	6,417
Liabilities:	
Compensated Absences	(6,264)
Liability Claims	(11,854)
Capital Lease Obligations	(31,262)
Net Other Postemployment Benefits Obligation	(9,364)
Net Pension Obligation	(13)
Net Pension Liability	(44,187)
Other Liabilities	(11,520)
Total Liabilities	(114,464)
Deferred Inflows of Resources - Unamortized Actuarial Gains	(11,928)
Net adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 139,224

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 of Governmental Funds" and "Change in Net Position of Governmental Activities" as reported in the Government-Wide Statement of Activities. One element of that reconciliation explains: "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $81,124 difference are as follows:

Capital Outlay	$ 185,018
Donated Capital Assets	37,104
Depreciation/Amortization Expense	(140,998)
Net Adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ 81,124

Another element of the reconciliation states: "The net effect of various miscellaneous transactions involving capital assets (i.e., retirements and transfers) is to decrease net position." The details of this ($8,531) are as follows:

In the Statement of Activities, only the net loss on the sale of land is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the net book value of the capital assets sold/retired.	$ (3,496)
Transfers of capital assets from business-type activities increase net position on the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.	(90)
The Statement of Activities reports losses arising from the retirement of existing capital assets. Conversely, governmental funds report proceeds from the sale of capital assets but do not report any gain or loss on retirements of capital assets.	(4,945)
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ (8,531)

Another element of the reconciliation states: "Internal service funds are used to charge the costs of activities such as Fleet Services, Central Stores, Publishing Services, and Employee Benefit Programs to individual funds. The net expense of certain internal service activities is reported with governmental activities." The details of this $21,176 are as follows:

Allocated Operating Income	$ 18,349
Nonoperating Revenues:	
Gain on Sale/Retirement of Capital Assets	803
Federal and Other Agency Grant Assistance	1,350
Other Nonoperating Revenues, net	1,165
Capital Asset Transfers, net	(418)
Transfers, net	(73)
Net adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ 21,176

Another element of the reconciliation states: "The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position." The details of this ($111,063) difference are as follows:

Debt Issued or Incurred:	
Capital Lease Obligations	$ (45,073)
Loans Payable	(1,512)
Lease Revenue Bonds	(107,290)
Principal Repayments:	
Capital Lease Obligations	8,152
QECB Lease Obligations	793
Loans Payable	9,297
Section 108 Loans	280
Lease Revenue Bonds	20,210
Tobacco Settlement Asset-Backed Bonds	4,080
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ (111,063)

Another element of the reconciliation states: "Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension liability), and therefore, are not accrued as expenditures in governmental funds." The details of this $125,521 difference are as follows:

Compensated Absences	$ 870
Liability Claims	(6,790)
Reimbursement Agreement Obligations	(895)
Net Pension Obligation/Net OPEB Obligation	(4,983)
Net Pension Liability	150,404
Interest Accrued on Long-Term Debt	(444)
Current Year Premiums and Loss on Refunding Less Amortization of Bond Premiums, Discounts, and Loss on Refunding	(12,528)
Current Year Amortization of Prepaid Insurance	(113)
Net adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ 125,521

3. CASH AND INVESTMENTS (Dollars in Thousands)

The following is a summary of the carrying amount of cash and investments as of June 30, 2015:

	Governmental Activities	Business-Type Activities	Fiduciary Statement of Net Position other than SDCERS	Subtotal	SDCERS Fiduciary Statement of Net Position	Grand Total
Cash or Equity in Pooled Cash and Investments	$ 1,359,122	$ 884,827	$ 135,708	$ 2,379,657	$ 1,615	$ 2,381,272
Cash and Investments with Custodian, Fiscal Agents, and Trustees	200,440	149,179	121,342	470,961	139,137	610,098
Investments at Fair Value	40,085	-	961,820	1,001,905	6,923,351	7,925,256
Securities Lending Collateral	-	-	-	-	207,945	207,945
Total	$ 1,599,647	$ 1,034,006	$ 1,218,870	$ 3,852,523	$ 7,272,048	$ 11,124,571

a. Cash or Equity in Pooled Cash and Investments

Cash or Equity in Pooled Cash and Investments represents petty cash and cash held with banks in demand deposit and/or savings accounts. Furthermore, it represents equity in pooled cash and investments, which is discussed in further detail below.

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

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

Cash on Hand - Petty Cash	$ 202
Deposits - Other Cash and Cash Equivalents	7,049
Deposits - Pooled Cash and Cash Equivalents	1,141
City Treasurer's Investment Pool	2,371,265
SDCERS Cash Deposits	1,615
Total Cash or Equity in Pooled Cash and Investments	$ 2,381,272

A summary of the investments held by the City Treasurer's Investment Pool as of June 30, 2015 is presented in the table below:

Investment	Fair Value	Book Value	Interest Rate % Range	Maturity Range
Agency Discount Notes	$ 255,063	$ 254,959	0.08-0.24% [1]	7/1/2015-4/22/2016
Agency Notes and Bonds	489,930	489,709	0.21-1.50%	7/30/2015-2/13/2020
Asset Backed Securities	80,782	80,771	0.32-1.15%	8/15/2016-4/15/2019
Commercial Paper	74,956	74,910	0.11-0.28%	7/1/2015-11/6/2015
Medium Term Notes and Bonds	129,853	129,668	0.35-1.65%	7/20/2015-3/1/2019
Negotiable Certificates of Deposit	200,044	200,002	0.20-0.32%	7/1/2015-11/18/2015
Repurchase Agreements	129,000	129,000	0.09%	7/1/2015
State Local Agency Investment Fund (LAIF) [2]	49,901	49,882	0.26%	2/24/2016
U.S. Treasury Obligations - Notes	961,736	959,406	0.25-1.13%	7/31/2015-6/15/2018
Total	$ 2,371,265	$ 2,368,307		

[1] Discount Rates

[2] LAIF - Fair Value is adjusted to account for LAIF factor. Maturity range is based on weighted average maturity of 239 days.

The following represents a condensed Statement of Net Position and changes in net position for the City Treasurer's cash and investment pool as of June 30, 2015:

Statement of Net Position	
Deposits - Pooled Cash and Cash Equivalents	$ 1,141
Investments of Pool Participants	2,371,265
Accrued Interest Receivable of Internal Pool Participants	3,354
Accrued Interest Receivable of External Pool Participants	2
Total Cash, Investments, and Interest Receivable	$ 2,375,762
Net Position of Internal Pool Participants	$ 2,374,390
Net Position of External Pool Participants[1]	1,372
Total Net Position	$ 2,375,762
Statement of Changes in Net Position	
Net Position Held for Pool Participants at July 1, 2014	$ 2,295,348
Net Change in Investments by Pool Participants	80,414
Total Net Position Held for Pool Participants at June 30, 2015	$ 2,375,762

[1] Voluntary Participation - Abandoned Vehicle Abatement

b. Cash and Investments with Custodian, Fiscal Agents, and Trustees

Cash and Investments with Custodian, Fiscal Agents, and Trustees include cash and investments held by trustees resulting from bond issuances. These funds represent bond funds, including but not limited to debt service reserve funds, construction funds, costs of issuance funds, and liquid investments held by trustees as legally required by bond issuances. Under the Fiduciary Statement of Net Position, Cash with Custodian/Fiscal Agent includes construction contract retention deposits held in escrow accounts and the City's balance for the Preservation of Benefits Plan (POB Plan). The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m) and is discussed in further detail in Note 11.

Additionally, Cash with Custodian/Fiscal Agent includes the SDCERS portion of funds held as cash collateral from market neutral portfolios (domestic fixed income investment strategy). Furthermore, it represents transaction settlements, held in each investment manager's portfolio, which are invested overnight by SDCERS' custodial bank.

c. Investments at Fair Value

Investments at Fair Value represents investments of SDCERS, Civic San Diego, the Supplemental Pension Savings Plan, 401(a) Plan, 401(k) Plan, investments managed by the City Treasurer (which are not part of the City Treasurer's Investment Pool) and investments managed by the Funds Commission. Investments under the management of the Funds Commission are reported in permanent funds (Cemetery Perpetuity Fund, Los Penasquitos Canyon Preserve Fund, Jane Cameron Estate and Effie Sergeant Library Fund) and in other special revenue - unbudgeted funds (Edwin A. Benjamin Fund and Gladys Edna Peters Fund).

d. Investment Policy

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

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

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

	Maximum Maturity [1]		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating [8]	
Investment Type	CGC	City Policy	CGC	City Policy	CGC	City Policy	CGC	City Policy
U.S. Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
U.S. Agencies	5 years	5 years	None	(2)	None	(2)	None	None
Supranationals [9]	5 years	5 years	30%	30%	30%	30%	AA	AA
Bankers' Acceptances [6]	180 days	180 days	40%	40%	30%	10%	None	(3)
Commercial Paper [6]	270 days	270 days	25%	25%	10%	10%	P-1	P-1
Negotiable Certificates of Deposit [6]	5 years	5 years	30%	30%	None	10%	None	(3)
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements [4]	92 days	92 days	20%	20%	None	None	None	None
State Local Agency Investment Fund	N/A	N/A	None	None	None	None	None	None
Non-Negotiable Time Deposits [6, 7]	5 years	5 years	30%	25%	None	10%	None	(3)
Medium Term Notes/Bonds [6]	5 years	5 years	30%	30%	None	10%	A	A
Municipal Securities of California Local Agencies [6]	5 years	5 years	None	20%	None	10%	None	A
Mutual Funds	N/A	N/A	20%	20%	10%	5%	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	AA
Mortgage and Asset-Backed Securities	5 years	5 years	20%	20%	None	None	AA	AAA
Financial Futures [5]	N/A	None	None	None	None	None	None	None

[1] In the absence of a specified maximum, the maximum is 5 years.

[2] No more than one-third of the cost value of the total portfolio at time of purchase can be invested in the unsecured debt of any one agency.

[3] Credit and maturity criteria must be in accordance with Section X of the City's Investment Policy.

[4] Maximum % of portfolio for Reverse Repurchase Agreements is 20% of base value.

[5] Financial futures transactions would be purchased only to hedge against changes in market conditions for the reinvestment of bond proceeds.

[6] Investment types with a 10% maximum with one issuer are further restricted per the City's Investment Policy: 5% per issuer and an additional 5% with authorization by the City Treasurer.

[7] Time deposits with the Certificate of Deposit Account Registry Service (CDARS) are further restricted per the City's Investment Policy: 1 year maximum maturity and 2% maximum of the portfolio.

[8] Minimum credit rating categories include modifications (+/-).

[9] International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank

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

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

Ineligible investments prohibited from use in the portfolio include, but are not limited to, common stocks and long-term corporate notes/bonds. The Investment Policy is available online at the following website address: www.sandiego.gov/treasurer/investments/invpolicy.shtml.

Other Investment Policies

The City currently has a Funds Commission whose role is to supervise and control all trust, perpetuity, and investment funds of the City and such pension funds as shall be placed in its custody. The statutory authority for the Funds Commission is created in City Charter Article V, Section 41(a). While the duties described in the creation document form broad authority for the Funds Commission, in practice, the Funds Commission only oversees investments related to a small number of permanent endowments. The allowable investments for these funds are different than those as prescribed in the City of San Diego City Treasurer's Investment Policy. Each permanent endowment fund has its own separate investment policy.

The City and its component units have funds invested in accordance with various bond indenture and trustee agreements. The investment of these bond issuances is in accordance with the Permitted Investments section and applicable account restrictions outlined in the Indenture of each bond issuance. The Permitted Investments section in each Indenture will vary based upon the maturity, cash flow demands, and reserve requirements associated with each issuance. In general, the Permitted Investments section of each Indenture will closely resemble the Investment Policy, but may include certain investment options not authorized by applicable law for the Investment Policy (CGC § 53601).

City of San Diego – Disclosures for Specific Risks

e. Interest Rate Risk

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

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

As of June 30, 2015, the City's investments (dollars in thousands) by maturity are as follows:

	Years				Fair Value
	Under 1	1-3	3-5	Over 5	(In Thousands)
City Treasurer's Investment Pool:					
Asset Backed Securities	$ -	$ 65,772	$ 15,010	$ -	$ 80,782
Commercial Paper	74,956	-	-	-	74,956
Medium Term Notes and Bonds	38,035	86,798	5,020	-	129,853
Negotiable Certificates of Deposit	200,044	-	-	-	200,044
Repurchase Agreements	129,000	-	-	-	129,000
State Local Agency Investment Fund	49,901	-	-	-	49,901
Supranationals - IBRD [2]	20,019	34,967	-	-	54,986
U.S. Agencies - Federal Farm Credit Bank	10,002	25,036	-	-	35,038
U.S. Agencies - Federal Home Loan Bank	167,945	79,983	-	-	247,928
U.S. Agencies - Federal Home Loan Mortgage Corporation	75,013	65,009	-	-	140,022
U.S. Agencies - Federal National Mortgage Association	177,100	54,994	34,925	-	267,019
U.S. Treasury Obligations - Notes	85,058	876,678	-	-	961,736
	1,027,073	1,289,237	54,955	-	2,371,265
Non-Pooled Investments with City Treasurer:					
Commercial Paper	2,506	-	-	-	2,506
U.S. Agencies - Federal Farm Credit Bank	3,101	-	-	-	3,101
U.S. Agencies - Federal Home Loan Bank	8,013	-	-	-	8,013
U.S. Agencies - Federal Home Loan Mortgage Corporation	5,706	-	-	-	5,706
	19,326	-	-	-	19,326
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units:					
Commercial Paper	50,428	-	-	-	50,428
Corporate Notes and Bonds	-	1,635	1,018	1,163	3,816
Exchange Traded Funds - Equity [1]	786	-	-	-	786
Exchange Traded Funds - Fixed Income	-	-	-	1,559	1,559
Government Mortgage Backed Securities	-	-	-	8	8
Guaranteed Investment Contracts	-	-	-	9,223	9,223
Money Market Mutual Funds	116,349	-	-	-	116,349
Mutual Funds - Equity [1]	582,070	-	-	-	582,070
Mutual Funds - Fixed Income	-	379,438	-	10,272	389,710
Stocks - Common Stock [1]	3,163	-	-	-	3,163
Stocks - Preferred Stock [1]	361	-	-	-	361
U.S. Agencies - Federal Farm Credit Bank	3,702	-	-	-	3,702
U.S. Agencies - Federal Home Loan Bank	25,515	7,554	8,535	-	41,604
U.S. Agencies - Federal Home Loan Mortgage Corporation	1,467	14,721	-	-	16,188
U.S. Agencies - Federal National Mortgage Association	31,589	24,043	-	-	55,632
U.S. Treasury Obligations - Bonds and Notes	14,184	90,452	47,764	489	152,889
	829,614	517,843	57,317	22,714	1,427,488
Total Investments	$ 1,876,013	$ 1,807,080	$ 112,272	$ 22,714	3,818,079
Cash on Hand - Petty Cash					202
Deposits - Other Cash and Cash Equivalents					7,049
Deposits - Pooled Cash and Cash Equivalents					1,141
Deposits - Cash with Fiscal Agents/Trustees					19,178
Deposits - Cash with Fiscal Agents/Trustees Held in Escrow Accounts					6,874
Total Investments, Cash on Hand, and Deposits					$ 3,852,523

[1] Equity exchange traded funds, equity mutual funds, and stocks do not have maturities.

[2] IBRD-International Bank for Reconstruction and Development

f. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill their obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). As of June 30, 2015, the City's investments and corresponding credit ratings are as follows:

	Moody's	S&P	Fair Value	Percentage
City Treasurer's Investment Pool:				
Asset Backed Securities	Aaa	Not Rated	$ 56,783	2.39%
Asset Backed Securities	Not Rated	AAA	23,999	1.01%
Commercial Paper	P-1	Not Provided	74,956	3.16%
Medium Term Notes and Bonds	Aaa	Not Provided	10,000	0.42%
Medium Term Notes and Bonds	Aa1	Not Provided	14,900	0.63%
Medium Term Notes and Bonds	Aa2	Not Provided	36,977	1.56%
Medium Term Notes and Bonds	Aa3	Not Provided	4,992	0.21%
Medium Term Notes and Bonds	A1	Not Provided	49,982	2.11%
Medium Term Notes and Bonds	A2	Not Provided	7,987	0.34%
Medium Term Notes and Bonds	A3	Not Provided	5,015	0.21%
Negotiable Certificates of Deposit	P-1	Not Provided	200,044	8.44%
Repurchase Agreements [1]	Not Rated	Not Rated	129,000	5.44%
State Local Agency Investment Fund	Not Rated	Not Rated	49,901	2.10%
Supranationals - IBRD [2]	Aaa	Not Provided	54,986	2.32%
U.S. Agencies - Federal Farm Credit Bank	Aaa	Not Provided	35,038	1.48%
U.S. Agencies - Federal Home Loan Bank [1]	P-1	Not Provided	22,977	0.97%
U.S. Agencies - Federal Home Loan Bank [1]	Aaa	Not Provided	224,951	9.49%
U.S. Agencies - Federal Home Loan Mortgage Corporation [1]	P-1	Not Provided	54,986	2.32%
U.S. Agencies - Federal Home Loan Mortgage Corporation [1]	Aaa	Not Provided	85,036	3.59%
U.S. Agencies - Federal National Mortgage Association [1]	P-1	Not Provided	177,100	7.47%
U.S. Agencies - Federal National Mortgage Association [1]	Aaa	Not Provided	89,919	3.79%
U.S. Treasury Obligations - Notes	Exempt	Exempt	961,736	40.55%
			2,371,265	100.00%
Non-Pooled Investments with City Treasurer:				
Commercial Paper [1]	P-1	Not Provided	2,506	12.97%
U.S. Agencies - Federal Farm Credit Bank [1]	P-1	Not Provided	3,101	16.05%
U.S. Agencies - Federal Home Loan Bank [1]	P-1	Not Provided	6,513	33.70%
U.S. Agencies - Federal Home Loan Bank [1]	Aaa	Not Provided	1,500	7.76%
U.S. Agencies - Federal Home Loan Mortgage Corporation [1]	P-1	Not Provided	5,706	29.52%
			19,326	100.00%

"Exempt" - Per GASB Statement No. 40, U.S. Treasury Obligations do not require disclosure of credit quality.

	Moody's	S&P	Fair Value	Percentage
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units:				
Commercial Paper	P-1	Not Provided	50,428	3.53%
Corporate Notes and Bonds	Aa1	Not Provided	165	0.01%
Corporate Notes and Bonds	Aa2	Not Provided	640	0.04%
Corporate Notes and Bonds	Aa3	Not Provided	258	0.02%
Corporate Notes and Bonds	A1	Not Provided	1,090	0.08%
Corporate Notes and Bonds	A2	Not Provided	617	0.04%
Corporate Notes and Bonds	A3	Not Provided	277	0.02%
Corporate Notes and Bonds	Baa1	Not Provided	769	0.05%
Exchange Traded Funds - Equity	Not Rated	Not Rated	786	0.06%
Exchange Traded Funds - Fixed Income	Not Rated	Not Rated	1,559	0.11%
Government Mortgage Backed Securities	Not Rated	Not Rated	8	0.01%
Guaranteed Investment Contracts	Not Rated	Not Rated	9,223	0.65%
Money Market Mutual Funds	Aaa	Not Provided	116,349	8.15%
Mutual Funds - Equity	Not Rated	Not Rated	582,070	40.78%
Mutual Funds - Fixed Income	Not Rated	Not Rated	389,710	27.30%
Stocks - Common Stock	Not Rated	Not Rated	3,163	0.22%
Stocks - Preferred Stock	Not Rated	Not Rated	361	0.03%
U.S. Agencies - Federal Farm Credit Bank	Aaa	Not Provided	3,702	0.26%
U.S. Agencies - Federal Home Loan Bank	Aaa	Not Provided	41,604	2.91%
U.S. Agencies - Federal Home Loan Mortgage Corporation	P-1	Not Provided	1,467	0.10%
U.S. Agencies - Federal Home Loan Mortgage Corporation	Aaa	Not Provided	14,721	1.03%
U.S. Agencies - Federal National Mortgage Association	P-1	Not Provided	24,456	1.71%
U.S. Agencies - Federal National Mortgage Association	Aaa	Not Provided	31,176	2.18%
U.S. Treasury Obligations - Bonds and Notes	Exempt	Exempt	152,889	10.71%
			1,427,488	100.00%
Total Investments			$ 3,818,079	

"Exempt" - Per GASB Statement No. 40, U.S. Treasury Obligations do not require disclosure of credit quality.

"Not Provided" - S&P rating not provided, Moody's rating disclosed.

[1] More than 5% of total investments are with U.S. Agencies whose debt is not backed by the full faith and credit of the U.S. Government.

[2] IBRD-International Bank for Reconstruction and Development

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2015, the City exceeded the 5% limit of total investments for issuers of various U.S. Agencies. Investments exceeding the 5% limit are referenced in the credit ratings table above. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are exempt.

g. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, the City would not be able to recover the value of its deposits or investments. The City does not have a specific policy relating to custodial credit risk. The City's exposure to custodial credit risk is further discussed in the following paragraphs.

Deposits

At June 30, 2015, the carrying amount of the City's cash on hand and deposits was approximately $27,570 and the bank balance was approximately $60,402; the difference is substantially due to outstanding checks. For the balance of cash deposits in financial institutions, approximately $1,277 was covered by federal depository insurance and approximately $59,125 was uninsured. Pursuant to the California Government Code, California banks and savings and loan associations are required to secure the City's deposits not covered by federal depository insurance by pledging government securities as collateral. As such, $59,125 of the City's deposits are pledged at 110% and held by a bank acting as the City's agent, in the City's name.

The City also has deposits held in escrow accounts with a carrying amount and bank balance of approximately $6,874. For the balance of deposits in escrow accounts, approximately $1,726 was covered by federal depository insurance. The remaining balance of $5,148 was uninsured, but collateralized and pledged at 110%. Pursuant to the California Government Code, California banks and savings and loans associations are required to secure the City's deposits in excess of insurance by pledging government securities as collateral.

Investments

The City's investments at June 30, 2015 are categorized as described below:

Category 1:	Insured or registered, with securities held by the City or its agent in the City's name.
Category 2:	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
Category 3:	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.
Non–Categorized:	Includes investments made directly with another party, real estate, direct investments in mortgages and other loans, open-end mutual funds, pools managed by other governments, annuity contracts, and guaranteed investment contracts.

At June 30, 2015, the City had investments exposed to custodial credit risk. Investments within the Cemetery Perpetuity Fund's portfolio were held by Northern Trust Bank, and were not in the City's name. The following summarizes the investment types and amounts that are exposed to custodial credit risk:

Investment Type	Fair Value
Corporate Notes and Bonds	$ 3,816
Exchange Traded Funds - Equity	786
Exchange Traded Funds - Fixed Income	1,559
Government Mortgage Backed Securities	8
Stocks - Common Stock	3,007
Stocks - Preferred Stock	361
U.S. Treasury Obligations -Bonds and Notes	973
Total	$ 10,510

h. Restricted Cash and Investments

Cash and investments at June 30, 2015 that are restricted by legal or contractual requirements are comprised of the following:

Nonmajor Governmental Funds	
Special Revenue	$ 9,730
Debt Service	29,024
Capital Projects	222,115
Permanent Endowments	23,965
Total Nonmajor Governmental Funds	284,834
Sewer Utility Enterprise Fund	
Interest and Redemption Funds	82,202
Water Utility Enterprise Fund	
Customer Deposits	7,288
Interest and Redemption Funds	73,818
Total Water Utility Enterprise Fund	81,106
Nonmajor Enterprise Funds	
Airports Fund - Deposits and advances	74
Development Services Fund - Deposits and advances	7,248
Environmental Services Fund - Funds set aside for landfill site closure and maintenance costs	49,383
Golf Course Fund - Customer deposits	5
Recycling Fund - Customer deposits	10,702
Total Nonmajor Enterprise Funds	67,412
Trust Funds	
Private-Purpose Trust Fund	91,997
Miscellaneous Agency Funds	
Special Assessment Funds and Retention Held in Escrow Accounts	29,333
Total Restricted Cash and Investments	$ 636,884

Summary of Total Cash and Investments

Total Unrestricted Cash and Investments	$ 10,487,687
Total Restricted Cash and Investments	636,884
Total Cash and Investments	$ 11,124,571
Total Governmental Activities	$ 1,599,647
Total Business-Type Activities	1,034,006
Total Fiduciary Activities	8,490,918
Total Cash and Investments	$ 11,124,571

San Diego City Employees' Retirement System (SDCERS) – Disclosures for Policy and Specific Risks

Narratives and tables presented in the following sections (i. through s.) are taken directly from the comprehensive annual financial report of the San Diego City Employees' Retirement System as of June 30, 2015 (certain terms have been modified to conform to the City's CAFR presentation).

Summary of Cash and Investments – SDCERS

Cash on Deposit with Wells Fargo Bank	$ 1,615
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	139,137
Investments at Fair Value	
Domestic Fixed Income Securities	1,781,246
International Fixed Income Securities	432,202
Domestic Equity Securities	1,671,938
International Equity Securities	1,201,799
Global Equity Securities	334,108
Real Estate	753,721
Private Equity and Infrastructure	748,337
Securities Lending Collateral	207,945
Total Cash and Investments for SDCERS	$ 7,272,048

i. Investment Policy and Portfolio Risk

The Board of Administration of SDCERS (Board) has exclusive authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the City Charter and the California State Constitution Article XVI, Section 17. The Board is authorized to invest in bonds, notes or other obligations, common stock, preferred stock, real estate investments, private equity, infrastructure and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. Investment policies permit the Board to invest in financial futures contracts provided the contracts do not hedge SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at fair value each day and must be settled at expiration date. Changes in the fair value of the contracts results in the recognition of a gain or loss under GASB Statement No. 53*, Accounting and Financial Reporting for Derivative Instruments.*

Investment earnings are recorded in accordance with GASB Statement No. 67. Net investment income includes the net appreciation (depreciation) in the fair value of investments, interest income, dividend income, and other income not included in the appreciation (depreciation) in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment-related costs. SDCERS' realized gains totaled $196,600 for the fiscal year ended June 30, 2015. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year. Realized gains and losses are reported in investment income in the financial statements.

SDCERS' Policy in regard to the allocation of invested assets is established and may be amended by the Board. The asset allocation policy is reviewed and approved on an annual basis. Through its investment objectives and policies, the Board emphasizes generating a rate of return above inflation and the preservation of capital. Investments are made only after the risk/reward trade-offs are evaluated. SDCERS' assets are managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

The following was SDCERS' adopted asset allocation policy as of June 30, 2015:

Asset Class	Target Allocation
U.S. Equity	21.00%
Non-U.S. Equity	14.00%
Emerging Market Equity	1.00%
Global Equity	5.00%
U.S. Fixed Income	22.00%
Emerging Market Debt	5.00%
Real Estate	11.00%
Private Equity and Infrastructure	13.00%
Opportunity Fund	8.00%
Total	100.00%

For the fiscal year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 3.28%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

SDCERS' investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on information derived from the Asset/Liability Study. The returns of fixed income strategies vary less than equity returns. SDCERS' target asset allocation policy is reviewed each year. SDCERS' long-term target allocation to fixed income strategies as of June 30, 2015 was 27%, which includes domestic fixed income and emerging market debt. The fixed income allocation is externally managed and is comprised as follows: 22% to core domestic fixed income (benchmarked to the Barclays Capital Intermediate Aggregate Bond Index) and 5% to emerging market debt (benchmarked 50% to JP Morgan Emerging Market Bond Index Global Diversified and 50% to JP Morgan Government Bond Index-Emerging Global Diversified). A 2% target allocation to convertible bond securities (benchmarked to the Merrill Lynch All Convertibles All Qualities Index) is not included in the fixed income allocation, but instead is included in the domestic equity allocation. However, given that these convertible securities have fixed income attributes, the convertible bond allocation is included in the Portfolio Risk analysis. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio at the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

A copy of the SDCERS investment policy and additional details on the results of SDCERS' investment activities are available at 401 West A Street, Suite 400, San Diego, CA 92101.

j. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. SDCERS does not have a general investment policy that addresses interest rate risk. Rather, each investment manager's specific investment guidelines place limits on each portfolio to manage interest rate risk.

Convertible bonds are generally less sensitive to changes in interest rates and more sensitive to the profitability of the underlying issuer. Company fundamentals are the overriding factor in the bond's return, while fluctuations in interest rates have significantly less impact.

The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2015:

Type of Security	Effective Duration (in years)	Fair Value [1]
Asset-Backed Securities	0.88	$ 59,565
Commercial Mortgage-Backed Securities	1.81	19,748
Collateralized Mortgage Obligations	1.69	62,259
Corporate Bonds [2]		
Bank Loans	0.67	1,585
Corporate Bonds	2.25	163,826
Yankee	3.30	34,538
Government and Agency Obligations[3]		
Municipal Securities	7.50	5,109
Foreign Securities	3.49	16,409
Agency Securities	0.91	29,366
Treasury Securities	8.02	168,135
Euro	17.27	3,820
Mortgage-Backed Securities	4.27	260,867
Short-Term/Other[4]		
Cash Equivalents	0.10	2,295
Total	4.11	$ 827,522

[1] Fair Value does not include convertible bonds, mutual funds and derivative instruments of $1,385,926. These securities do not exhibit interest rate risk and/or duration cannot be calculated.

[2] Corporate Bonds do not include convertible securities of $184,762.

[3] Government and Agency Obligations do not include certain Federal National Mortgage Association To-Be-Announced (FNMA TBA) securities of $108,347.

[4] Short Term/Other does not include derivative instruments, short-term instruments and mutual funds of $1,092,817. Although the duration was not available for these securities, the weighted average maturity was calculated for the mutual funds.

The following table depicts the weighted average maturity for the mutual funds:

Name of Institutional Mutual Fund	Fair Value	Weighted Average Maturity (in years)
BlackRock U.S. Debt NL Fund	$ 627,824	4.80
MetWest Floating Rate	3,981	5.10
PIMCO PAPS Short-Term Floating NAV II Portfolio	16,589	0.15
Stone Harbor	108,705	8.83
Wellington Trust Company CIF II Opportunistic	92,090	11.74
Investec Emerging Market Debt	106,153	7.84
GCM Windandsea Fund	122,360	3.00
Total	$ 1,077,702	

k. Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table on the previous page discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total value of securities, as of June 30, 2015, that are highly sensitive to interest rate changes due to factors other than term to maturity are shown in the following table.

Type of Security	Fair Value	Percent of Fixed Income Portfolio
Floating Rate Notes	$ 79,988	3.60%
Asset-Backed Securities	30,966	1.40%
Range Notes	11,220	0.50%
Adjustable Rate Notes	10,577	0.50%
Total	$ 132,751	6.00%

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

l. Credit Risk

Credit risk is the risk that an issuer or other underlying borrower to a debt instrument will not fulfill its obligations. Nationally recognized statistical rating organizations (NRSROs) assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

SDCERS employs two core bond managers that invest primarily in U.S. fixed income and derivative securities, fixed income mutual funds, and some non-U.S. fixed income securities. SDCERS also invests in three emerging market debt commingled funds, one passive core fixed income index fund, and one global credit fund. The investment management agreements between SDCERS and its two core bond managers contain specific investment guidelines that identify permitted fixed income investments. SDCERS' domestic core fixed income managers have limited tactical discretion to invest in non-U.S. fixed income securities.

The permitted securities and derivatives for the two domestic core fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, commercial mortgage backed securities, asset backed securities, futures, forwards, options, interest rate swaps and credit default swaps. Investment guidelines include minimum average portfolio quality of AA- rating (market value weighted) and minimum credit quality at time of purchase of BBB- for the two domestic fixed income managers.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks (due to forced conversions) and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average quality rating of at least B.

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2015.

S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates [1]	Government and Agency Obligations [2]	Mortgage Backed Securities	Short-Term/ Other
U.S. Treasuries	$ 168,135	$ -	$ -	$ -	$ -	$ 168,135	$ -	$ -
GNMA Securities	46,061	-	-	21,129	-	-	24,932	-
AAA	32,321	16,160	10,724	1,325	2,804	1,308	-	-
AA+	405,294	13,203	-	12,525	2,914	138,422	235,935	2,295
AA	12,747	5,016	-	41	3,983	3,707	-	-
AA-	9,658	1,938	-	-	7,720	-	-	-
A+	25,431	2,006	-	13,301	8,855	1,269	-	-
A	28,143	3,012	-	374	23,770	987	-	-
A-	52,024	20	-	733	49,505	1,766	-	-
BBB+	31,474	-	-	1,353	29,225	896	-	-
BBB	29,910	1,891	-	211	23,023	4,785	-	-
BBB-	30,787	20	105	-	30,662	-	-	-
BB+	8,479	-	-	-	8,385	94	-	-
BB	5,625	-	-	60	5,342	223	-	-
BB-	3,304	-	-	-	3,304	-	-	-
B+	656	-	-	656	-	-	-	-
B	1,738	-	-	490	1,248	-	-	-
B-	1,141	-	-	1,141	-	-	-	-
CCC	400	-	-	-	400	-	-	-
D	108	-	-	108	-	-	-	-
NR	1,320,012	16,299	8,919	8,812	183,571	9,594	-	1,092,817 [3]
Totals	$ 2,213,448	$ 59,565	$ 19,748	$ 62,259	$ 384,711	$ 331,186	$ 260,867	$ 1,095,112

[1] Corporate Bonds include convertible bonds from SDCERS' convertible bond manager.

[2] Includes international and municipal holdings.

[3] Includes fixed income mutual fund investments of $1,077,702. These institutional quality fund investments are not directly rated by major credit rating agencies.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, U.S. Government Agency securities other than U.S. Treasuries and GNMA Securities, which are not rated, have been included in the credit risk disclosure as AA+ to reflect the credit rating of the issuer. NR represents those securities that are not rated by one of the NRSROs.

m. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2015, SDCERS had no single issuer that exceeded 5% of total investments as required to be disclosed by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3,* or 5% of plan net position as required to be disclosed by GASB Statement No. 67, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments. With respect to the concentration of credit risk by issuer, SDCERS' Investment Policy states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issuer at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

n. Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. SDCERS' exposure to custodial credit risk is further discussed in the following paragraphs.

Deposits

As of June 30, 2015 SDCERS' cash balance was $1,615. Cash and cash equivalents on deposit with custodial bank and fiscal agents was $139,137, which includes cash collateral for SDCERS' cash overlay program of $30,489 and residual cash held in each manager's portfolio of $108,648, which is invested overnight by SDCERS' custodial bank. SDCERS does not have a target allocation to cash. Any cash or cash equivalent balances on deposit are reserved for paying benefits and SDCERS' operational expenses.

SDCERS' un-invested cash balances held in a demand deposit account (DDA) are subject to custodial credit risk. Such a balance or deposit with the bank establishes a debtor-creditor relationship and is not subject to the protection afforded SDCERS' other investments. Cash balances held in Short-Term Investment Funds (STIF) at State Street Bank and Trust Company (State Street) are held in SDCERS' name and are not subject to custodial credit risk. As of June 30, 2015, SDCERS held $132,691 in STIF and a cash balance of $6,446. SDCERS does not have a specific policy relating to custodial credit risk because the majority of SDCERS' assets are held in SDCERS' name and are not available to satisfy the obligations of State Street to its creditors.

Investments

As of June 30, 2015, 100% of SDCERS' investments were held in SDCERS' name. SDCERS is not exposed to custodial credit risk related to these investments.

Securities Lending Collateral

SDCERS' custodial bank acts as its securities lending agent. SDCERS is exposed to custodial credit risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of non-cash collateral totaled $153,100 as of June 30, 2015. The non-cash collateral is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled $207,945 as of June 30, 2015, is also at risk as it is invested in pooled vehicles managed by the custodian. The investment characteristics of the collateral pool are disclosed in the Securities Lending section of this note.

o. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents SDCERS' securities held in a foreign currency as of June 30, 2015.

Local Currency Name	Cash	Equity	Fixed Income	Real Estate	Total
Australian Dollar	$ 17	$ 3,230	$ -	$ 7,634	$ 10,881
Brazilian Real	4	228	-	-	232
Canadian Dollar	(157)	1,929	1,269	-	3,041
Danish Krone	-	5,184	-	-	5,184
Euro Currency	2,004	76,214	18,269	11,814	108,301
Hong Kong Dollar	87	15,637	-	4,102	19,826
Japanese Yen	378	60,299	1,961	6,241	68,879
Mexican Peso	-	-	3,160	-	3,160
New Zealand Dollar	-	-	-	880	880
Singapore Dollar	-	3,399	-	3,388	6,787
South Korean Won	-	2,654	-	-	2,654
Swedish Krona	-	3,112	-	-	3,112
Swiss Franc	-	28,204	-	-	28,204
United Kingdom Pound	630	49,566	1,694	3,023	54,913
Total	$ 2,963	$ 249,656	$ 26,353	$ 37,082	$ 316,054

This schedule does not include the foreign currency exposure of two international equity, one global equity, two emerging market equity and three emerging market fixed income institutional mutual fund investments.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. An important component of the diversification benefit of non-domestic investments comes from foreign currency exposure. SDCERS does not have a general investment policy in place to manage foreign currency risk or to hedge against fluctuations in foreign currency exposure. Instead, SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

p. Derivative Instruments

Pursuant to the requirements of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, SDCERS has provided a summary of derivative instrument activities during the reporting period and the related risks. As of June 30, 2015, the derivative instruments held by SDCERS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the SDCERS Statement of Changes in Fiduciary Net Position.

SDCERS' investment managers, as permitted by their specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the SDCERS' Investment Policy Statement. These instruments include futures, options, swaps, forwards, warrants and rights. By Board policy, these investments may not be used to leverage SDCERS' portfolio, i.e. use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk.

All investment derivatives discussed below are addressed in the Investment Policy and Portfolio Risk discussion (section i). Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The following table provides a summary of the derivative instruments outstanding as of June 30, 2015:

	Net Appreciation (Depreciation) in Fair Value	Fair Value at June 30, 2015		
Investment Derivative Instruments	Amount	Classification	Amount	Notional (Dollars)
Credit Default Swaps	$ 77	Domestic Fixed Income	$ 210	$ 13,815
Fixed Income Futures	6,766	Domestic Fixed Income	-	(69,871)
Fixed Income Options	1,977	Domestic Fixed Income	(16)	(158,780)
Foreign Currency Futures	(1,009)	Domestic Fixed Income	-	3,600
Foreign Currency Options	(3)	Domestic Fixed Income	-	-
Futures Options	411	Domestic Fixed Income	(60)	(124)
Foreign Currency Forwards	7,652	Domestic Fixed Income	3,199	34,233
Index Futures	(2,634)	Domestic Fixed Income	-	41
Interest Rate Swaps	(3,690)	Domestic Fixed Income	1,081	147,932
Rights	(5)	Domestic Equity	96	185
Warrants	4	Domestic Equity	-	-
Total Derivative Instruments	$ 9,546		$ 4,510	$ (28,969)

Some derivative instruments, such as credit default swaps and interest rate swaps, are not exchange traded and are priced using quarterly Over-the-Counter trading data.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the futures contracts do not have a fair value as of June 30, 2015. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under investment income as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2015.

Counterparty Credit Risk

The following table illustrates the counterparty credit ratings of SDCERS' non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2015:

Counterparty Name	Fair Value	S&P Rating
Morgan Stanley CME	$ 1,654	A-
Bank of America N.A.	1,362	A
National Australia Bank Limited	1,250	AA-
Morgan Stanley Bank N.A.	367	A
Barclays Bank PLC Wholesale	260	A-
Deutsche Bank AG	142	BBB+
JP Morgan Chase Bank N.A.	56	A+
Credit Suisse International	36	A
Citibank N.A.	17	A
HSBC Bank USA	1	AA-
Total	$ 5,145	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2015 was $5,145. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2015, SDCERS did not have any significant exposure to counterparty credit risk with any single party. SDCERS does not have any specific policies relating to the posting of collateral or master netting agreements.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2015, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Interest Rate Risk

At June 30, 2015, SDCERS was exposed to interest rate risk on its investments in interest rate swaps, options, and credit default swaps. The table below illustrates the maturity periods of these derivative instruments.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Credit Default Swaps	$ 210	$ 7	$ 203	$ -	$ -
Fixed Income Options	(16)	(5)	(10)	(1)	-
Interest Rate Swaps	1,081	(7)	(625)	61	1,652
Total	$ 1,275	$ (5)	$ (432)	$ 60	$ 1,652

Derivative Instruments Highly Sensitive to Interest Rate Changes

Credit default swaps, fixed income futures, options and interest rate swaps are highly sensitive to changes in interest rates. The table below reflects the fair value and notional amount of these derivative instruments as of June 30, 2015.

Investment Type	Fair Value	Notional
Credit Default Swaps	$ 210	$ 13,815
Fixed Income Futures	-	(69,871)
Fixed Income Options	(16)	(158,780)
Interest Rate Swaps	1,081	147,932
Total	$ 1,275	$ (66,904)

Foreign Currency Risk

At June 30, 2015, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

		Foreign Currency Forwards			
Currency Name	Options/Rights/ Warrants	Net Receivables	Net Payables	Swaps	Total
Canadian Dollar	$ -	$ -	$ (1)	$ -	$ (1)
Euro Currency	87	(122)	3,410	-	3,375
Pound Sterling	-	-	(72)	(189)	(261)
Japanese Yen	-	-	(16)	-	(16)
Subtotal	87	(122)	3,321	(189)	3,097
Investments Denominated in USD	(67)	-	-	1,480	1,413
Total	$ 20	$ (122)	$ 3,321	$ 1,291	$ 4,510

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of $7,200 and in foreign index futures with a total notional value of $2,600. As indicated previously, futures variation margin amounts are settled each trading day and recognized as realized gains/losses as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2015.

Contingent Features

At June 30, 2015, SDCERS did not hold any positions in derivatives containing contingent features.

q. Private Equity and Infrastructure

Private Equity assets are generally defined as direct investments in projects or companies that are privately negotiated and typically do not trade in a capital market. The risk is that these instruments are usually equity interests, generally illiquid and long-term in nature.

Infrastructure is a subset of Private Equity, defined as permanent essential assets society requires to facilitate the orderly operation of the economy, such as roads, water supply, sewers, power and telecommunications. The risk is that these investments are usually equity interests that are generally illiquid and long-term in nature.

SDCERS' target allocation to private equity and infrastructure is 13%, with a portfolio composition focused on value and current income producing strategies. As of June 30, 2015, unfunded capital commitments totaled $550,000 and private equity and infrastructure investments totaled $748,337.

Private Equity and Infrastructure were combined as an asset class upon SDCERS' Board approval in November 2014 and are reported as such in the SDCERS' financial statements.

r. Real Estate

SDCERS' target allocation to real estate is 11%. The Board has established the following portfolio composition targets: 10% in public real estate securities and 90% in private real estate investments. The private portfolio is further diversified with a target of 70% in core real estate and 30% in value-add and opportunistic real estate. No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities.

Certain real estate investments are leveraged. In those cases, partnerships have been established to purchase properties through a combination of equity contributions from SDCERS, other investors and through the utilization of debt. SDCERS engages real estate advisors and operating partners who are responsible for managing a portfolio's daily activities, performance and reporting. As of June 30, 2015, real estate investments totaled $753,721 and unfunded capital commitments totaled $253,200. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2015, SDCERS' real estate portfolio had leverage of 28.8%. SDCERS' share of outstanding debt in the real estate portfolio is $109,622, excluding obligations of limited partnership interests in commingled funds. This balance of debt is comprised of all non-recourse loans that currently bear interest at rates ranging from 3.11% to 6.04% and maturity dates that range from August 2016 through December 2020.

The following table illustrates mortgage loans that SDCERS has outstanding as of June 30, 2015.

Fiscal Year Ending June 30	Principal	Interest	Total
2016	$ 237	$ 4,863	$ 5,100
2017	25,495	4,238	29,733
2018	22,777	2,599	25,376
2019	41,611	1,872	43,483
2020	6,852	720	7,572
2021	12,650	256	12,906
Total	$ 109,622	$ 14,548	$ 124,170

s. Securities Lending

SDCERS has entered into an agreement with State Street, its custodial bank, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS' securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to at least 102% for domestic loans and 105% for international loans. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default.

SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. SDCERS incurred no losses during the fiscal year resulting from any reported default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) are not reported in SDCERS' financial statements.

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk, and collateral reinvestment risk. State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, as well as all rules, regulations, and exemptions from time to time promulgated and issued under the authority of those laws.

As of June 30, 2015, securities on loan collateralized by cash had a fair value of $207,945 and SDCERS received cash collateral of $208,245, which was reported as securities lending obligations in the accompanying Statement of Fiduciary Net Position in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. The collateral value exceeds the fair value of the securities on loan because borrowers are required to deliver collateral for each loan up to 102% for domestic loans and 105% for international loans. As of June 30, 2015, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $142,500 and a collateral value of $153,100, which were not reported as assets or liabilities in the accompanying Statement of Fiduciary Net Position in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at June 30, 2015 for its securities lending activities was $361,345.

SDCERS and the borrowers maintain the right to terminate securities lending transactions upon notice. The cash collateral received for lent securities was invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund, or collateral pool. In July 2010, State Street restructured the securities lending collateral funds creating two pools, a liquidity pool and a duration pool. As of June 30, 2015, these collateral pools were not rated by the NRSROs.

As of June 30, 2015, SDCERS had $199,724 invested in the Quality D liquidity collateral pool, which had an average duration of 27.6 days and an average weighted final maturity of 109.2 days. SDCERS had $8,221 invested in the Quality D duration pool, which had an average duration of 42.3 days and an average weighted final maturity of 2,105.7 days. Duration is the weighted time average until cash flows are received in the collateral pool, and is measured in days. Alternatively, the weighted average final maturity measures when all final

maturities in the portfolio will occur. The duration of the investments made with cash collateral does not generally match the duration of the loans. This is because the loans are terminable at any time by SDCERS or the borrower.

Discretely Presented Component Units – Disclosures for Policy and Specific Risks

Narratives and tables presented in the following sections (t. through u.) are taken directly from the audited financial statements of the San Diego Convention Center Corporation (SDCCC) and the comprehensive annual financial report of the San Diego Housing Commission (SDHC) as of June 30, 2015 (certain terms have been modified to conform to the City's CAFR presentation).

t. San Diego Convention Center Corporation

Cash, deposits and investments were categorized as follows at June 30, 2015:

Cash on hand	$	20
Deposits		5,161
Bank money market account deposits		5,771
Total cash and investments	$	10,952

Deposits

At June 30, 2015, the carrying amount of SDCCC's cash on hand, deposits, and bank money market account deposits was $10,952 and the bank balance was $11,042. Of the bank balance, $250 was covered by federal depository insurance. The remaining uninsured balance of $10,792 was collateralized with the collateral held by an affiliate of the counterparty's financial institution.

Deposit and Investment Policy

SDCCC developed a formal deposit and investment policy in August 2010, which addresses custodial credit risk, credit quality risk and allowable investments. SDCCC places no limit on the amount that may be invested in any one account or fund. SDCCC's allowable investments include: obligations of the U.S. government, its agencies and instrumentalities, investment grade state and local government securities, certificates of deposit, bankers' acceptances, repurchase agreements, and money market mutual funds whose portfolios consist of only domestic securities.

u. San Diego Housing Commission

Cash, cash equivalents, and investments at June 30, 2015 consisted of the following:

	SDHC	Component Units [1]	Grand Total
Deposits and Petty Cash	$ 25,695	$ 10,402	$ 36,097
U.S. Agency Bonds	68,780	-	68,780
Negotiable Certificates of Deposit	2,455	-	2,455
San Diego County Investment Pool	7,051	-	7,051
State Local Agency Investment Fund	2,038	-	2,038
Total cash and investments	106,019	10,402	116,421
Restricted cash and cash equivalents	4,303	6,424	10,727
Total	$ 110,322	$ 16,826	$ 127,148

[1] Disclosures for San Diego Housing Commission's Discretely Presented Component Units are not included in the narratives following this table.

Deposits

The carrying amount of the SDHC's cash deposits and petty cash was $25,695 at June 30, 2015. The bank balances were insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. For amounts over $250, bank balances were collateralized with securities held by the pledging financial institutions in SDHC's name. The California Government Code requires California financial institutions to secure cash deposits of public institutions not covered by federal deposit insurance by pledging securities as collateral. California Government Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. As a result, the collateral for cash deposits is considered to be held in SDHC's name.

The fair value of pledged securities must equal at least 110% of SDHC's cash deposits. California law also allows financial institutions to secure SDHC's deposits by pledging first trust deed mortgage notes having a value of 150% of SDHC's total cash deposits.

Investment Policy

In accordance with state statutes and Housing and Urban Development (HUD) regulations, SDHC has authorized its Chief Financial Officer or designee to invest in obligations of the U.S. Treasury, U.S. Government agencies or other investments as outlined in the SDHC Investment Policy.

SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. The advisor provides guidance on creating a diversified portfolio and a secure investment mix. The advisor's ongoing role is to provide staff with sound investment opportunities that will maximize liquidity and yield without sacrificing principal value and safety of the investment securities.

Investments in the San Diego County Investment Pool (SDCIP) and California State Local Agency Investment Fund (LAIF) represent SDHC's equity in pooled investments. Other investments such as certificates of deposit, bonds, government agency securities and demand deposit accounts are safe kept with commercial banking institutions.

Investments

As of June 30, 2015, SDHC had investments in agency bonds, negotiable certificates of deposit, San Diego County Investment Pool and California State Local Agency Investment Fund. The following paragraphs provide further detail for each investment.

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a hierarchy for ranking the quality and reliability of information used to determine fair values of assets and liabilities. SDHC's management has determined, through early implementation of GASB Statement No. 72, those investments in SDCIP and LAIF are classified within Level 1 of the fair value hierarchy because these investments are valued using quoted market prices. Investments in agency bonds and negotiable certificates of deposit are classified as Level 2 as there are no quoted market prices published. These investments are traded on a secondary market and thus a fair market value is able to be determined using this secondary market.

SDHC's investments under U.S. Government Agency bonds are Mortgage Backed Security (MBS) bonds and debentures traded on an active secondary market. MBS Bonds are a security or debt obligation that represents a claim on the monthly cash flows from mortgage loans. They represent investments in securities that are backed by pools of high quality consumer or commercial mortgages guaranteed by a government agency or Government Sponsored Enterprises (GSE). Government Agency Debentures are also bonds traded on an active secondary market and represent a security or debt obligation of the issuer. While Standard & Poor's and Moody's do not specifically rate MBS, they carry an implied rating based on the high quality collateral that backs the bonds and the AA+ by Standard & Poor's of the GSE (Fannie Mae/Freddie Mac) that issues/guarantees them. At June 30, 2015, SDHC had $68,780 invested in Agency MBS bonds.

SDHC had $2,455 in negotiable certificates of deposit in its investment portfolio. Each certificate of deposit is issued through a separate legal entity and purchased in an amount under the FDIC insured limit of $250.

SDHC voluntarily participates in the SDCIP. SDCIP is a Standard & Poor's AAA rated fund managed by the San Diego County Treasurer-Tax Collector. The fair value of SDCIP's investment portfolio at June 30, 2015 was $7,521,105. The investment portfolio had a weighted average yield to maturity of 0.52%, weighted average days to maturity of 356 days and an effective duration of 0.81 years. As of June 30, 2015, SDHC had $7,051 invested in SDCIP.

In addition to SDCIP, SDHC participates in the State's LAIF. LAIF is part of the State of California Pooled Money Investment Account (PMIA) and is protected by statute ensuring invested funds remain SDHC's assets. PMIA is not registered with the SEC but is required to invest in accordance with California State Code. As of June 30, 2015, the average maturity of PMIA investments was 239 days and the balance of the investment portfolio of PMIA was $69,641,162. SDHC had $2,038 invested with LAIF as of June 30, 2015.

Investment Risk Factors

There are many factors that can affect the value of investments. Some factors, such as credit risk, custodial risk, concentration of credit risk and market risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risk and changes in interest rates. It is the investment policy of SDHC to invest substantially all of its funds in fixed income securities, which limits SDHC's exposure to most types of risk.

Market Risk

Market risk is the risk that the value of an investment will change due to changes in the financial market. Changes in market conditions can increase Interest Rate Risk, Liquidity Risk and Reinvestment Risk.

Interest Rate Risk is the risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes.

Liquidity Risk is the risk of being unable to liquidate an investment prior to maturity. Related to liquidity risk is the concept of marketability, or the ability to sell an instrument on short notice without incurring a meaningful loss in price.

Reinvestment Risk is the risk that the proceeds from a fixed-income security cannot be reinvested at less than the same rate of return currently generated by that holding. This risk is common with securities that are callable.

In accordance with its investment policy, SDHC manages market risk by matching portfolio maturities to projected liabilities and monitoring the weighted average maturity of its portfolio. This is done by maintaining a portion of the portfolio in readily available funds and investing in securities with limited call features and an active secondary market. These measures ensure that appropriate liquidity is maintained in order to meet ongoing operations, maximize return and limit exposure to changing market conditions. SDHC's exposure to interest rate risk as of June 30, 2015 is as follows:

	Maturities as of June 30, 2015			
	Less Than 3 Months	4-12 Months	1-5 Years	Total Fair Value
Cash and Cash Equivalents [1]				
Deposits	$ 25,682	$ -	$ -	$ 25,682
Petty Cash	13	-	-	13
Restricted Cash and Cash Equivalents	4,303	-	-	4,303
Total Cash and Cash Equivalents	29,998	-	-	29,998
Short-Term Investments				
U.S. Agency Bonds	383	11,144	-	11,527
Negotiable Certificates of Deposit	246	1,229	-	1,475
San Diego County Investment Pool	-	7,051	-	7,051
State Local Agency Investment Fund	-	2,038	-	2,038
Total Short-Term Investments	629	21,462	-	22,091
Long-Term Investments				
U.S. Agency Bonds	-	-	57,253	57,253
Negotiable Certificates of Deposit [2]	-	-	980	980
Total Long-Term Investments	-	-	58,233	58,233
Total Cash, Cash Equivalents, and Investments	$ 30,627	$ 21,462	$ 58,233	$ 110,322

[1] Cash and Cash Equivalents do not have maturities.

[2] Reported at amortized cost.

Credit Risk

Fixed income securities are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government are considered to have minimal credit risk. SDHC minimizes credit risk by limiting investments to those listed in the investment policy. In addition, SDHC pre-qualifies the financial institutions, broker/dealers, intermediaries, and advisors with which SDHC will do business in accordance with the investment policy. SDHC diversifies the investment portfolio to minimize potential losses from any one type of security or issuer.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing SDHC to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools such as LAIF and SDCIP are not considered subject to concentration of credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, the investments may not be returned. All bonds are purchased through SDHC's primary financial institution's clearing account in SDHC's name where all securities are held in safekeeping.

The exposure of SDHC's debt securities to credit risk as of June 30, 2015 is as follows:

	Standard & Poor's Credit Rating		
	AAA	Rating Not Provided	Total Fair Value
Short-Term Investments			
U.S. Agency Bonds [1]	$ -	$ 11,527	$ 11,527
Negotiable Certificates of Deposit	-	1,475	1,475
San Diego County Investment Pool	7,051	-	7,051
State Local Agency Investment Fund	-	2,038	2,038
Total Short-Term Investments	7,051	15,040	22,091
Long-Term Investments			
U.S. Agency Bonds [1]	-	57,253	57,253
Negotiable Certificates of Deposit [2]	-	980	980
Total Long-Term Investments	-	58,233	58,233
Total Investments	$ 7,051	$ 73,273	$ 80,324

[1] As of June 30, 2015, SDHC exceeded the 5% limit of total investments for issuers of various U.S. Agency Bonds.

[2] Reported at amortized cost.

4. CAPITAL ASSETS (Dollars in Thousands)

Capital asset activities for the year ended June 30, 2015 are as follows:

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	$ 1,764,927	$ 21,890	$ (3,496)	$ 77	$ 1,783,398
Easements	769	471	-	26	1,266
Construction in Progress	239,295	91,660	(1,855)	(53,913)	275,187
Total Non-Depreciable Capital Assets	2,004,991	114,021	(5,351)	(53,810)	2,059,851
Depreciable Capital Assets:					
Structures and Improvements	1,321,509	35,686	(1,078)	7,672	1,363,789
Equipment	385,898	23,316	(33,490)	4,728	380,452
Equipment (Intangible)	46,075	196	-	-	46,271
Infrastructure	3,623,541	65,843	(2,535)	40,812	3,727,661
Total Depreciable Capital Assets	5,377,023	125,041	(37,103)	53,212	5,518,173
Less Accumulated Depreciation/Amortization For:					
Structures and Improvements	(491,461)	(36,846)	576	(695)	(528,426)
Equipment	(239,064)	(30,511)	32,615	13	(236,947)
Equipment (Intangible)	(33,704)	(616)	-	-	(34,320)
Infrastructure	(2,087,257)	(94,656)	157	772	(2,180,984)
Total Accumulated Depreciation/Amortization	(2,851,486)	(162,629)	33,348	90	(2,980,677)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	2,525,537	(37,588)	(3,755)	53,302	2,537,496
Governmental Activities Capital Assets, Net	$ 4,530,528	$ 76,433	$ (9,106)	$ (508)	$ 4,597,347
BUSINESS-TYPE ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	$ 97,013	$ 129	$ (4)	$ (453)	$ 96,685
Easements	1,702	33	-	439	2,174
Construction in Progress	226,399	121,444	(1,853)	(88,121)	257,869
Total Non-Depreciable Capital Assets	325,114	121,606	(1,857)	(88,135)	356,728
Depreciable Capital Assets:					
Structures and Improvements	1,676,769	323,763	(36,124)	(5,889)	1,958,519
Equipment	449,605	9,273	(5,865)	30,597	483,610
Equipment (Intangible)	24,304	-	-	-	24,304
Distribution and Collection Systems and Other Infrastructure	4,692,232	75,890	(5,484)	64,025	4,826,663
Total Depreciable Capital Assets	6,842,910	408,926	(47,473)	88,733	7,293,096
Less Accumulated Depreciation/Amortization For:					
Structures and Improvements	(520,680)	(34,381)	32,827	950	(521,284)
Equipment	(311,497)	(16,827)	5,229	(275)	(323,370)
Equipment (Intangible)	(5,962)	(2,407)	-	-	(8,369)
Distribution and Collection Systems and Other Infrastructure	(1,058,995)	(74,677)	4,061	(765)	(1,130,376)
Total Accumulated Depreciation/Amortization	(1,897,134)	(128,292)	42,117	(90)	(1,983,399)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	4,945,776	280,634	(5,356)	88,643	5,309,697
Business-Type Activities Capital Assets, Net	$ 5,270,890	$ 402,240	$ (7,213)	$ 508	$ 5,666,425

Depreciation/amortization expense was charged to functions/programs of the primary government are as follows:

GOVERNMENTAL ACTIVITIES	
General Government and Support	$ 5,083
Public Safety - Police	4,845
Public Safety - Fire and Life Safety and Homeland Security	4,224
Parks, Recreation, Culture and Leisure	42,500
Transportation	82,594
Sanitation and Health	1,575
Neighborhood Services	177
Subtotal	140,998
Internal Service	21,631
Total Depreciation/Amortization Expense	$ 162,629
BUSINESS-TYPE ACTIVITIES	
Sewer Utility	$ 70,762
Water Utility	51,935
Airports	815
Development Services	42
Environmental Services	3,442
Golf Course	1,273
Recycling	23
Total Depreciation/Amortization Expense	$ 128,292

Discretely Presented Component Units

Capital asset activities for the City's Discretely Presented Component Units for the year ended June 30, 2015 are as follows:

	Discretely Presented Component Unit - San Diego Convention Center Corporation			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land	$ 18,599	$ 561	$ (19,160)	$ -
Depreciable Capital Assets:				
Structures and Improvements	29,289	774	(116)	29,947
Equipment	5,784	424	(1,614)	4,594
Total Depreciable Capital Assets	35,073	1,198	(1,730)	34,541
Less Accumulated Depreciation/Amortization For:				
Structures and Improvements	(18,837)	(1,613)	114	(20,336)
Equipment	(4,882)	(323)	1,605	(3,600)
Total Accumulated Depreciation/Amortization	(23,719)	(1,936)	1,719	(23,936)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	11,354	(738)	(11)	10,605
Capital Assets, Net	$ 29,953	$ (177)	$ (19,171)	$ 10,605

	Discretely Presented Component Unit - San Diego Housing Commission			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land	$ 63,187	$ 5,182	$ -	$ 68,369
Construction in Progress	751	1,516	-	2,267
Total Non-Depreciable Capital Assets	63,938	6,698	-	70,636
Depreciable Capital Assets:				
Structures and Improvements	122,393	9,657	-	132,050
Equipment	4,105	243	-	4,348
Total Depreciable Capital Assets	126,498	9,900	-	136,398
Less Accumulated Depreciation/Amortization For:				
Structures and Improvements	(23,932)	(4,542)	-	(28,474)
Equipment	(3,367)	(375)	-	(3,742)
Total Accumulated Depreciation/Amortization	(27,299)	(4,917)	-	(32,216)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	99,199	4,983	-	104,182
Capital Assets, Net	$ 163,137	$ 11,681	$ -	$ 174,818

Discretely Presented Component Units of the San Diego Housing Commission

Capital assets for the discretely presented component units of SDHC as of December 31, 2014 are as follows:

Non-Depreciable Capital Assets:	
Land	$ 1,655
Construction in Progress	2,843
Total Non-Depreciable Capital Assets	4,498
Depreciable Capital Assets:	
Structures and Improvements	23,065
Equipment	744
Total Depreciable Capital Assets	23,809
Less Accumulated Depreciation/Amortization	(3,300)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	20,509
Capital Assets, Net	$ 25,007

Successor Agency - Private Purpose Trust Fund

Capital asset activities for the City's Successor Agency for the fiscal year ended June 30, 2015 are as follows:

	Successor Agency - Private-Purpose Trust Fund			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land and Rights of Way	$ 105,947	$ -	$ -	$ 105,947
Construction in Progress	-	9,989	-	9,989
Total Non-Depreciable Capital Assets	105,947	9,989	-	115,936
Depreciable Capital Assets:				
Structures and Improvements	69,732	-	-	69,732
Equipment	819	-	-	819
Total Depreciable Capital Assets	70,551	-	-	70,551
Less Accumulated Depreciation/Amortization For:				
Structures and Improvements	(14,091)	(1,744)	-	(15,835)
Equipment	(819)	-	-	(819)
Total Accumulated Depreciation/Amortization	(14,910)	(1,744)	-	(16,654)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	55,641	(1,744)	-	53,897
Capital Assets, Net	$ 161,588	$ 8,245	$ -	$ 169,833

5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (Dollars in Thousands)

a. Long-Term Liabilities

The composition of the governmental long-term liabilities as of June 30, 2015 is reflected in the table below, followed by additional information on some of these items:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2015
Compensated Absences				$ 69,906
Liability Claims				325,948
Reimbursement Agreeement Obligations				17,715
Equipment Vehicle Financing Program (EVFP) Capital Lease Obligations	0.71-5.0%	2023		48,572
Other Capital Lease Obligations	6.47	2035	$ 44,000	43,967
Qualified Energy Conservation Bonds (QECB) Lease Obligation	6.16 [1]	2026	13,142	10,071
Loans Payable - California Energy Resources Conservation and Development Commission:				
Issued January 2007	4.5	2021	1,280	417
Issued March 2007	3.95	2019	2,154	787
Issued December 2011	3.0	2023	2,987	2,577
Isssued December 2012	1.0	2027	1,986	1,986
Total Loans Payable				5,767
Section 108 Loans Payable		2025	5,910	3,801
Lease Revenue Bonds:				
Public Facilities Financing Authority Ballpark Lease Revenue Refunding Bonds, Series 2007 A	5.0 - 5.25 [2]	2032	156,560	125,255
Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2010 A	3.0-5.25 [2]	2040	167,635	149,855
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 2012 A	3.8 - 5.25 [2]	2028	140,440	119,930
Public Facilities Financing Authority CIP Lease Revenue Bonds, Series 2012 A	2.0 - 5.25 [2]	2042	72,000	68,995
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Refunding Bonds, Series 2012 B	2.0 - 5.0 [2]	2032	18,745	17,020
Public Facilities Financing Authority CIP/Old Town Light Rail Extension Lease Revenue Refunding Bonds, Series 2013 A	3.0 - 5.0 [2]	2043	43,245	40,305
Public Facilities Financing Authority Balboa Park/Mission Bay Park Lease Revenue Refunding Bonds, Series 2013 B	3.0 - 5.0 [2]	2024	6,285	5,360
Public Facilities Financing Authority CIP Lease Revenue Bonds, Series 2015 A	5.0	2045	62,260	62,260
Public Facilities Financing Authority CIP Lease Revenue Bonds, Series 2015 B	5.0	2033	45,030	45,030
Total Lease Revenue Bonds				634,010
Tobacco Settlement Asset-Backed Bonds:				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	7.125	2023 [3]	105,400	73,705
Total Bonds Payable				707,715
Net Other Postemployment Benefits Obligation				194,492
Net Pension Obligation				1,900
Net Pension Liability				1,231,178
Total Governmental Activities Long-Term Liabilities				$ 2,661,032

[1] Nominal interest rate of 6.16% with a net effective rate of 2.68% inclusive of QECB federal subsidy and 7.3% subsidy sequestration calculated by the Federal Office of Management and Budget for fiscal year 2015.

[2] Interest rates are fixed and reflect the range of rates for various maturities from the date of issuance to maturity.

[3] Final maturity date is June 1, 2032. The date listed reflects final turbo redemption payment date projected at the time of issuance.

Arbitrage rebate liability is calculated via third party providers in accordance with the provisions of the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations effective as of July 1, 1993, as amended. As of June 30, 2015, there was no outstanding arbitrage liability for the governmental funds.

Liability claims are primarily liquidated by the General Fund, Long-Term Disability Internal Service Fund, and Enterprise Funds. Compensated absences are generally liquidated by the General Fund, Enterprise Funds, and certain Internal Service Funds. Pension and other postemployment healthcare liabilities are paid out of operating funds based on a percentage of covered payroll.

Taxable QECBs were issued pursuant to the American Recovery and Reinvestment Act of 2009. QECB financing is eligible for the direct interest subsidy payment from the U.S. Department of the Treasury within Section 54(D)a of the Internal Revenue Code of 1986, as amended. The QECBs were issued to fund the Broad Spectrum Street Lighting Conversion Program and will be paid from annual appropriations of any source of legally available funds.

Loans Payable represent obligations owed for proceeds received for qualifying energy efficiency retrofits and improvements for certain City facilities. Repayments are secured from those departments that benefit from the facility improvements.

Reimbursement Agreements related to Facilities Financing have contractual provisions whereby a developer either constructs or provides funding towards a public improvement project, which is included as part of an approved City Public Facilities Financing Plan. Typical improvements constructed under this program are transportation projects, parks, fire stations, and libraries. A developer is obligated to provide the infrastructure and is later reimbursed with cash or provided program credits against future Facilities Benefit Assessment (FBA) or Development Impact Fees (DIF) payments up to the amount of the eligible infrastructure costs as stated in an approved reimbursement agreement. Reimbursement agreements do not have annual repayment schedules and instead only allow for FBA/DIF cash reimbursement based on the availability of funds.

On June 30, 2010, the City entered into an Agreement Regarding Purchase of McGuigan Judgment with Bank of America, N.A. (BANA). The Agreement is related to the Settlement Agreement and Judgment between William J. McGuigan (Class Representative) and the City of San Diego, under which the City agreed to pay SDCERS $173,000 in excess of the ARC no later than June 8, 2011. Under the terms of the Agreement, the outstanding balance of $32,762 on the McGuigan Judgment was transferred to BANA as a loan payable of the City and is repaid in four annual payments beginning in fiscal year 2012. The Judgment Installment Payments to BANA have a fixed rate of 3.79% and the fourth and final payment was made on July 1, 2014.

Section 108 loans are the loan guarantee provisions of the Community Development Block Grant (CDBG) program. Section 108 loans provide the community with a source of financing for economic development, housing rehabilitation, public facilities, and capital improvement and infrastructure projects. The loans are arranged through the U.S. Department of Housing and Urban Development and a fixed repayment schedule is provided that allocates a portion of the total obligation issued to each borrower including the City as well as other municipalities. No interest rate is stated on the repayment schedule.

Lease revenue bonds are lease obligations secured by a lease–back arrangement with a public entity, where the general operating revenues are pledged to pay the lease payments, which are in turn used to pay debt service on the bonds. Lease revenue bonds provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Tobacco Settlement Asset-Backed Bonds are limited obligations of the TSRFC, which is a separate legal California nonprofit public benefit corporation established by the City. TSRFC purchased from the City the rights to receive future tobacco settlement revenues due to the City. The Tobacco Settlement Asset-Backed Bonds are payable from and secured solely by pledged tobacco settlement revenues.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2015, including interest payments to maturity, are as follows:

Year Ending June 30	Equipment Vehicle Financing Program (EVFP) Capital Lease Obligations		Other Capital Lease Obligations		Qualified Energy Conservation Bonds Lease Obligation		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 12,985	$ 805	$ 413	$ 2,834	$ 811	$ 620	$ 793	$ 150
2017	9,930	607	524	2,803	830	570	829	114
2018	7,553	436	645	2,766	850	519	633	90
2019	7,317	298	776	2,720	871	467	651	71
2020	5,154	172	918	2,666	892	413	453	55
2021-2025	5,633	152	7,155	12,154	4,790	63	1,906	116
2026-2030	-	-	12,857	8,989	1,027	63	502	9
2031-2035	-	-	20,679	3,595	-	-	-	-
Total	$ 48,572	$ 2,470	$ 43,967	$ 38,527	$ 10,071	$ 2,715	$ 5,767	$ 605

Year Ending June 30	Section 108 Loans Payable		Lease Revenue Bonds		Tobacco Settlement Asset-Backed Bonds	
	Principal	Interest	Principal	Interest	Principal [1]	Interest
2016	$ 294	$ 212	$ 22,720	$ 30,984	$ 5,700	$ 5,251
2017	310	195	23,605	30,098	6,200	4,845
2018	325	178	24,650	29,042	6,600	4,404
2019	345	159	25,795	27,913	7,000	3,933
2020	364	139	27,070	26,646	7,600	3,435
2021-2025	2,163	337	151,365	111,548	40,605	6,905
2026-2030	-	-	143,310	72,280	-	-
2031-2035	-	-	87,825	42,422	-	-
2036-2040	-	-	82,440	22,348	-	-
2041-2045	-	-	45,230	4,907	-	-
Total	$ 3,801	$ 1,220	$ 634,010	$ 398,188	$ 73,705	$ 28,773

[1] The Tobacco Asset-Backed Bond Principal Debt Service requirements are based upon final turbo redemption payments projected at time of issuance.

c. Change in Long-Term Liabilities

Additions to governmental activities long-term debt for contracts and loans payable may differ from proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, due to funding received in prior fiscal years being converted from short-term to long-term debt as a result of developers extending the terms of the obligation.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2015. The effect of bond issuance premiums and discounts are reflected as adjustments to the carrying value of long-term liabilities.

	Governmental Activities				
	Beginning Balance, as Restated [1]	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 70,646	$ 54,586	$ (55,326)	$ 69,906	$ 30,853
Liability Claims	331,946	58,377	(64,375)	325,948	39,302
Reimbursement Agreement Obligations	16,820	9,523	(8,628)	17,715	-
Equipment Vehicle Financing Program (EVFP)					
Capital Lease Obligations	58,094	5,073	(14,595)	48,572	12,985
Other Capital Lease Obligations	-	44,000	(33)	43,967	413
Qualified Energy Conservation Bonds					
Lease Obligation	10,864	-	(793)	10,071	811
Loans Payable	13,552	1,512	(9,297)	5,767	793
Section 108 Loans Payable	4,081	-	(280)	3,801	294
Lease Revenue Bonds	546,930	107,290	(20,210)	634,010	22,720
Unamortized Bond Premiums and Discounts	25,078	13,910	(2,021)	36,967	2,022
Net Lease Revenue Bonds	572,008	121,200	(22,231)	670,977	24,742
Tobacco Settlement Asset-Backed Bonds	77,785	-	(4,080)	73,705	5,700
Net Other Postemployment Benefits Obligation	188,846	5,646	-	194,492	-
Net Pension Obligation	2,336	-	(436)	1,900	-
Net Pension Liability	1,732,935	-	(501,757)	1,231,178	-
Total	$ 3,079,913	$ 299,917	$ (681,831)	$ 2,697,999	$ 115,893

[1] Beginning balances for net pension liability and net pension obligation have been restated, due to the implementation of GASB 68. Additional information on the restatements is included in Note 23.

PFFA issued $62,260 of Lease Revenue Bonds, Series 2015A (Capital Improvement Projects) and $45,030 of Lease Revenue Bonds, Series 2015B (Capital Improvement Projects). The 2015A and 2015B bonds are special, limited obligations of PFFA secured solely by the base rental payments paid by the City for the use and occupancy of the leased property and certain funds held under the indenture.

On February 10, 2015, the City entered into a 20 year lease-to-own agreement with CCP 1200, LLC (Lessor) a Delaware limited liability company, for the land and two buildings located at 1200 Third Avenue and 201 A Street. The land and buildings were acquired for $44,000 by the Lessor prior to the execution of the lease-to-own agreement. The lease is recognized as a capital lease since the transfer of ownership occurs at the end of the lease term. During the 20 year lease term, the minimum lease payments are recorded using the interest method which produces a constant periodic rate of interest to amortize the total of the future lease payments using the interest rate implicit in the lease.

d. Long-Term Pledged Liabilities

Governmental long-term pledged liabilities as of June 30, 2015 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Recognized
Pledged Development Impact Fee (DIF) Revenue:				
Kearny Mesa Reimbursement Agreement, dated June 2005		$ 309	$ -	$ -
Pledged Facilities Benefit Assessment (FBA) Revenue:				
Facilities Financing Reimbursement Agreement Obligations		17,406	8,628	8,628
Naval Training Center Civic, Arts, and Cultural Center (Section 108)	2025	5,021	506	506
Total Pledged Facilities Benefit Assessment (FBA) Revenue		22,427	9,134	9,134
Pledged Tobacco Settlement Revenue:				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	2023	102,478	9,613	9,020
Total		$ 125,214	$ 18,747	$ 18,154

6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (Dollars in Thousands)

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2015 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2015
Arbitrage Liability				$ 122
Compensated Absences				12,888
Liability Claims				28,943
Equipment Vehicle Financing Program (EVFP) Capital				
Lease Obligations	1.665% - 1.838% [1]	2022	$ 2,590	2,250
Loans Payable:				
Sewer Utility - State Water Resources Control Board				
Issued February 9, 2000	1.80% [2]	2020	10,606	3,018
Issued February 9, 2000	1.80 [2]	2022	6,684	2,617
Issued March 30, 2001	1.80 [2]	2022	33,720	13,189
Issued May 17, 2001	1.80 [2]	2022	7,742	3,029
Issued May 17,2001	1.80 [2]	2021	860	291
Issued June 11, 2001	1.80 [2]	2021	2,525	854
Issued October 3, 2002	1.99 [2]	2020	3,767	1,185
Issued October 3, 2002	1.80 [2]	2023	8,068	3,575
Issued December 14, 2005	1.89 [2]	2024	10,093	5,231
Issued October 15, 2006	1.99 [2]	2024	3,858	2,100
Issued February 28, 2007	1.89 [2]	2026	11,068	6,881
Issued February 17, 2012	2.70 [2]	2034	24,789	24,789
ssued July 10, 2012	2.20 [2]	2033	18,835	14,696
Issued June 26, 2013	2.20 [2]	2034	4,776	2,320
Issued August 22, 2013	2.20 [2]	2034	8,924	7,841
Total Sewer Loans Payable				91,616
Water Utility - Department of Health Services				
Issued July 6, 2005	2.51 [2]	2026	21,525	12,630
Issued May 30, 2011	2.31 [2]	2032	12,000	10,277
Issued January 1, 2012	2.31 [2]	2032	20,000	17,127
Issued January 1, 2012	2.50 [2]	2032	18,000	15,837
Issued January 29, 2013	2.093 [2]	2034	11,571	7,889
Issued January 29, 2013	2.093 [2]	2034	5,978	2,865
Total Water Loans Payable				66,625
Total Loans Payable				158,241

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2015
Bonds Payable:				
Senior Sewer Revenue Bonds, Series 2009 A	2.0-5.375 [1]	2039	$ 453,775	$ 378,115
Senior Sewer Revenue Refunding Bonds Series 2009 B	3.0-5.5 [1]	2025	634,940	435,490
Water Revenue Refunding Bonds, Series 2009 A	2.5-5.25 [1]	2039	157,190	150,255
Water Revenue Bonds, Series 2009 B	2.5-5.75 [1]	2040	328,060	300,165
Senior Sewer Revenue Refunding Bonds Series 2010 A	5.25	2029	161,930	161,930
Water Revenue Refunding Bonds, Series 2010 A	5.0-5.25 [1]	2029	123,075	123,075
Water Revenue Refunding Bonds, Series 2012 A	2.0-5.0 [1]	2033	188,610	153,910
Total Bonds Payable				1,702,940
Estimated Landfill Closure and Postclosure Care				23,269
Net Other Postemployment Benefits Obligation				55,943
Net Pension Obligation				240
Net Pension Liability				304,359
Total Business-Type Activities Long-Term Liabilities				$ 2,289,195

[1] Interest rates are fixed and reflect the range of rates for various maturities from the date of issuance to maturity.
[2] Effective rate.

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2015, including interest payments to maturity, are as follows:

Year Ending June 30	Equipment Vehicle Financing Program (EVFP) Capital Lease Obligations		Loans Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 358	$ 36	$ 9,608	$ 2,865	$ 79,255	$ 85,847
2017	363	30	9,800	2,665	82,205	82,127
2018	370	24	10,004	2,451	86,410	78,104
2019	376	18	10,212	2,234	90,695	73,818
2020	382	12	10,425	2,011	95,035	69,464
2021-2025	401	5	39,318	6,930	496,210	273,390
2026-2030	-	-	22,794	3,177	357,505	156,192
2031-2035	-	-	10,537	618	212,515	84,490
2036-2040	-	-	-	3	203,110	27,828
Unscheduled [1]	-	-	35,543	-	-	-
Total	$ 2,250	$ 125	$ 158,241	$ 22,954	$ 1,702,940	$ 931,260

[1] The loans payable to the State Water Resources Control Board in the amount of $24,789 and loans payable to Department of Health Services in the amount of $10,754 do not have fixed annual repayment schedules until construction of the projects are completed and final billing submitted.

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2015. The effect of bond premiums and discounts are reflected as adjustments to long-term liabilities.

	Business-Type Activities				
	Beginning Balance, as Restated [1]	Additions	Reductions	Ending Balance	Due Within One Year
Arbitrage Liability	$ 90	$ 32	$ -	$ 122	$ 110
Compensated Absences	13,267	11,225	(11,604)	12,888	6,106
Liability Claims	37,844	(3,340)	(5,561)	28,943	4,488
Equipment Vehicle Financing Program (EVFP)					
Capital Lease Obligation	2,590	-	(340)	2,250	358
Loans Payable	161,360	12,435	(15,554)	158,241	9,608
Revenue Bonds Payable	1,778,310	-	(75,370)	1,702,940	79,255
Unamortized Bond Premiums and Discounts	73,461	-	(5,316)	68,145	5,316
Net Revenue Bonds Payable	1,851,771	-	(80,686)	1,771,085	84,571
Estimated Landfill Closure/Postclosure Care	23,290	-	(21)	23,269	-
Net Other Postemployment Benefits Obligation	54,277	1,666	-	55,943	-
Net Pension Obligation	280	-	(40)	240	-
Net Pension Liability	427,434	-	(123,075)	304,359	-
Totals	$ 2,572,203	$ 22,018	$ (236,881)	$ 2,357,340	$ 105,241

[1] Beginning balances for net pension liability and net pension obligation have been restated, due to the implementation of GASB 68. Additional information on the restatements is included in Note 23.

The loans payable reductions for the year ended June 30, 2015 include both scheduled principal payments and loan amounts forgiven by the State Water Resources Control Board. Loan amounts forgiven were contingent upon the City's performance of its obligations under the agreements and include $3,000 for Segments M-1, N-1, O-1, P-1 issued July 10, 2012, $2,388 for Segment Q-1 issued June 26, 2013, and $806 for Segments R-1 and S-1 issued August 22, 2013, of the Sewer Pipeline Rehabilitation Projects. In addition, $9,360 of scheduled SRF loan repayments were made during the year.

d. Long-Term Pledged Liabilities

Business-type activities long-term pledged liabilities as of June 30, 2015 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Recognized
Pledged Net Sewer Systems Revenue:				
Loans - State Water Resources Control Board				
Issued February 9, 2000	2020	$ 3,183	$ 637	$ 637
Issued February 9, 2000	2022	2,809	401	401
Issued March 30, 2001	2022	14,173	2,024	2,024
Issued May 17, 2001	2022	3,253	464	464
Issued May 17, 2001	2021	308	52	52
Issued June 11, 2001	2021	908	152	152
Issued October 3, 2002	2020	1,256	251	251
Issued October 3, 2002	2023	3,873	484	484
Issued December 14, 2005	2024	5,737	638	638
Issued October 15, 2006	2024	2,316	257	257
Issued February 28, 2007	2026	7,689	699	699
Issued February 17, 2012	2034	24,789	-	-
Issued July 10, 2012	2033	17,956	998	998
Issued June 26, 2013	2034	2,864	125	125
Issued August 22, 2013	2034	9,669	427	427
Bonds				
Senior Sewer Revenue Bonds, Series 2009 A	2039	655,425	36,281	34,703
Senior Sewer Revenue Refunding Bonds, Series 2009 B	2025	550,778	57,704	56,021
Senior Sewer Revenue Refunding Bonds, Series 2010 A	2029	255,841	8,501	8,272
Total Pledged Net Sewer Systems Revenue		1,562,827	110,095	106,605
Pledged Net Water Systems Revenue:				
Loans - Department of Health Services				
Issued July 6, 2005	2026	14,447	1,377	1,377
Issued May 30, 2011	2032	12,417	752	752
Issued January 1, 2012	2032	20,685	1,253	1,253
Issued January 1, 2012	2032	19,539	1,149	1,149
Issued January 29, 2013	2034	9,780	122	122
Issued January 29, 2013	2034	3,544	57	57
Bonds				
Water Revenue Refunding Bonds, Series 2009 A	2039	210,531	8,681	8,563
Water Revenue Bonds, Series 2009 B	2040	543,411	21,737	21,462
Water Revenue Refunding Bonds, Series 2010 A	2029	192,046	6,310	5,802
Water Revenue Refunding Bonds, Series 2012 A	2033	226,168	25,396	25,240
Total Pledged Net Water Systems Revenue		1,252,568	66,834	65,777
Total Pledged Revenues		$ 2,815,395	$ 176,929	$ 172,382

7. DISCRETELY PRESENTED COMPONENT UNITS LONG-TERM LIABILITIES (Dollars in Thousands)

Narratives and tables presented in the following sections are taken from the audited financial statements of the San Diego Convention Center Corporation and the comprehensive annual financial report of the San Diego Housing Commission as of June 30, 2015.

San Diego Convention Center Corporation

Long-term liabilities of SDCCC as of June 30, 2015 are comprised of the following:

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2015	Due Within One Year
Compensated Absences				$ 1,341	$ 1,286
Notes Payable:					
CG 7600 LLC	0.00%	2023	$ 22	17	2
Total Long-Term Liabilities				$ 1,358	$ 1,288

SDCCC entered into a non-recourse Note Purchase Contract on May 6, 2010 for $12,500 with Fifth Avenue Landing, LLC (FAL), the proceeds of which were used for the Phase III expansion site ground lease purchase. The FAL note payable was to be repaid at the rate of 5.27% per annum, simple interest, with a $12,500 principal payment due by May 6, 2015. SDCCC was required to pay an annual interest payment of $500, while the remaining accrued interest owed in any one year was payable at the date of final maturity. During May 2015, SDCCC entered into a reconveyance agreement with FAL to transfer and convey the lease back to FAL in lieu of foreclosure, resulting in the $12,500 note payable no longer being outstanding and payable as of June 30, 2015.

On April 25, 2012, SDCCC entered into a Financing Loan Agreement at a zero percent per annum rate with San Diego Gas & Electric (SDG&E) for $418, the proceeds of which were used to apply "retrocommissioning," a systematic process for improving and optimizing a building's operations through reduced energy usage, lengthened equipment life, and improved indoor air quality and occupant comfort. The obligation is payable over 23 equal installments payable through an on-bill financing arrangement through SDCCC's monthly utility bill based on estimated energy cost savings. The balance of $127 was paid during fiscal year 2015, eliminating the amount due.

On April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC (lessor) in which the lessor financed a warehouse capital improvement for SDCCC valued at $22. The agreement calls for the loan to be amortized as part of SDCCC's monthly rent over 10 years at a zero percent per annum rate. In the event SDCCC does not exercise the option to extend, the unamortized portion becomes payable and due upon termination of the contract.

Annual requirements to amortize long-term debt as of June 30, 2015, are as follows:

	Notes Payable	
Year Ending June 30	Principal	Interest
2016	$ 2	$ -
2017	2	-
2018	2	-
2019	2	-
2020	2	-
2021-2023	7	-
Total	$ 17	$ -

San Diego Housing Commission

Long-term liabilities of SDHC as of June 30, 2015 are comprised of the following:

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2015 [1]	Due Within One Year
Compensated Absences				$ 1,832	$ 1,832
Notes Payable:					
Debts of SDHC					
GE Capital, (Smart Corner & Maya) dated November 2011	6.08%	2027	$ 15,000	9,701	595
Successor Agency of the Redevelopment Agency of the City of San Diego dated March 1992	0.00% forgivable	2022	696	696	-
Successor Agency of the Redevelopment Agency of the City of San Diego dated March 18, 2010	1.00% forgivable	2065	6,095	6,030	-
State of California, Housing Loan Conversion Program dated March 10, 2013	3.00%	2068	4,555	4,555	-
Debts of the LLCs					
Greystone Servicing Corp, Inc. Fannie Mae (Belden)	7.32%	2040	12,320	11,567	175
Greystone Servicing Corp, Inc. Fannie Mae (Northern)	7.32%	2040	10,810	10,149	153
Greystone Servicing Corp, Inc. Fannie Mae (Central)	7.32%	2040	14,010	13,153	199
PNC Bank, NA FHA (Southern)	3.76%	2046	25,017	23,222	420
PNC Bank, NA FHA (Northern)	3.76%	2046	17,500	16,245	294
PNC Bank, NA FHA (Central)	3.65%	2046	15,726	14,596	268
Total Notes Payable				109,914	2,104
Total Long-Term Liabilities				$ 111,746	$ 3,936

[1] Long-term liabilities of the discrete component units of SDHC are not included

In November 2011, SDHC entered into a loan agreement with GE Commercial Finance to refinance the Smart Corner Building, which houses the administrative offices of SDHC. The term of the loan is for 15 years, amortized over 25 years with a fixed interest rate of 6.08% until November 2021, at which time the rate will convert to a variable rate. In November 2014, SDHC exercised the annual option to pay down the loan principal in the amount of $1.1 million.

SDHC entered into a loan agreement with the former RDA as of March 18, 2010, for the acquisition and rehabilitation of the Hotel Sandford. The loan from the former RDA is a forgivable loan, with a term of 55 years and 1% simple interest. The total approved loan amount is $6,095 with the loan being fully disbursed as of June 30, 2015 with the exception of $50. This remaining amount was disbursed in July 2015 after approval from the California Department of Finance. The project incurred savings and the City's portion of the savings was returned to them in the form of a payment on the loan. As of June 30, 2015, $202 of cost savings were returned with $187 applied to interest and $15 to principal.

In May 2013, the two State of California loans were renegotiated through the Housing Loan Conversion Program and extended for 55 years to 2068. They now bear an interest rate of 3% with required annual interest payments and with residual receipt requirements.

On December 30, 2009, Belden SDHC FNMA, LLC, Central SDHC FNMA, LLC and Northern SDHC FNMA, LLC (blended component units of the SDHC) entered into debt agreements with Greystone Servicing Corp. Inc. in the amount of $37,140. The debt agreement is to obtain financing towards acquiring over 350 affordable housing units in the City. The FNMA loans are nonrecourse obligations of the LLCs and not of SDHC. Under the terms of the loan agreements, the LLCs agree to pay a fixed interest rate of 7.32% on the life of the loan through the maturity date January 1, 2040.

On August 31, 2010, Northern SDHC FHA, LLC, and Southern SDHC FHA, LLC entered into debt agreements with PNC Bank, N. A. On September 20, 2010, Central SDHC FHA, LLC entered into a debt agreement with PNC Bank, N. A. for the combined total amount of $58,243. The debt agreements are to obtain financing towards acquiring additional affordable housing units in the City. The FHA loans are nonrecourse obligations of the LLCs and not of SDHC. Under the terms of the loan agreements, the LLCs agree to pay a fixed interest rate not to exceed 4.0% on the life of the loan through the maturity dates of September 1, 2045 and October 1, 2045 for the Northern & Southern LLC loans and the Central LLC loan, respectively.

The American Recovery and Reinvestment Act of 2009 created the new Build America Bond (BABs) program. State and local governments receive directly from the U.S. Treasury subsidy payments for a portion of their borrowing costs on BABs equal to 35% of the total coupon interest paid less reductions in federal appropriations. The subsidy stream is paid for the full term of the bonds. The Belden SDHC FNMA, LLC, the Northern SDHC FHA, LLC and the Southern SDHC FHA, LLC loans have been approved as qualified direct subsidy BABs loans. SDHC has received $744 in fiscal year 2015 subsidy payments.

The annual requirements to amortize such long-term liabilities as of June 30, 2015 are as follows (excluding forgivable loans of $696 and $6,030 since they are forgiven at maturity in 2022 and 2065):

	Notes Payable	
Year Ending June 30	Principal	Interest
2016	$ 2,104	$ 5,128
2017	2,220	5,011
2018	2,342	4,889
2019	2,471	4,759
2020	2,607	4,622
2021-2025	15,398	20,737
2026-2030	15,764	16,285
2031-2035	18,418	11,814
2036-2040	23,054	5,880
2041-2045	13,449	1,518
2046-2068	5,361	6,808
Total	$ 103,188	$ 87,451

Discretely Presented Component Units of the San Diego Housing Commission

The long-term liabilities for the discretely presented component units of SDHC as of December 31, 2014 are as follows:

HDP Mason

Note payable is held by the San Diego Housing Commission in the original amount of $2,365. The note bears interest at 3% per annum. Beginning May 1, 2014 and annually on May 1 of each year thereafter, principal and interest are due and payable from 47.8% of "residual receipts" as defined in the loan agreement through February 2068. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled $186 at December 31, 2014.	$ 2,365
Note payable is held by the Successor Agency to the former Redevelopment Agency of the City of San Diego in the original amount of $1,319. The note bears interest at 5% per annum. Principal and interest are due and payable from 26.6% of "residual receipts" each operating year as defined in the loan agreement note through May 2057. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled $120 at December 31, 2014.	1,319
Note payable is held by California Housing Finance Agency in the original amount of $1,181. The note bears interest at 3% per annum. Annual payments of principal and interest are payable from 23.9% of the Development's "residual receipts," as defined in the loan agreement through December 2066. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled $85 at December 31, 2014.	1,181
Note payable is held by the San Diego Housing Commission in the original amount of $226. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 1.7% of "residual receipts," as defined in the loan agreement through May 2057. The note is secured by a deed of trust on the Mason Hotel. Accrued interest totaled $23 at December 31, 2014.	69

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Note payable is held by the San Diego Housing Commission in the original amount of $230. The note is noninterest bearing. The note shall be incrementally forgiven beginning May 2013 at 10% per year provided the Corporation has complied with all provisions of the note. The note is secured by a deed of trust on the Mason Hotel. Forgiveness of debt totaled $23 for the year ended December 31, 2014.	184
Total HDP Mason	5,118
Casa Colina	
Note payable is held by Red Mortgage Capital, Inc. in the original amount of $3,465. Monthly payments of $19 including principal and interest at 5.68% are due through February 1, 2039. The note is secured by a deed of trust on Casa Colina. Accrued interest totaled $14 at December 31, 2014.	2,996
Note payable is held by the San Diego Housing Commission in the original amount of $1,600. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 50% of "residual receipts," as defined in the loan agreement through February 2059. The note is secured by a deed of trust on Casa Colina. Accrued interest totaled $35 at December 31, 2014.	1,527
Total Casa Colina	4,523
Logan	
The Series A-1 and Series A-2 promissory notes payable to the Housing Authority of the City of San Diego (Housing Authority) totaling $5,025 were originated on November 7, 2012 in connection with the Housing Authority's issuance of Multi-family Housing Revenue Bonds in the amount of $5,300. The Series A-1 note in the amount of $3,311 and the Series A-2 note in the amount of $1,714 are being serviced by JP Morgan Chase Bank, N.A. Interest on the notes is payable monthly at the one-month LIBOR rate quoted by JP Morgan Chase Bank, N.A. plus 2.17%. Principal and interest on the Series A-2 was paid in February 2014 at which time the Series A-1 note converted to a permanent loan. The permanent loan bears interest at a fixed rate of 5.58% and is payable in monthly installments of principal and interest through February 2032. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled $16 at December 31, 2014.	3,275
The mortgage note which was originated on November 30, 1995 is held by the San Diego Housing Commission in the original amount of $1,400 and bears interest at 6% per annum. Payments of principal and interest are payable annually from residual receipts, as defined in the note. Principal and accrued interest are due November 20, 2050. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled $1,279 at December 31, 2014.	1,400
The mortgage note which was originated on December 1, 1995 is held by the Successor Agency to the former Redevelopment Agency of the City of San Diego in the original amount of $150. The note bears interest at 3% per annum. Principal and accrued interest are due in December, 2050. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled $63 at December 31, 2014.	150
Total Logan	4,825

Broadway	
Multi-family note payable to the Housing Authority of the City of San Diego with a maximum principal sum of $17,825 was originated on November 25, 2014. The note is being serviced by Berkadia Commercial Mortgage and bears interest at 4.49%. The note is payable in monthly installments of principal and interest of $84 through maturity on December 1, 2044. The note is secured by a deed of trust on San Diego Square. Accrued interest totaled $67 at December 31, 2014.	17,825
Churchill	
Note payable is held by San Diego Housing Commission in the original amount of $3,800. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 75% of residual receipts as defined in the loan agreement through July 2068. The note is secured by a deed of trust on Hotel Churchill. Accrued interest totaled $7 at December 31, 2014.	214
Total Notes Payable	32,505
Less: Current Portion	(346)
Notes Payable, Net of Current Portion	$ 32,159

The future principal payments on the notes payable following December 31, 2014 are as follows:

2015	$ 346
2016	362
2017	379
2018	396
2019	415
Thereafter	30,607
Total	$ 32,505

8. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS (Dollars in Thousands)

San Diego Geographic Information Source (SanGIS)

SanGIS was created in 1997 as a joint powers agreement between the City and the County of San Diego. SanGIS is governed by a Board of Directors consisting of one voting member from the City and one from the County. The Board approves the annual budget and fiscal audit, sets long range plans and strategic goals, and authorizes major project funding. All initiatives and decisions must be approved by a consensus of both members of the Board before being implemented. SanGIS objectives are to create and maintain a geographic information system, to market and license digital geographic data and software, to provide technical services, and to publish geographical and land-related information for the City and County, other public agencies, and the private sector. The SanGIS FY 15 annual budget of $1,223 was funded primarily by equal contributions from the City and County. In its latest audited report, SanGIS reported a decrease in net position of $88 and an ending net position of $245 for the fiscal year ended June 30, 2014. Complete stand-alone financial statements are available at www.sangis.org.

San Diego Workforce Partnership (SDWP)

In 1974 the City and County of San Diego jointly formed a Consortium to provide regional employment and training services throughout San Diego County. The City and County jointly govern the Consortium. The Consortium's Board of Directors consists of two members of the City Council, two members from the County Board of Supervisors, and one member of a charitable organization. The Consortium is empowered to make applications for and receive grants from governmental or private sources. The Board assigned the non-profit San Diego Workforce Partnership, Inc. as the grant recipient and administrative entity to operate the Consortium. In 1997 the Consortium and SDWP entered into an agreement assigning all assets, liabilities, and debt of the Consortium, and all rights, powers, duties, obligations, and burdens of the Consortium under any contract to which it is a party, to SDWP. To the extent that law mandates any responsibility upon the City and County for debt obligation or liability, the City and the County have agreed to share equally the payment of such an obligation. In its latest audited report, SDWP reported a decrease in net position of $81 and ending net position of $382 for the fiscal year ended June 30, 2014. Complete stand-alone financial statements can be requested from San Diego Workforce Partnership, Inc. 3910 University Avenue, Suite 400, San Diego, CA 92105.

San Dieguito River Valley Regional Open Space Park

The San Dieguito River Valley Regional Open Space Park Joint Powers Authority (JPA) was formed in 1989 by the City and County of San Diego and the Cities of Del Mar, Escondido, Poway, and Solana Beach to create, preserve and enhance the San Dieguito River Valley Regional Open Space Park for the benefit of the public. In 2015 an amended and restated agreement was executed, continuing the JPA for fifty years. The JPA Board is composed of two elected officials each from the County and the City, one elected official each from the Cities of Del Mar, Escondido, Poway, and Solana Beach, and one public member representing the Citizens Advisory Committee. The JPA's funding is primarily comprised of operating grants, contributions, and agency assessments based on population and jurisdictional area. The JPA's FY 2015 annual budget for agency contributions was $820, of which the City's share was $254, or 31%. In its latest audited report, for the fiscal year ended June 30, 2014, the JPA reported a decrease in net position of $748 and an ending net position of $47,744. The debts, liabilities, or obligations of the JPA belong to the JPA, and not the agencies. Upon termination of the agreement or existence of the JPA, real property owned by the JPA will be distributed to the jurisdiction on which the land is located, while remaining assets and liabilities will be divided among the agencies based on the contribution calculation percentages. Complete stand-alone financial statements are available at www.sdrp.org.

9. LEASE COMMITMENTS (Dollars in Thousands)

The City leases various properties and equipment. Leased property having elements of ownership are recorded as capital leases and reported as capital assets in the government-wide financial statements, along with a corresponding capital lease obligation. Leased property that does not have elements of ownership is reported as an operating lease and is expensed when paid.

Capital Leases

The City has entered into various capital leases for equipment, structures, and infrastructure. These capital leases have maturity dates ranging from July 1, 2015 through May 31, 2035 and interest rates ranging from 0.71% to 6.47%. A schedule of future minimum lease payments under capital leases as of June 30, 2015 is provided in Note 5 and Note 6. Increases in the amounts for land and buildings were primarily due to the City entering into a 20 year lease-to-own agreement with CCP 1200, LLC (Lessor) a Delaware limited liability company on February 10, 2015. This lease is recognized as a capital lease, and is included in Note 5. The value of the City's capital leased assets as of June 30, 2015 is $105,828, net of accumulated depreciation of $44,670. These amounts are categorized by fund type and major asset class in the table below.

	Gross Value	Depreciation	Net Book Value
Governmental			
Equipment	$ 103,913	$ (44,670)	$ 59,243
Structures & Improvements	29,051	-	29,051
Land	15,015	-	15,015
Construction in Progress	269	-	269
Total Governmental	$ 148,248	$ (44,670)	$ 103,578
Business-Type			
Infrastructure	$ 2,250	$ -	$ 2,250

Operating Leases

The City's operating leases consist primarily of rental property occupied by City departments. Lease obligations for City-leased space include rent, utility charges, common area maintenance, storage, and parking. If a department pays for parking, storage, etc. that is not contracted for in the lease, those charges are not included. Departments are allocated charges based on the percentage of the total leased space occupied. Any charges that apply exclusively to one department, rather than the total leased space will be allocated accordingly.

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, 2015:

Year Ending June 30	Amount
2016	$ 13,094
2017	12,964
2018	13,125
2019	12,992
2020	8,238
2021-2025	33,210
2026-2030	22,209
Total	$ 115,832

Rent expense, as related to operating leases, was $13,667 for the year ended June 30, 2015, of which $12,469 was reported as governmental activities, and $1,198 as business-type activities.

Lease Revenues

The City has operating leases for certain land, buildings, and facilities with tenants and concessionaires. Leased capital asset carrying values of approximately $168,841, as well as depreciation, are reported in Note 4 and are consolidated with non-leased assets. This amount includes $60,186 for Petco Park which is subject to the Joint Use Management Agreement reported on Note 20. Minimum annual lease revenues are reported in the following schedule:

Year Ending June 30	Amount
2016	$ 41,364
2017	39,769
2018	37,606
2019	36,590
2020	35,898
2021-2025	167,647
2026-2030	155,105
2031-2035	144,170
2036-2040	133,024
2041-2045	119,349
2046-2050	79,704
2051-2055	22,677
2056-2060	8,111
2061-2065	1,373
Total	$ 1,022,387

This amount does not include contingent rentals, which may be received under certain leases of property on the basis of percentage returns. Rental income as related to operating leases was $78,461 for the year ended June 30, 2015, which includes contingent rentals of $35,805.

10. DEFERRED COMPENSATION PLAN (Dollars in Thousands)

The City, SDCCC, and SDHC each offer their employees a deferred compensation plan, created in accordance with Internal Revenue Service Code Section 457, State and Local Government Deferred Compensation Plans. These plans permit eligible employees to defer, pre-tax, a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the deferred compensation plans are held in trust for the exclusive benefit of plan participants and their beneficiaries.

Prior to dissolution effective February 6, 2014, San Diego Data Processing Corporation (SDDPC) offered a 457(b) deferred compensation plan to its employees. On August 5, 2013, acting as the sole member of SDDPC, the City Council elected to take the necessary steps to dissolve SDDPC. Additionally, the City Council directed SDDPC's board to adopt retirement plan amendment resolutions ending SDDPC's retirement plans and discontinue funding of the plans effective on or before the date of final dissolution of SDDPC. On December 3, 2013, SDDPC's 457(b) plan was effectively terminated, and the winding down process was substantially complete as of June 30, 2015.

The deferred compensation plans are not considered part of the City's financial reporting entity.

11. PENSION PLANS (Dollars in Thousands)

The City has a defined benefit pension plan and various defined contribution pension plans covering substantially all of its employees. The defined benefit pension plan (Pension Plan) is closed to new City employees hired on or after July 20, 2012 except for sworn police officers who continue to participate in the Pension Plan.

An initiative titled "Comprehensive Pension Reform of San Diego" (Proposition B) was approved by voters on June 5, 2012 and implemented by the City in fiscal year 2013. Generally, the measure amended the City Charter to provide all new City employees hired on or after July 20, 2012, except sworn police officers, with a 401(a) defined contribution plan instead of a defined benefit plan. The initiative contains other provisions intended to limit pension costs for existing employees by directing the City to seek, through labor negotiations, to limit City employees' compensation used to calculate pension benefits. This limitation on the City's negotiating authority is in effect until June 30, 2018. Pensionable pay increases may be authorized with a two-thirds vote of the City Council following preparation of an actuarial report that discloses the impact of any proposed increases in compensation or benefits on the City's Pension Plan.

In fiscal year 2013, the City reached five-year agreements with each of the employees' collective bargaining units for non-pensionable compensation increases for fiscal years 2014 through 2018. The agreements will freeze pensionable pay and cost-of-living increases for the same period (pensionable pay ranges were frozen, but pensionable pay within those ranges continue to go up for some employees based on years of service in salary classes as specified by the 2011 salary ordinance). The labor agreements may be reopened at the option of employee organizations in fiscal years 2017 and 2018, but only for changes in non-pensionable compensation. On July 1, 2015, the San Diego Police Officers Association (SDPOA), the labor group that represents sworn safety officers, entered into a Memorandum of Understanding (MOU) with the City for fiscal years 2016 through 2020. Also, on October 15, 2015, the San Diego Municipal Employee Association (MEA), the labor group that represents technical, office, professionals, and supervisory City employees, voted to ratify a tentative labor agreement between MEA and the City for fiscal years 2017 through 2020. Both labor agreements increased pensionable pay for fiscal years 2019 and 2020 by 3.3% for each fiscal year. The MEA agreement had not been approved by the City Council by the time this report was issued. Additional information on these agreements can be found in Note 24.

Proposition B is the subject of ongoing litigation before the California Public Employment Relations Board (PERB). On February 11, 2013, a PERB administrative law judge issued a proposed decision finding that the City violated state labor laws by failing to meet and confer with City labor organizations prior to placing Proposition B on the ballot. The City has filed exceptions to the proposed decision, which will be reviewed by the full PERB board. There is currently no hearing date set for this review. The decision of the PERB board may also be appealed to the Fourth District Court of Appeal. The litigation could potentially repeal or unwind the implementation of some requirements of Proposition B. The City is unable to quantify the cost impact of any repeal or unwind of Proposition B. Notwithstanding the PERB litigation, the actuarial valuation as of June 30, 2014 assumes the validity of Proposition B, that the City has fully implemented its requirements, and that the City intends to comply with those requirements under the terms specified in the initiative.

DEFINED BENEFIT PLAN

a. Pension Plan Description and Benefits Provided

SDCERS is a public employee retirement system established in fiscal year 1927 by the City, authorized by Article IX of the City Charter. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (Port), and the San Diego County Regional Airport Authority (Airport). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board (Board) to provide

retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. Benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code.

The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and Airport are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City; however, the financial statements of the SDCERS Pension Trust do include the Port and Airport activity and are reported in the fiduciary funds section of this report.

The information disclosed in this note relates solely to the City's participation in SDCERS. City employment classes participating in the City's Pension Plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

As a defined benefit plan, retirement benefits are determined under the Pension Plan primarily by a member's class, hire date, age at retirement, number of years of creditable service, and the member's final compensation. The Pension Plan provides annual cost-of-living adjustments not to exceed 2% to retirees, which is factored into the actuarial assumptions. Increases in retirement benefits due to cost-of-living adjustments do not require voter approval.

Final compensation is based upon either the highest salary earned over a consecutive twelve month period, the highest average salary earned over three one-year periods, or the highest salary earned over a consecutive 36 month period, depending on the member's hire date. To qualify for a service retirement benefit, the Pension Plan requires ten years of service at age 62 for general members (55 for safety members) or 20 years of service at age 55 for general members (50 for safety members), which could include certain service purchased or service earned at a reciprocating government entity. Under Proposition B, sworn police officers have a reduction of 3% per year if retiring earlier than age 55. Retirement benefits are awarded at various rates, ranging from 1.0% to 3.5% per year of service multiplied by final compensation depending on the member's plan and hiring date. The actual percentage of final compensation per year served component of the calculation rises as the employee's retirement age increases and depends on the retirement option selected by the employee. Some safety members also have the option to elect 3.0% per year of service at age 50 and above, not to exceed 90% of final compensation, as part of the formula to calculate their retirement benefits. The maximum percentage of final compensation per year served is 2.8% for general members, 3% for safety members and 3.5% for elected officers. Depending on the number of years of service, participants of the Elected Officer's Retirement Pension component of the Plan can retire earlier than the age of 55; however, their retirement allowance is reduced by 2.0% for each year under the age of 55.

At June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8,822
Inactive employees entitled to but not yet receiving benefits	2,920
Active employees	7,272
Total	19,014

Deferred Retirement Option Plan (DROP)

DROP is a program designed to allow members an alternate method of accruing additional retirement benefits from the Pension Plan while they continue to work for the City. Only members hired before July 1, 2005 are eligible to participate in DROP. A member must be eligible for a service retirement to enter DROP. In addition, the member may only participate in the program up to a maximum of five years. A DROP participant must agree to end employment with the City on or before the end of the selected DROP participation period. The member's decision to enter DROP is irrevocable.

Upon entering DROP, the participant stops making pension contributions to SDCERS and stops earning service credit. Instead, amounts equivalent to the participant's retirement benefit plus additional DROP contributions are credited to an interest bearing individual account held in the participant's name. While participants were employed by the City, the annual interest credited to the DROP participant accounts was 1.8%. When the participant leaves DROP and retires from City service, the participant's DROP account balance may be paid in a lump sum, rolled over to another plan, or converted to monthly payments. The DROP annuity factor used to calculate the monthly payments in the first half of fiscal year 2015 was 3.2% and 3.6% in the second half. During the period of participation, the participant continues to receive employer offered benefits available to regular employees with exception to earning service credit, as previously discussed.

Purchase of Service Credits

Pension Plan members hired prior to July 1, 2005 are permitted to purchase service credits to be used in determining retirement allowances. Members hired after July 1, 2005 are only permitted to purchase service credits related to certain employee absences such as military leave, long-term disability leave and leave taken under the Family Leave Act. The cost of purchased service credits is determined by the SDCERS Board consistent with the requirements of the San Diego Municipal Code (SDMC).

Supplemental Cost-of-Living Benefit

On August 5, 2013, the City Council amended the San Diego Municipal Code to provide a method for funding a supplemental cost-of-living benefit (the "Supplemental COLA") previously given to a closed group of retirees who retired on or before June 30, 1982. SDCERS holds a reserve separately from plan assets, and pays Supplemental COLA benefits from this reserve. On a yearly basis, the City cash funds the Supplemental COLA reserve based on an estimate of benefits to be paid during the fiscal year. In fiscal year 2015, the City contributed $2,060 towards the Supplemental COLA reserve and paid approximately $2,225 in benefits. As of June 30, 2015, the Supplemental COLA reserve had an unspent balance of $179.

b. Summary of Significant Accounting Policies – Pension

The pension trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Pension Plan. See Note 1(e) for additional disclosures on SDCERS' method used to value investments.

The City has elected to use fiscal year 2014 as its measurement date for purposes of determining the Pension Plan's Total Pension Liability and Plan Fiduciary Net Position. The measurement is based on the fair value of the Plan's assets as of June 30, 2014 and the Total Pension Liability as of the valuation date, June 30, 2013, with updated procedures to roll forward to June 30, 2014. There were no significant events between the valuation date and the measurement date, therefore the update procedures only include the addition of service cost and interest

cost offset by actual benefit provisions. Beginning of year measurements are also based on the actuarial valuation as of June 30, 2013.

c. Funding Policy and Contribution Rates

City Charter Article IX Section 143 requires employees and employers to contribute to the Pension Plan. The Charter section stipulates that funding obligations of the City shall be determined by the Board of SDCERS and are not subject to modification by the City. The section also stipulates that under no circumstances may the City and Board enter into any multi-year funding agreements that delay full funding of the Pension Plan. The City's Actuarially Determined Contribution (ADC) is calculated by SDCERS' actuary and approved by the SDCERS Board. The Charter requires that employer contributions for normal retirement allowances be substantially equal to employee contributions. There were no negotiated employee retirement contribution offsets effective in fiscal year 2015.

Pursuant to the Charter, City employer contribution rates, adjusted for payment at the beginning of the year, are actuarially determined rates and are expressed as a fixed ADC. In January 2015 the SDCERS Board voted to account for expected administrative expenses explicitly in the ADC. The administrative component is $4.2 million for fiscal year 2016, based on a three year phase-in of $12,500 in expected expenses. For fiscal year 2017 there will be two-thirds recognition and for all fiscal years following, 100% of the expected administrative expenses will be added to the ADC.

The following table shows the City's contribution rates (weighted average of each employee group) for fiscal year 2015, based on the June 30, 2013 actuarial valuation, expressed as percentages of expected payroll:

	Employer Contribution Rates	
	Non-Safety Members	Safety Members
Normal Cost	8.44%	13.19%
Amortization Payment [1]	43.45%	57.89%
Normal Cost Adjusted for Amortization Payment [1]	51.88%	71.08%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	50.11%	68.63%

[1] Rates assume that contributions are made uniformly during the Plan year.

Normal Cost = The actuarial present value of pension plan benefits allocated to the current year by the actuarial cost method.

Amortization Payment = The portion of the pension plan contribution, which is designed to pay interest on and to amortize the unfunded actuarial accrued liability.

Members are required to contribute a percentage of their annual salary to the Pension Plan on a biweekly basis. Rates vary according to entry age. For fiscal year 2015, the City employee weighted average contribution rates as a percentage of annual covered payroll were 9.19% for general members and 14.37% for safety members.

In accordance with Chapter 2, Article 4, Division 15 of the SDMC, earnings in excess of the assumed actuarial rate of return are distributed to various SDCERS system reserves, SDCERS budget, and contingent benefits. The order of distribution and a more detailed discussion of each distribution follows: 1) Pension Plan assets are used to credit interest, at a rate determined by the SDCERS Board, which was 7.25% for fiscal year 2015, to the Employer and Employee Contribution Reserves and 1.8-2% to the DROP member accounts; 2) Pension Plan assets fund the SDCERS Annual Budget; 3) Pension Plan assets are distributed for supplemental or contingent

payments or transfers to reserves. These items include in priority order: 1) Annual Supplement Benefit Payment (13th Check) paid to retirees and their continuances, which ranges from $30 to $75 (whole dollars) times the number of years of service credit; 2) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (Corbett Settlement payments not paid in any one year accrue and remain an obligation of SDCERS until paid); 3) Crediting interest to the Reserve for Supplemental Cost-of-living Adjustment (SCOLA).

d. Net Pension Liability

The City has relied on the work of the SDCERS actuary to determine the City's Net Pension Liability, considers the assumptions used by the actuary to be reasonable, and agrees with the actuary's calculations, which are premised on such assumptions. The City has elected to use June 30, 2014 as its measurement date. The Net Pension Liability is measured as of June 30, 2014, based on the fair value of assets as of June 30, 2014 and the Total Pension Liability as of the valuation date, June 30, 2013, updated to June 30, 2014. There were no significant events between the valuation date and the measurement date so the update procedures only included the addition of service cost and interest cost offset by actual benefit payments.

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Description	Actuarial Assumption
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Method	Entry Age Normal (EAN)
Amortization Method	Closed; Level % (Police) Level $ (non-Police)
Annual Rate of Return on Investments	7.25% net of investment expenses
Inflation Rate	3.3% per year, compounded annually
Cost of Living Adjustment	2.00% per year, compounded annually
Projected Salary Increases Due to Inflation [1]	0% for FY15-FY18, 3.3% thereafter
Mortality	Healthy retired members use the RP-2000 Combined Mortality Table

[1] Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study performed by the SDCERS actuary for the period July 1, 2007 through June 30, 2010, and the results of an economic experience study performed by the SDCERS actuary prior to the completion of the June 30, 2013 valuation.

GASB 68 permits the use of the assumed annual rate of return on investments (7.25%) as the discount rate to measure the projected benefit payments used to calculate the Net Pension Liability, without regard to the funding level of the pension system, if (i) the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (ii) pension plan assets are expected to be invested using a strategy to achieve that return. In determining whether condition (i) is satisfied, the actuary can incorporate all projected cash flows for contributions from the City and from current active employees.

To determine the Pension Plan's projected fiduciary net position, SDCERS' actuary has assumed that employees will continue to contribute to SDCERS at the current rates and that the City will continue its historical practice (since 2006) of contributing to SDCERS based on an actuarially determined contribution. Accordingly, the City has calculated its Net Pension Liability using a discount rate of 7.25% (the discount rate used for the prior fiscal year valuation was 7.50%).

e. Long-Term Expected Real Rate of Return

The target allocation and the best estimates for long-term expected real rates of return for each major asset class of the Pension Plan, as of the June 30, 2014 measurement date, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	21.0%	4.7%
Non-U.S. Equity	14.0%	5.0%
Emerging Market Equity	1.0%	6.4%
Global Equity	5.0%	5.0%
U.S. Fixed Income	22.0%	1.7%
Emerging Market Debt	5.0%	4.1%
Real Estate	11.0%	4.3%
Private Equity	10.0%	6.6%
Infrastructure	3.0%	5.4%
Opportunity Fund	8.0%	4.6%
Total	100.0%	

Source: SDCERS CAFR, fiscal year 2014

Expected return estimates for equity and fixed income were developed using a geometric (long-term compounded) building block approach: 1) expected returns based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and 2) where necessary, judgment-based modifications are made to these inputs. Return assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment from SDCERS' general investment consultant specialist research teams.

f. Changes in the Net Pension Liability

The following table shows the changes in Net Pension Liability based on the actuarial information provided to the City (dollars in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	$ 7,555,527	$ 5,395,158	$ 2,160,369
Changes for the Year:			
Service Cost	107,003	-	107,003
Interest	537,875	-	537,875
Contributions - Employer	-	279,659	(279,659)
Contributions - Employee	-	65,467	(65,467)
Net Investment Income	-	935,051	(935,051)
Benefit Payments, Inlcuding Refunds of Employee Contributions	(384,980)	(384,980)	-
Adminstrative Expense	-	(10,467)	10,467
Net Changes	259,898	884,730	(624,832)
Balances at June 30, 2014	$ 7,815,425	$ 6,279,888	$ 1,535,537

The required schedule of changes in the net pension liability and related ratios immediately following the notes to the financial statements presents the beginning and ending balances of the total pension liability, the plan assets available for pension benefits (plan net position), and the net pension liability, as well as the itemized changes in those amounts during the fiscal year. The schedule also reports a ratio of plan fiduciary net position divided by the total pension liability, the payroll amount for current employees in the plan (covered employee payroll), and a ratio of the net pension liability divided by covered employee payroll. One year of information is presented, and will build to 10 years of information on a prospective basis.

The required schedule of contributions immediately following the notes to the financial statements presents the City's actuarially determined contribution to the Pension Plan, the City's actual contribution, the difference between the actual and actuarially determined contributions, and a ratio of actual contributions divided by covered employee payroll.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - Pursuant to GASB 68, the following table presents the Net Pension Liability of the City, calculated using the discount rate of 7.25%, as well as what it would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Total Pension Liability	$ 8,696,019	$ 7,815,425	$ 7,084,198
Plan Fiduciary Net Position	6,279,888	6,279,888	6,279,888
Net Pension Liability	$ 2,416,131	$ 1,535,537	$ 804,310

Pension Plan Fiduciary Net Position - Detailed information about the Pension Plan's Fiduciary Net Position is available in the separately issued SDCERS financial reports available at www.sdcers.org.

g. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension expense of $83,256. At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	$ 268,054	$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Assets	-	428,432
Total	$ 268,054	$ 428,432

Pursuant to GASB 71, $268,053 reported as deferred outflows of resources related to pension contributions made subsequent to the measurement date of June 30, 2014, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. $428,432 reported as deferred inflows of resources related to the net difference between projected and actual earnings on pension plan assets will be recognized as pension expense as follows:

Year Ending June 30	Amount
2016	$ (107,108)
2017	(107,108)
2018	(107,108)
2019	(107,108)
2019	-

h. Preservation of Benefits (POB) Plan

The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). As provided in SDMC section 24.1606 and required by federal tax law, the POB Plan is unfunded within the meaning of the federal tax laws. The City may not pre-fund the POB Plan to cover future liabilities beyond the current year as it can with an IRC section 401(a) pension plan. Because the POB Plan has no assets, the entire Actuarial Accrued Liability of $7,896 as of the June 30, 2014 valuation, is unfunded. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis, which is funded by the City. Because the POB Plan is not administered through a trust, requirements under GASB 27 remain applicable. The POB Plan is not subject to the requirements established by GASB 67 or 68.

In fiscal year 2015, the City contributed approximately $1,399 in benefits above 415(b) limits for the POB Plan. The number of participants in any given year for the POB Plan is determined by the number of Pension Plan participants who exceed the current year's section 415(b) limitations as calculated by SDCERS' actuary. The maximum annual participant payment from a defined benefit plan for calendar years 2014 and 2015 was $210. For non-safety members, the limit is adjusted downward depending on the age of the participant when benefits began. Based on the fiscal year 2014 actuarial valuation, the City's POB Plan pension cost for fiscal year 2015 was approximately $536; however, the City contributed approximately $1,399 to the POB Plan in fiscal year 2015 and therefore, the $863 difference decreased the City's Net Pension Obligation (NPO). Financial statements for

the POB Plan are included in the fiduciary funds section of this report.

Funded Status and Funding Progress

The following table summarizes the POB Plan's funding status as reported in the June 30, 2014 valuation (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll[1] ((b – a)/c)
6/30/2014	$ -	$ 7,896	$ 7,896	0.00%	N/A	N/A

[1] Payments are based on annual determination of pension benefits that are above IRS section 415(b) limits and are funded on a pay-go basis.

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information on the funding status of the POB Plan.

Annual Pension Cost and Net Pension Obligation

The City's POB Plan pension cost for fiscal year 2015 is based on the June 30, 2014 actuarial valuation prepared by the SDCERS actuary. The Net Pension Obligation (NPO) is the cumulative difference between the annual POB Plan pension cost and the City's contributions towards the POB Pension Plan. As of June 30, 2015, the City's NPO associated with POB is approximately $2,140.

The change to the NPO is derived by first calculating the City's POB Plan ARC. The ARC is calculated by actuarially determining the cost of pension benefits accrued during the year (normal cost) as well as the annual amount needed to amortize the UAAL (amortization cost) as reported by the actuary, in accordance with the amortization period and method selected. The ARC is then increased by interest accruing on any outstanding NPO (NPO Interest) and then reduced by the amortization of the UAAL that is related to the NPO (ARC Adjustment).

The following shows the calculation for the NPO based on the actuarial information provided to the City by SDCERS' actuary (dollars in thousands):

	POB
ARC [Fiscal Year 2015]	$ 876
Interest on NPO	218
ARC Adjustment	(558)
Annual Pension Cost	536
Contributions [Fiscal Year 2015]	(1,399)
Change in NPO	(863)
NPO Beginning of Year [July 1, 2014] [1]	3,003
NPO End of Year [June 30, 2015]	$ 2,140

The table below reflects the assumptions used for the POB Pension Plan actuarial valuation:

	Method/Assumption for the Valuation Ended	
Description	June 30, 2013	June 30, 2014
Actuarial Method	Entry Age Normal (EAN)	Entry Age Normal (EAN)
Amortization Method	Closed; Level % (Police) Level $ (non-Police)	Closed; Level % (Police) Level $ (non-Police)
Annual Rate of Return on Investments	7.25% net of investment expenses	7.25% net of investment expenses
Inflation Rate	3.3% per year, compounded annually	3.3% per year, compounded annually
Cost of Living Adjustment	2.00% per year, compounded annually	2.00% per year, compounded annually
Projected Salary Increases Due to Inflation[1]	0% for FY15-FY18, 3.3% thereafter	0% for FY16-FY18, 3.3% thereafter

[1] Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed. These increases are not used in the amortization of City's UAL.

Amortization of the UAAL for the June 30, 2014 valuation is based on 20 years of the 2007 UAAL, 15 years for subsequent experienced gains and losses, 30 years for changes in methods and assumptions, 5 years for benefit changes, and 15 years for the non-police UAAL as of June 30, 2012.

The following table shows the City's annual pension cost (APC) for the POB Plan and the percentage of APC contributed for the fiscal year ended June 30, 2015 and the two preceding years (dollars in thousands):

Fiscal Year Ended June 30	APC	Percentage Contributed	Net Pension Obligation
2013	$ 1,289	121.96%	$ 3,744
2014	662	211.93%	3,003
2015	536	261.01%	2,140

DEFINED CONTRIBUTION PLANS

a. Supplemental Pension Savings Plan - City

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan (SPSP). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare (SPSP-M). The SPSP and SPSP-M were merged into a single plan (SPSP) on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 (OBRA-90) requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act (FICA) effective July 1, 1991, the City Council established the Supplemental Pension Savings Plan-Hourly (SPSP-H). These supplemental plans are defined contribution plans administered by Wells Fargo to provide pension benefits for eligible employees. The City Council can amend any provisions of the plans that are not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Millais-Brown Act. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general members, lifeguard members and elected officers participate in the plan. Eligible employees may participate from

the date of employment; however, the plan was closed to general and lifeguard members hired on or after July 1, 2009 and January 1, 2011, respectively.

The following table details plan participation as of June 30, 2015:

Plan	Participants
SPSP	6,554
SPSP-H	5,945

The SPSP requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis, which was matched by City contributions of 4.25% during fiscal year 2015 for employees represented by the MEA and the California Teamsters Local 911. Beginning July 1, 2015, City contributions are increased to 6.00%

Under the SPSP, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's SPSP cost.

401(a) Plan Under Proposition B - Proposition B amended the City Charter to provide all new City employees initially hired on or after July 20, 2012, except sworn police officers, with a 401(a) plan that is administered along with SPSP but with different contribution rates, vesting periods and employer match. Non-public safety employees contribute an amount equal to 9.2% of salary and firefighters, lifeguards, and police recruits contribute 11% of salary (including overtime) on a mandatory basis. The City matches all such contributions and contributions are fully vested immediately upon employment. Police recruits participate in SDCERS upon acceptance of full-time police employment. Due to ongoing litigation regarding Proposition B, the City has not established a new plan for eligible employees. Instead, the City has contributed funds to SPSP-H, an existing 401(a) plan, to eligible employees in accordance with the SPSP-H plan provisions. The City will continue to contribute funds for such employees through the SPSP-H, pending resolution of Proposition B litigation.

In fiscal year 2015, the City and the covered employees contributed $24,070 and $24,005, respectively, including contributions made under the 401(a) Plan under Proposition B. The City also recognized approximately $1,289 in forfeitures. As of June 30, 2015, the plan fiduciary net position totaled $661,988. SPSP, which includes SPSP-H, is considered part of the City's financial reporting entity and is reported as a pension trust fund.

b. 401(a) Plan - City

The City Council established a 401(a) Plan for all General Member employees hired on or after July 1, 2009 and before July 20, 2012. The 401(a) Plan is a defined contribution plan administered by Wells Fargo to provide pension benefits for eligible employees. Employees are eligible to participate from the date of employment and are immediately 100% vested. Employees contribute 1% on a mandatory basis, which is matched by City contributions. Additionally, employees can make voluntary contributions to their 401(a) Plan accounts through payroll deductions not to exceed IRS limits. Voluntary contributions to the plan are not matched by the City. The City Council can amend any provisions of the plan that is not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Millais-Brown Act.

The City and employees contributed $357 and $459, respectively, during the year ended June 30, 2015. As of

June 30, 2015, the plan fiduciary net position totaled $3,080. The 401(a) Plan is considered part of the City's financial reporting entity and is reported as a pension trust fund.

c. 401(k) Plan - City

The City Council established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wells Fargo to provide pension benefits for eligible employees. Employees are eligible to participate from the date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions. The City Council can amend any provisions of the plan that is not part of any employee's vested retirement benefit. However, if the City amends any non-vested provisions, it must first comply with procedural requirements, including collective bargaining under the Meyers-Millais-Brown Act.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed $17,363 during the year ended June 30, 2015. There is no City contribution towards the 401(k) Plan.

As of June 30, 2015, the plan fiduciary net position totaled $334,956. The 401(k) Plan is considered part of the City's financial reporting entity and is reported as a pension trust fund.

d. Pension Plan - San Diego Data Processing Corporation

Prior to dissolution, SDDPC administered a Money Purchase Pension Plan (SDDPC 401(a) Plan), a defined contribution plan covering all employees of SDDPC who were eligible for membership as defined by the plan document. On August 5, 2013, acting as the sole member of SDDPC, the City Council elected to take the necessary steps to wind-up and dissolve SDDPC. Additionally, the City Council directed SDDPC's board to adopt retirement plan amendment resolutions ending SDDPC's retirement plans and discontinuing funding of the Plans effective on or before the date of final dissolution of SDDPC. On December 3, 2013, the SDDPC 401(a) plan was effectively terminated and the process of winding down was substantially complete as of June 30, 2015.

Narratives presented in the following sections (e. through g.) are taken directly from the fiscal year 2015 annual financial reports of the corresponding entity (certain terms have been modified to conform to the City's CAFR presentation).

e. Pension Plan - Civic San Diego (CSD)

CSD sponsors and administers a Tax Deferred Annuity Plan (CSD Plan) under section 403(b) of the Internal Revenue Code of 1986 which is provided to all full-time regular employees. The CSD Plan operates under the direction of CSD's Board of Directors, who established the CSD Plan and can amend it. The CSD Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the CSD Plan by the employer and the employees, plus investment earnings. Contribution requirements of the CSD Plan are established and can be amended by the Board of Directors. All full time regular employees are eligible to participate on their first day of employment an amount equal to 7.5% of their semi-monthly CSD Plan compensation. Effective on the first payroll following three months of employment, CSD contributes an amount equal to 12% of the total semi-monthly CSD Plan compensation for all full-time regular employees.

CSD's contributions for each employee are fully vested at the time of contribution. CSD's total payroll (excluding benefits) for fiscal year 2015 was $2,697. CSD's contributions were calculated based on the CSD Plan's compensation amounts for all eligible employees, which totaled $2,697. CSD made its required contribution amounting to $310 for fiscal year 2015.

The fiduciary responsibilities of CSD consist of making timely contributions and remitting deposits collected. The CSD Plan is not a component unit of CSD and is therefore not reported in the basic financial statements.

During the year ended June 30, 2013, there were two amendments made to the CSD Plan. CSD amended the employer contribution percentage for each eligible participant. Effective July 1, 2012, CSD's employer contribution percentage was changed from 16% to 12% of each eligible participant's compensation.

Finally, CSD defined that an eligible participant is a permanent and full-time employee that normally works at least 30 hours per week. An employee is considered to work at least 30 hours per week, if for the 12-month period beginning on the date the employee's employment commenced, CSD reasonably expects the employee to work at least 1,500 service hours and, for each CSD Plan year ending after the close of that 12-month period, the employee has worked at least 1,500 service hours.

f. Pension Plan - San Diego Convention Center Corporation

The SDCCC Money Purchase Pension Plan (SDCCC Plan) is a governmental plan under IRC section 414(d), which was established effective January 1, 1986, by SDCCC's Board of Directors. The SDCCC Plan is administered by SDCCC through a Defined Contribution Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the plan. Any recommended plan amendments are subject to the approval and adoption by SDCCC's Board of Directors. As part of the SDCCC Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer plan assets subject to the terms of the SDCCC Plan. The SDCCC Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the plan plus investment earnings less allowable plan expenses. The SDCCC Plan covers all employees who have completed at least 1,000 or more hours of service in one year and are not covered through a union retirement plan. Employees are eligible to participate in the SDCCC Plan on the first day of the month after completion of 1,000 hours of service during the twelve-month period beginning from the employee's hire date (or during any subsequent plan year). For each plan year, SDCCC contributes 10% of compensation paid after becoming an eligible participant, which is transferred to the fund on behalf of each qualifying individual.

SDCCC's Plan year is defined as a calendar year. The balance in the SDCCC Plan for each eligible employee is vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and SDCCC Plan expenses are allocated in accordance with SDCCC Plan provisions. A trustee bank holds the SDCCC Plan assets.

For the year ended June 30, 2015, pension expense amounted to $1,187 with no employee contributions made to the SDCCC Plan. Included in pension expense were forfeitures in the amount of $226. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in gross income covered compensation.

The City does not act in a trustee or agency capacity for the SDCCC Plan; therefore, these assets are not reported within the City's basic financial statements.

g. Pension Plan - San Diego Housing Commission

SDHC provides pension benefits for all its full-time employees through a defined contribution plan (SDHC Plan). The SDHC Plan is a qualified pension plan under Section 401 of the IRC and is therefore exempt from all Federal income and California franchise taxes. The plan is an alternative to Social Security under the Omnibus Budget Reconciliation Act of 1991. The SDHC Plan includes both a pension provision and a voluntary tax sheltered annuity provision under §401(a) (1) and §401(a) (4) of the IRS code.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of their employment. SDHC's contributions for

each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service. SDHC's contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce SDHC's current-period contribution requirement.

The SDHC Plan is administered by SDHC, with outside recordkeeping performed by Transamerica. SDHC has the authority to establish and amend the provisions of the SDHC Plan, including the contribution requirements, with the approval of the Board of Commissioners. The SDHC Plan is audited by an outside firm and a copy of the report can be obtained by contacting the San Diego Housing Commission at 1122 Broadway, Suite 300, San Diego, California 92101.

SDHC made its required 14% contribution in the amount of $2,316 and plan members contributed $144 for the fiscal year ended June 30, 2015.

The City does not act in a trustee or agency capacity for the SDHC Plan; therefore, these assets are not reported within the City's basic financial statements.

12. OTHER POSTEMPLOYMENT BENEFITS (Dollars in Thousands)

a. Plan Description

The City provides postemployment healthcare benefits to qualifying general, safety and elected members, as provided for in SDMC Sections 24.1201 through 24.1204 and 29.0101 through 29.0103. The Other Postemployment Benefit Plan (OPEB Plan), which includes approximately 6,618 retirees and 5,701 active employees as of June 30, 2015, is comprised of defined benefit and defined contribution options. The defined benefit option includes 6,103 retirees and 1,334 active employees and the defined contribution plan includes 515 retirees and 4,367 active employees.

Effective April 1, 2012, pursuant to a memoranda of understanding between the City and employees' collective bargaining units ("Healthcare MOU"), OPEB offerings were modified and a significant group of participants opted out of the defined benefit plan and into a defined contribution plan. Accordingly, those participants were removed from the defined benefit plan actuarially accrued liability valuation.

Plan selection is based on hire date, retire date and individual employee elections. The City's defined benefit portion of the OPEB Plan is closed to employees hired on or after July 1, 2005. Employees retiring after June 30, 2011 are entitled to an Annual Inflator (described below) with exception of members of the Police Officers Association (POA) and Local 127.

The City pre-funds future postemployment healthcare benefits for active members through the California Employers' Retiree Benefit Trust (CERBT), an investment trust administered by the California Public Employees' Retirement System (CalPERS) as an agent multiple-employer plan. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the CERBT, which can be found online at www.calpers.ca.gov. The OPEB Plan does not issue a separate annual financial report.

Defined Benefit Plan

The defined benefit portion of the OPEB Plan is primarily for health eligible retirees, not inclusive of dependents, who were actively employed on or after October 5, 1980, but before April 1, 2012, and were otherwise entitled to retirement allowances. Additionally, employees in the defined benefit plan must have 10 years of service with the City to receive 50% of the retiree health benefit and receive an additional 5% per year of service in excess of 10 years, resulting in a maximum benefit of 100% at 20 years of service. Health eligible retirees can obtain health insurance coverage with the plan of their choice, including any City sponsored, union sponsored, or privately secured health plan. Health eligible retirees who are also eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, ranging from approximately $8,400[1] to $9,700[1] per year depending on retirement date, in addition to reimbursement/payment for Medicare Part B premiums, ranging from $1,200[1] to $1,400[1] per year. Health eligible retirees who are not eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, ranging from approximately $8,900[1] to $10,300[1] per year depending on retirement date. Reimbursements for health eligible retirees are adjusted annually based upon the projected increase for National Health Expenditures by the Centers for Medicare and Medicaid Services (Annual Inflator). Annual adjustments may not exceed 10% for any plan year. Non-health eligible employees who retired or terminated prior to October 6, 1980 and who are otherwise eligible for retirement allowances are also eligible for reimbursement/payment of healthcare benefits limited to a total of $1,200[1] per year. Reimbursements for non-health eligible retirees are not subject to annual adjustments.

[1] Reported as whole number

Defined Contribution Plan

The City also provides two defined contribution OPEB Plan options to eligible employees. For employees hired prior to July 1, 2005 and who elected to participate in the plan, the City provides a lump sum benefit to members when they become service and age eligible for retirement benefits (Option C Plan). There is no member contribution to this plan.

For general members hired after July 1, 2009, the City established a trust vehicle for a defined contribution plan (Medical Trust Plan), which requires a mandatory employee contribution of 0.25% of gross salary with a corresponding 0.25% match by the City. Contributions to these defined contribution plans are reported in an agency fund, as the City does not administer them and simply passes through contribution amounts to the plan administrators. Elected and safety members are ineligible for this plan.

b. Summary of Significant Accounting Policies

Basis of Accounting - The postemployment healthcare benefit plan trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the OPEB Plan.

Method Used to Value Investments - CalPERS, which administers the CERBT, states investments at fair value. The diversity of the investment types in which CalPERS invests requires a wide range of techniques to determine fair value. CalPERS has established internal unitized investment pools whereby multiple funds, including the fund used to account for the CERBT, can participate in the unitized pools. These internal investment pools are valued at net asset value (NAV), which includes investment receivables, payables, interest, and dividend income. For financial reporting purposes, in accordance with GASB Statement No. 31, each fund participating in the unitized pool reports the fund's pro rata share of participation in the pool.

c. Contributions and Reserves

In accordance with SDMC Section 24.1204, postemployment healthcare benefits are to be paid directly by the City from any source available to it other than the Pension Plan. Member contributions to the OPEB Plan are dependent upon plan election. Member contributions to the OPEB Plan are collected by the City and used to fund the defined benefit plan. In addition, members are required to pay for the benefits of their beneficiaries (amounts vary based on coverage elections). The ARC for the OPEB Plan is calculated by the City's actuary on an annual basis.

Pursuant to the Healthcare MOU, the City has allocated $57,782 in its annual budget for fiscal years 2013-15, with any costs exceeding this amount being drawn from the CERBT. After fiscal year 2015, the City's payment will increase by up to 2.5% annually. Beginning in fiscal year 2015, the terms of the Healthcare MOU may be renegotiated. In addition to the payments required under the Healthcare MOU, the City also made contributions to the Medical Trust Plan totaling $197.

The Healthcare MOU payment is allocated to various components of the OPEB Plan based on the following priority order: (1) to fund current year defined benefit plan pay-as-you-go postemployment healthcare benefits, including administrative costs; (2) to fund contributions to the defined contribution Option C Plan for those employees who become service and age eligible for retirement benefits during the fiscal year. To the extent the planned contribution of $57,782 is insufficient to cover (1) and (2) above, funds are drawn from the CERBT to fund the difference.

In fiscal year 2015, the City made Healthcare MOU payments of $57,782 related to the postemployment healthcare benefit plan as follows: (1) $31,177 was contributed to the defined benefit plan, (2) $338 was incurred for administration of the defined benefit plan; and (3) $26,267 was contributed to the Option C Plan. In addition, the City also paid $6,543 of pay-go defined benefit costs by drawing funds from the CERBT and $1,016 from funds collected from contributions from members of the defined benefit plan.

All contributions to the CERBT become trust assets, which can only be used to pay for expenses of the defined benefit plan. As of June 30, 2015, the fair value of the City's assets invested in the CERBT was approximately $121,115. This balance is net of all contributions to and distributions from the plan, as well as fiscal year 2015 annual investment losses and administrative expenses amounting to approximately $450 and $130, respectively.

d. Funded Status and Funding Progress

The following table summarizes the OPEB Plan's funding status as of the most recent valuation date:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll [1] (c)	UAAL as % of Covered Payroll ((b-a)/c)
6/30/2015	$ 121,115	$ 658,408	$ 537,293	18.40%	$ 87,252	615.79%

[1] Includes payroll for active employees in the defined benefit plan only.

The schedules, presented as required supplementary information following the notes to the financial statements, present information regarding the funded status and employer contributions for the current and preceding fiscal years. The Schedule of Funding Progress is intended to present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Schedule of Employer Contributions is intended to present trend information about the amounts contributed to the OPEB Plan by employers in comparison to the ARC determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed 23 year period commencing with fiscal year 2015.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the City and plan members through June 30, 2015. Additionally, actuarial calculations reflect a long-term perspective and include methods and assumptions that are designed to reduce short-term volatility of actuarial accrued liabilities and the actuarial value of assets.

The table on the following page summarizes the more significant actuarial methods and assumptions used to calculate the ARC for the fiscal year 2015 (actuarial valuation as of June 30, 2014), as well as for the most current actuarial valuation (as of June 30, 2015):

Description	Method/Assumption June 30, 2014	June 30, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Dollar
Remaining Amortization Period	23 years, closed	22 years, closed
Actuarial Asset Valuation Method	Market Value	Market Value
Discount Rate	6.81%	6.73%
Inflation Rate	N/A [1]	N/A [1]
Projected Payroll Increases	N/A [1]	N/A [1]
Healthcare Cost Trend Rate	FY14 8.0% grading down 0.5% each year to 4.5%	FY15 7.5% grading down 0.5% each year to 4.5%

[1] Postemployment healthcare benefits are not based on inflation or payroll, but rather are determined based on the Health Care Cost Trend Rate.

Source: Buck Consultants

e. Other Postemployment Benefit Cost and Net OPEB Obligation (NOPEBO)

The following table presents the annual NOPEBO cost, the percentage of annual NOPEBO cost contributed during the fiscal year, and the NOPEBO at the end of fiscal year 2015, as well as for the two preceding fiscal years:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
06/30/13	$ 34,078	109.94%	$ 244,081
06/30/14	34,773	98.48%	244,610
06/30/15	38,018	84.68%	250,435

The following table shows the calculation of the City's NOPEBO for the fiscal year ended June 30, 2015 (based on the valuation as of June 30, 2014):

ARC [Fiscal Year 2015]	$ 41,740
Interest on NOPEBO	16,657
ARC Adjustment	(20,379)
Annual OPEB Cost	38,018
Contributions [Fiscal Year 2015]	(32,193)
Change in NOPEBO	5,825
NOPEBO Beginning of Year [July 1, 2014]	244,610
NOPEBO End of Year [June 30, 2015]	$ 250,435

13. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Dollars in Thousands)

Interfund receivable and payable balances are the result of loans between funds that are expected to be repaid during the next fiscal year, as well as amounts due for services provided. The $27,990 balance is comprised of several items, including a loan of $11,322 from the General Fund to the PFFA capital projects fund, in order to fund expenditures related to the PFFA Lease Revenue Bonds Series 2012A and 2013A until eligible costs are reimbursed from the trustee held funds. In addition, loans were made from the General Fund to the Grants Special Revenue Fund and the Capital Grants Fund of $5,284 and $6,312, respectively, in order to cover negative cash resulting from deferred inflows of resources (unavailable grant revenue). The Transportation & Storm Water Department (General Fund) has accrued expenditures of $5,053 for low-flow diversion capacity charges due to the Sewer Utility Fund.

	Benefitting Fund (Payable)		
Contributing Fund (Receivable)	General Fund	Nonmajor Governmental	Total
General Fund	$ -	$ 22,937	$ 22,937
Sewer Utility	5,053	-	5,053
Total	$ 5,053	$ 22,937	$ 27,990

Interfund Working Capital Advance (WCA) balances are the result of loans between funds (recorded as advances to/from other funds) that are expected to be repaid in excess of one year. The $6,055 balance is comprised of an $848 advance from the General Fund to Civic San Diego, mainly for administrative costs, and $5,207 advanced from the Capital Outlay Fund to Civic San Diego for various construction projects.

	Benefitting Fund (Payable)
Contributing Fund (Receivable)	Nonmajor Governmental
General Fund	$ 848
Nonmajor Governmental	5,207
Total	$ 6,055

Interfund transfers result from the transfer of assets without the expectation of repayment. Transfers are most commonly used to (1) move revenues from the fund in which it is legally required to collect them into the fund which is legally required to expend them, including TOT and TransNet funds collected in said funds but legally spent within the General Fund, (2) utilize unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations, and (3) move tax revenues collected in the special revenue funds to capital projects and debt service funds to pay for the capital projects and debt service needs during the fiscal year. Interfund transfer balances for the year ended June 30, 2015 are as follows:

	Benefitting Fund						
Contributing Fund	General Fund	Nonmajor Governmental	Sewer Utility	Water Utility	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	$ 52,182	$ -	$ -	$ 52	$ 667	$ 52,901
Nonmajor Governmental	34,628	165,610	-	-	-	-	200,238
Sewer Utility	-	24	-	-	-	-	24
Water Utility	-	16	3,651	-	-	-	3,667
Nonmajor Enterprise	-	566	-	-	537	-	1,103
Internal Service	268	276	92	58	46	-	740
Total	$ 34,896	$ 218,674	$ 3,743	$ 58	$ 635	$ 667	$ 258,673

14. RISK MANAGEMENT (Dollars in Thousands)

The City is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is self-insured for public liability, workers' compensation and long-term disability (LTD) claims, and also maintains contracts with various insurance companies to manage excessive risks.

The City maintains an excess liability insurance policy in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to $50,000 per occurrence. The City's self-insurance retention amount for public liability is $3,000.

The City is self-insured for workers' compensation and long-term disability (LTD). Workers' compensation activity is reported within the General Fund. All operating funds of the City contribute an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenses in the contributing funds and operating revenues in the General Fund. The Long-Term Disability Fund is included in the Miscellaneous Internal Service Fund. Similarly, all operating departments of the City contribute an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenses in the contributing funds and operating revenues in the Miscellaneous Internal Service Fund.

Public liability, workers' compensation, and long-term disability estimated liabilities as of June 30, 2015 were determined based on results of independent actuarial valuations and include amounts for claims incurred but not reported. Claims liabilities were calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Non-incremental claims adjustment expenses have been included in the actuarial calculations for public liability. Estimated liabilities for public liability claims have been recorded in the government-wide financial statements, Sewer Utility Fund, Water Utility Fund, and the Successor Agency Private-Purpose Trust Fund. Estimated liabilities for workers' compensation claims have been recorded in the government-wide financial statements, the Water Utility Fund, Sewer Utility Fund, Nonmajor Enterprise Funds, and Internal Service Funds. Estimated liabilities for long-term disability claims were recorded in the Internal Service Funds.

A reconciliation of total liability claims for the City's Public Liability, Workers' Compensation, and Long-Term Disability obligations, showing current and prior year activity is presented below:

	Public Liability [1]	Workers' Compensation & Long-Term Disability	Total
Balance, July 1, 2013	$ 225,415	$ 221,270	$ 446,685
Claims and Changes in Estimates	26,367	45,013	71,380
Claim Payments	(52,373)	(25,695)	(78,068)
Balance, June 30, 2014	199,409	240,588	439,997
Claims and Changes in Estimates	31,069	23,968	55,037
Claim Payments	(42,888)	(27,446)	(70,334)
Balance, June 30, 2015	$ 187,590	$ 237,110	$ 424,700

[1] Fiscal year 2013 amounts have been restated to include the Successor Agency Private-Purpose Trust Fund.

The City, in collaboration with CSAC-EIA, maintains an "All Risk" policy, which includes flood coverage for amounts up to $25,000 per occurrence under the primary policy and with access to additional excess limits. The policy is subject to a $25 deductible. Additional excess limits are available as part of the City's insurance property program through CSAC-EIA, where coverage "towers" with designated coverage limits are provided. Coverage towers are groups of properties, which are diversified based on ownership (risk-pool members) and geographical location. The City participates in four coverage towers with dedicated coverage limits of $300,000 for "All Risk" and Flood. If tower limits are exhausted, additional coverage may be accessible by any of the towers in the risk-pool. These additional coverage limits are shared by all towers in the risk-pool and may not exceed an aggregate amount of $300,000 for "All Risk" and $190,000 for Flood for all claims made by all towers during the coverage period. Limits include coverage for business interruption losses for designated leased properties for various financings. 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 losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to the requirements of bond financed projects, grant requirements, acquisitions, and in response to changes in the insurance marketplace.

CSAC-EIA's insurance property program structure of dedicated tower limits also applies to earthquake coverage. The City participates in four coverage towers. Earthquake coverage is provided for designated buildings/structures in the amount of $100,000 under primary policies per tower. If tower limits are exhausted, additional coverage may be accessible by any of the towers in the risk pool. The additional coverage limits are shared by all towers in the risk-pool and may not exceed an aggregate amount of $390,000 for all claims made by all towers during the coverage period, including coverage for business interruption caused by earthquake at certain designated locations. Earthquake coverage is subject to a deductible of 5% of total insured values per unit per occurrence, subject to a $100 minimum. The City's earthquake coverage is purchased jointly and limits are shared with the member counties in the CSAC-EIA pool. Due to the potential for geographically concentrated earthquake losses, the CSAC-EIA pool is geographically diverse to minimize any potential sharing of coverage in the case of an individual earthquake occurrence. Depending upon the availability and affordability of earthquake insurance, the City may elect not to purchase such coverage in the future, or the City may elect to increase the deductible or reduce the coverage from present levels.

The City is a public agency subject to liability for the dishonest and negligent acts or omissions of its officers and employees acting within the scope of their duty ("employee dishonesty" and "faithful performance"). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the CSAC-EIA pool. Coverage is provided in the amount of $15,000 per occurrence, subject to a $25 deductible.

During fiscal year 2015, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements which were covered by insurance have not exceeded the City's insurance coverage limits. However, some losses may not be covered by insurance and would need to be funded by the City. The City can give no assurance that particular losses will be covered or that coverage providers will be able to pay recorded losses.

See Note 17 for additional information.

15. FUND BALANCE / NET POSITION DEFICITS (Dollars in Thousands)

The TransNet-Budgeted Capital Projects Fund has a fund balance deficit of $959, due to the fact that it has accrued expenditures related to the program for which funds have not been drawn. TransNet operates on a cash reimbursement basis and expects to draw funds when the accrued liability is liquidated in fiscal year 2016.

The Capital Grants Capital Projects Fund has a fund balance deficit of $6,959, which represents deferred inflows of resources related to grant revenue which did not meet the City's availability criteria.

Implementation of GASB 68 has resulted in a significant reporting impact to the net position of most proprietary funds. The Development Services and Recycling Enterprise Funds have net position deficits of $58,184 and $786, respectively. The Central Stores and Publishing Services Internal Service Funds have net position deficits of $826 and $1,091, respectively. These deficits are primarily due to the Net Pension Liability (NPL) expected to be repaid over the long-term. Generally, the NPL is reduced yearly as the City continues to fully pay its ADC for the Pension Plan, which includes amortized payments of the unfunded actuarial accrued liability (see Note 11). The cost recovery rates for these funds are developed to fully fund the respective ADC on a yearly basis. As the City continues to fully pay its ADC for the Pension Plan, the net position deficit of these funds will be corrected over the long-term.

The Private-Purpose Trust Fund (Successor Agency) has a net position deficit of $424,927, which represents unfunded liabilities of the former RDA, mainly related to long-term debt. Every six months, the Successor Agency submits funding requests to the County of San Diego, through Recognized Obligation Payment Schedules (ROPS). Funding is then allocated to the Successor Agency from the County's Redevelopment Property Tax Trust Fund (RPTTF) to satisfy obligations of the corresponding six month period. As obligations are funded every six months and liabilities are paid, the net position deficit will continue to decrease until being eliminated once all the obligations of the Successor Agency are fully satisfied.

16. COMMITMENTS (Dollars in Thousands)

The City has contractual and regulatory commitments that will result in expenses/expenditures in future years. These include operating and capital contractual commitments for which funds have been encumbered as of June 30, 2015 and are reflected in the table below. It is the City's policy to pay for operating encumbrances remaining at the end of the fiscal year from the following year's appropriations, not from fund balance. Encumbrances related to capital projects are funded through the current year appropriated budget, which carries over to the following fiscal year. Additional commitments resulting from regulatory matters are described following the table.

General Fund	$ 6,870
Nonmajor Governmental Funds	112,635
Sewer Utility	80,202
Water Utility	53,482
Nonmajor Enterprise Funds	26,872
Total Contractual Commitments	$ 280,061

California Regional Water Quality Control Board Administrative Proceeding – Municipal Storm Water Permit

The federal Clean Water Act (Clean Water Act) requires every state to provide a list of the beneficial uses of their receiving waters, such as fishing or swimming. The Regional Water Quality Control Board (RWQCB) is the State agency charged with implementing the Clean Water Act. The RWQCB issues the San Diego Regional Municipal Storm Water National Pollutant Discharge Elimination System Permits (NPDES Permit) as required by the Clean Water Act. To determine if the receiving waters are achieving their beneficial uses, the RWQCB uses water quality tests to monitor the receiving waters to assess whether they are meeting the water quality objectives requirements. When a receiving water does not meet the water quality objectives, the RWQCB places the receiving water on the Clean Water Act Section 303(d) List of Impaired Water Bodies. The RWQCB has two methods to bring receiving water bodies into compliance: (1) establishing Total Maximum Daily Loads (TMDLs), such as the Chollas Creek Dissolved Metals TMDL; or (2) issuing Clean-up & Abatement Orders (CAO). A TMDL is a numeric limitation on the maximum amount of a pollutant that a natural body of water can legally receive while still meeting water quality standards under the Clean Water Act. A CAO is an order that requires the removal of pollutants from a water body.

The Ocean Plan, which was adopted by the California State Water Resources Control Board (SWRCB), prohibits certain discharges, with some exceptions, into designated Areas of Special Biological Significance (ASBS). ASBS areas support an unusual variety of aquatic life, and often host unique individual species. The City has a Compliance Plan, which describes the approach the City must take to comply with the requirements of SWRCB Resolution Number 2012-0012, approving exceptions to the Ocean Plan for selected discharges into areas of special biological significance. The Compliance Plan requires structural controls to limit discharges into the ASBS.

The San Diego Region Municipal NPDES Permit covers the City, the County and other municipalities within the County (Co-Permittees). TMDLs and ASBS can be incorporated into the NPDES Permit. By incorporating TMDLs and ASBS requirements into the San Diego Region Municipal NPDES Permit they become enforceable, making violations of these regulations by the City and Co-Permittees subject to fines and penalties. The 303(d) list is updated by the RWQCB every 2 years. If new impairments are included in the 303(d) list, additional clean up or pollution reduction activities may be required by the City and may become enforceable if incorporated into the NPDES Permit.

On May 8, 2013, the RWQCB adopted a new San Diego Region Municipal NPDES Permit (Order R9-2013-0001), which became effective in July 2013. On July 14, 2014, the State Office of Administrative Law approved a TMDL for

Sediment in Los Peñasquitos Lagoon. The Sediment TMDL became enforceable when it was incorporated into the San Diego Region Municipal NPDES Permit on February 11, 2015, through the adoption of Order R9-2015-0001. By incorporating the TMDLs into the San Diego Region Municipal Permit, the RWQCB made numeric measurements of pollutants a basis for enforcing violations of the permit, and not solely on the basis of the City failing to control pollutants to the maximum extent practical. Additionally, the permit requires that the City implement a schedule of operation and maintenance activities and verify proper operation of all municipal structures in order to minimize the possibility of erosion and sedimentation due to pipe and other system failures.

The San Diego Region Municipal NPDES Permit requires the Co-Permittees to develop Water Quality Improvement Plans (WQIPs) to identify and address the highest water quality problems in each of the region's eight watersheds. The City led or participated in the development of WQIPs for each of the six watersheds in the City's jurisdiction. In the City's six WQIPs, the City included cost estimates to comply with the TMDLs and provide flood risk management over the next 20 years. The WQIP cost estimates were included in the City's Watershed Asset Management Plan (WAMP), which is the City Storm Water Division's long-range planning document used to manage the City's storm water assets to improve water quality and mitigate flood risk. The annual compliance costs for fiscal years 2016 through 2035 are presented in the City Storm Water Division's WAMP: Storm Water Quality Compliance Period (20-Year) Outlook Forecast dated October 23, 2015. The City Storm Water Division's estimated operating and capital costs to comply with the TMDLs and with flood risk management from fiscal years 2016 through 2020 are estimated to be approximately $616,189, of which approximately $326,833 are projected capital costs and $289,356 are operating costs. Compliance costs from fiscal years 2021 through 2035 are estimated to be up to approximately $2,497,120, of which an estimated $1,587,915 are projected capital expenses and $909,205 are operating expenses. These estimates could be higher or lower depending on numerous factors, including but not limited to: changes in regulatory standards; science and technology advancements; and/or maintenance projects determined to be capital expenditures due to the magnitude of the repair. It is important to note that the current estimates have been revised based on the RWQCB's review of the draft WQIPs that were submitted in June 2015. The RWQCB is currently reviewing the updated WQIPs, which include the revised cost estimates above, to determine compliance with the San Diego Region Municipal NPDES Permit. Until the plans are "accepted" by the RWQCB's Executive Officer, they remain a draft and subject to change. The City has been negotiating with the RWQCB since November 2015 to update the Chollas Creek Dissolved Metals TMDL, which could result in a cost reduction of approximately $861,000 in capital expenditures between fiscal year 2019 and 2028. This potential cost reduction is assumed in the estimated operating and capital costs identified above.

The City Storm Water Division's estimated costs to comply with the TMDLs are significantly higher compared to current spending levels. The City currently has no comprehensive long-term plan to fully fund Municipal Storm Water Permit activities and costs associated with the WQIPs. Estimated expenses budgeted for fiscal year 2016 are approximately $55,000 which are funded with available storm water fees, general City revenues and bond proceeds. The City's storm water fees generated approximately $5,773 in fiscal year 2015 and cover only a small portion of the City's annual storm water costs. Since 2009, approximately $52,000 in bond proceeds has been allocated to the Storm Water Division's Capital Improvement Program, including storm drains and watershed projects. The City expects to continue to use proceeds from future bond issues to finance a portion of the storm water program and water quality capital projects. Absent an increase in storm water fees or other new funding sources, the unfunded or increased compliance costs would continue to be paid from the General Fund.

The Municipal Storm Water Permit contains regulatory deadlines including: (1) compliance with Areas of Special Biological Significance structural controls by March 2018; (2) dry weather bacteria reductions by April 2018; and (3) dissolved metal reductions in Chollas Creek by October 2018. Most of these activities represent pollution prevention or control obligations with respect to current storm water operations and are not subject to accrual in the basic financial

statements. If compliance activities are deferred to later fiscal years, the City would risk non-compliance. Penalties may be assessed for non-compliance, which can amount to $10 per day per violation from the State, and federal EPA penalties of $16 per day per violation. Each storm drain outfall that flows to a receiving water body may be assessed as a separate violation. Additionally, should the City fall out of compliance, it could be exposed to litigation from third parties.

California Department of Public Health Compliance Order

In 1997, the State of California Department of Public Health (DPH) issued a Compliance Order requiring the City to correct operational deficiencies and begin necessary capital improvements related to the City's water system. The Compliance Order was last amended in May of 2007 (Amendment 11) and included additional items that were not in the original Compliance Order. As amended, the Compliance Order will remain in effect until the required projects are completed. Presently, the City is meeting all such requirements, including the progress of mandated projects and the ongoing obligation to provide DPH with quarterly progress reports.

Water Utility expects to substantially fulfill all terms of the Compliance Order by fiscal year 2018. For fiscal years 2016 through 2018, the City estimates Compliance Order project costs to total $77,876. Water Utility expects to fund these commitments through a combination of existing net position, system revenues, and financing proceeds from future bond issuances or loans.

Additionally, the City plans to continue with 20 miles of water main replacements in fiscal year 2016 at an estimated cost of $30,000 to $40,000. The City will continue to evaluate the water main replacement program for the remaining 50 miles of distribution cast iron mains and progress with a condition assessment program for the 2,100 miles of asbestos cement water pipeline to determine the appropriate replacement rate for the next 10 years.

17. CONTINGENCIES (Dollars in Thousands)

FEDERAL AND STATE GRANTS

The City recognizes as revenue grant monies received as reimbursement for costs incurred related to certain Federal and State programs it administers. Although the City's federal grant programs are audited in accordance with the requirements of the Federal Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the related U.S. Office of Management and Budget Circular A-133 and 2 CFR 200 Uniform Guidance, these programs may be subject to financial and compliance audits by the reimbursing agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Single Audit for fiscal year 2015 is in process.

LITIGATION AND REGULATORY ACTIONS

The City is a defendant in lawsuits pertaining to material matters, including claims asserted, which are incidental to performing routine governmental and other functions. This litigation includes, but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. The City received 1,547 notices of claims in fiscal year 2015.

As of June 30, 2015, the City estimates the amount of tort and non-tort liabilities to be $187,590, which has been reported in the government-wide statement of net position, the proprietary funds financial statements, and the fiduciary funds financial statements. The liability was actuarially determined and was supplemented by information provided by the City Attorney with respect to certain large individual claims and proceedings. The liability recorded is the City's best estimate based on information available as of the issuance of this report. The City Attorney also estimates that in the event of an adverse ruling, certain pending lawsuits and claims have a reasonable possibility of resulting in an additional liability, in the aggregate, ranging from $0 to $155,189. However, the potential liabilities related to these claims are not individually accrued because it is not probable that a loss has been incurred as of June 30, 2015.

Additional information on litigation regarding the Pension Plan can be found in the introductory section of Note 11.

Adverse Fiscal Impacts to the City

Pursuant to ABX1 26, the former RDA dissolved as of February 1, 2012, at which time the City, as Successor Agency, received the former RDA's assets and assumed the responsibility for winding down the former RDA's operations. The City also chose to serve as the Housing Successor Entity and retain the former RDA's affordable housing assets and assume related responsibilities. The Successor Agency is an entity separate from the City and is reported as a private-purpose trust fund even though the City serves as the Successor Agency. The Housing Successor Entity is the City, not a separate legal entity, and is reported as a special revenue fund.

The dissolution of the former RDA has resulted in adverse fiscal impacts to the City, mainly from the general rule in ABX1 26 that purports to invalidate agreements between the City and the former RDA, subject to limited exceptions. The California Department of Finance (DOF) has relied upon this general rule to object to payments owed by the Successor Agency to the City under several agreements between the City and the former RDA. However, on September 22, 2015, the Governor signed Senate Bill 107 (SB 107), which clarifies or modifies existing dissolution laws. SB 107 effectively reverses certain adverse decisions made by the DOF affecting agreements between the City and the former RDA by establishing a new, broader legal standard to determine the enforceability of Successor Agency obligations. On October 1, 2015, the Successor Agency submitted its most recent Recognized Obligation Payments Schedule (ROPS 15-16B) to the DOF which included revival of certain obligations subject to SB 107 provisions. The City reports the balance of related interfund loan receivables in the fund level financial statements, net of allowances

for uncollectible amounts. Allowances have been established in these funds to reflect the uncertainty regarding collectability of these loans (see Note 1(f) and Note 18(j) for additional information). Additional information on the specific obligations affected by passage of SB 107 can be found in Note 24.

While the City is not currently projecting any new potential losses arising from the dissolution of the former RDA relative to the City's prior disclosures, the City could incur new potential losses depending on variables such as pending litigation, future litigation, future decisions and review/audit processes by the DOF and the State Controller, and future potential amendments to the redevelopment dissolution laws.

Agreement Relative to Modified Permit for the Point Loma Wastewater Treatment

In December 2008, the City received a second renewal of a Modified Permit for the Point Loma Wastewater Treatment Plant (Point Loma) and agreed to identify opportunities to maximize recycling wastewater for potable and non potable uses. In August 2010, the EPA issued another waiver for secondary treatment at Point Loma and renewed the Modified Permit for 5 more years which expired in July 2015. The City submitted a renewal application in January 2015 and the existing Modified Permit has been administratively continued, pending a decision by the regulatory agencies. Based on the City's past experience and its high level of compliance with the Federal Clean Water Act (CWA), it expects to receive approval of a new Modified Permit by the end of 2016. If the City does not obtain a renewal of the Modified Permit, there could be significant future obligations to fund the secondary treatment requirements. If the City is required to upgrade to secondary treatment, the estimated cost could be approximately $2,100,000 (current dollars) through fiscal year 2050, with approximately $1,800,000 occurring by fiscal year 2030, not including financing costs.

The City has worked with the environmental community to develop strategies for the recently submitted permit application. This strategy includes implementing a potable water reuse program (Pure Water Program). In November 2014, the Mayor and City Council approved a Cooperative Agreement between the City and local environmental groups to work together to implement the Pure Water program. The centerpiece of the Cooperative Agreement is an amendment to the Ocean Pollution Reduction Act of 1994 (OPRA) called OPRA II. OPRA II would amend the CWA to allow the Point Loma Plant to remain at advanced primary treatment in return for implementing a total of up to 83 million gallons per day of potable reuse by the end of calendar year 2035. Building the facilities necessary to implement potable reuse will offload wastewater from the Point Loma Plant such that effluent levels will be equivalent to converting the Point Loma Plant to secondary treatment. OPRA II would also change the permitting process for the Point Loma Plant to treat it like every other secondary wastewater treatment plant.

The Modified Permit renewal application was based on compliance with CWA requirements as modified by the OPRA, the proposed requirements for secondary equivalency, and a reduction in permitted emissions from the current permit level by December 31, 2015. The total capital cost to build the Pure Water Program facilities and infrastructure is estimated to be approximately $3,000,000 (current dollars) of which approximately $1,800,000 will be a cost to the Sewer Utility Fund, and approximately $1,200,000 will be a cost to the Water Utility Fund. The first phase of the Pure Water Program is estimated to cost approximately $1,000,000, of which approximately $266,000 will be a cost to the Sewer Utility Fund, and approximately $734,000 will be a cost to the Water Utility Fund.

POLLUTION REMEDIATION OBLIGATIONS

Los Peñasquitos Lagoon Sedimentation Total Maximum Daily Load (TMDL)

The City is a listed responsible party regarding the sedimentation of Los Peñasquitos Lagoon. This TMDL was adopted by the State of California in July 2014. The TMDL included requirements for sediment reductions in the Los Peñasquitos Watershed and the establishment of 84 acres of new salt marsh habitat in the Los Peñasquitos Lagoon by July 2034. The habitat restoration requirements associated with the establishment of 84 acres of salt marsh habitat represent pollution remediation obligations; however any estimated costs cannot be reasonably determined at this time pending the development of the final concept design for the restoration of Los Peñasquitos Lagoon. In addition, because a design for the restoration of the lagoon has not been developed, the City has not yet estimated what portion of the costs would be operating or capital costs.

California Regional Water Quality Control Board (RWQCB) Administrative Proceeding – San Diego Bay

This matter involves cleanup and abatement order (CAO) No. R9-2012-0024 adopted by the California RWQCB on March 14, 2012. The order names the City as one of the responsible parties for conditions of pollution in San Diego Bay and requires remediation of polluted bay sediments near historic shipyards on San Diego Bay. The City is named as a "Discharger" in the order along with other entities, which include shipyard operators, the local electric utility SDG&E, and the U.S. Navy.

The CAO divided the cleanup area into two sections, the northern yard adjacent to operator BAE Systems, Inc. leasehold, and the southern yard adjacent to the National Steel and Shipbuilding Co. (NASSCO) leasehold. A Remedial Action Plan for the cleanup project has been submitted by the Dischargers to the RWQCB. The cleanup project has an estimated cost between $70,000 and $75,000, plus an additional $6,000 to $9,000 of costs related to site investigation, assessment, and RWQCB oversight. Actual costs could be higher. The order includes post-remedial monitoring requirements, which, depending on monitoring results and trends, may lead to further cleanup orders. The City settled the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) litigation with BAE and NASSCO in the Spring of 2015, with the City receiving a 24% allocation of costs for the northern shipyard and a 17% cost allocation for the southern yard sediment cleanup work. In addition, the City agreed to reimburse BAE and NASSCO for a portion of their past response costs. The City's total share of the remedial work is projected to be approximately $15,100, which has been fully funded by insurance proceeds of approximately $15,100 in fiscal year 2015.

The CAO included post-remedial monitoring requirements which may lead to further cleanup orders, depending on monitoring results and trends. Future cleanup costs resulting from monitoring requirements, if any, cannot be estimated at this time.

Boat Channel at Naval Training Center (NTC)

The old Naval Training Center was closed and conveyed to the City under the Base Realignment and Closure (BRAC) process that culminated in an MOU between the City and the U.S. Navy in 2000. The NTC base was redeveloped as Liberty Station by McMillin. The transfer of the NTC Boat Channel was excluded from the conveyance because it was known to be polluted. The MOU stipulates that the boat channel is to be conveyed to the City after the Navy completes investigation and remediation. In the years that have ensued since the MOU, the Navy BRAC arm did investigate the pollution and took the position that the City was partly responsible for discharges which polluted the channel. The City disagrees because the NTC base itself surrounded the channel for decades, and most if not all discharges were Navy-originated. The City is not able to estimate the pollution remediation costs, if any, at this time.

Chollas Creek Mouth Sediment Tentative Investigative Order

On August 27, 2015, the RWQCB released for public review and comments draft Sediment Investigative Order (SIO) R9-2015-0058 regarding sediment contamination at the mouth of Chollas Creek in San Diego Bay and potential sediment contamination of the tidal prism of Chollas Creek. The City submitted comments on September 30, 2015 which the RWQCB is reviewing. It is expected that the SIO will be adopted in the winter of 2016. Costs of remediation cannot be estimated until the investigation is complete and cleanup levels are negotiated with and ultimately imposed by the RWQCB.

18. DEBT WITHOUT GOVERNMENT COMMITMENT (Dollars in Thousands)

The City and/or the former RDA of the City have authorized the issuance of certain Mortgage Revenue Bonds, Parking Revenue Bonds, Tax Allocation Bonds, Pooled Financing Bonds, Special Assessment/Special Tax Bonds, and Loans. The City has no legal obligation to make payment on these bonds or loans and has not pledged any City assets as a guarantee to the bondholders/lenders. These bonds and loans do not constitute 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. Accordingly, no liability has been recorded in the City's Government-Wide Statement of Net Position. Long-term liabilities of the former RDA are reported in the Successor Agency Private-Purpose Trust Fund.

The following describes the outstanding debt without government commitment:

a. Mortgage Revenue Bonds

Single-family mortgage revenue bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-family housing revenue bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low income.

As of June 30, 2015, the status of mortgage revenue bonds issued is as follows:

	Original Amount	Balance June 30, 2015
Mortgage Revenue	$ 15,700	$ 1,485

b. Special Assessment/Special Tax Bonds

The City has issued, on behalf of the Special Assessment Districts and the Community Facilities Districts, debt to finance infrastructure improvements and facilities necessary to facilitate development of the properties within the respective districts located in the City. The special assessment and special tax bonds are secured by special assessment and special tax liens, respectively, on the real property within the districts and are not direct liabilities of the City. The City has no fiscal obligation beyond the balances in designated District funds for any related bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. The City acts solely as the agent in the collection and remittance of the special taxes and assessments for these Districts and initiates foreclosure proceedings as required under the bond covenants.

As of June 30, 2015, the status of each of the special assessment/special tax bonds issued is as follows:

	Original Amount	Balance June 30, 2015
Reassessment District No. 1999-1, Issued February 1999	$ 38,145	$ 1,442
Reassessment District No. 2003-1, Issued August 2003	8,850	2,385
Communities Facilities District No.4 (Black Mountain Ranch Villages), Series 2008 A	12,365	10,925
Communities Facilities District No.2 (Santaluz), Improvement Area No. 1, Series 2011 A	51,680	44,605
Communities Facilities District No.1 (Miramar Ranch North), Series 2012	24,795	19,295
Communities Facilities District No.3 (Liberty Station), Series 2013	15,770	15,120
Assessment District No.4096 (Piper Ranch), Issued July 2013	3,830	3,750
Communities Facilities District No.2 (Santaluz), Improvement Area No. 3, Series 2015	3,380	3,380
Communities Facilities District No.2 (Santaluz), Improvement Area No. 4, Series 2015	6,215	6,215
Total Special Assessment / Special Tax Bonds	$ 165,030	$ 107,117

On June 16, 2015, Communities Facilities District No. 2 (Santaluz), Improvement Area No. 3, Special Tax Refunding Bonds, Series 2015 and Communities Facilities District No. 2 (Santaluz), Improvement Area No. 4, Special Tax Refunding Bonds, Series 2015 were issued to fully refund the outstanding Communities Facilities District No. 2 (Santaluz) Improvement Area No.3, Series 2000 B and Communities Facilities District No. 2 (Santaluz), Improvement Area No. 4, Series 2004 A bonds, respectively. The refunded bonds were fully redeemed on September 1, 2015.

c. Refunding Revenue Bonds

PFFA issued refunding revenue bonds in February 1999 for the purpose of acquiring the Limited Obligation Refunding Bonds issued by the City of San Diego Reassessment District No.1999-1 and sold to PFFA for the purpose of refunding certain outstanding prior assessment district bonds of the City. The Bonds are special obligations of PFFA, payable solely from and secured by, amounts received from the acquired Limited Obligations, investment income with respect to any monies held by the Trustee in the funds and accounts established under the indenture, and any amounts, including proceeds from the sale of the Bonds, held in any fund or account established pursuant to the indenture.

As of June 30, 2015, the status of each of the refunding revenue bonds issued is as follows:

	Original Amount	Balance June 30, 2015
Reassessment District No. 1999-1, Series 1999 A Senior Lien Bonds	$ 30,515	$ 955
Reassessment District No. 1999-1, Series 1999 B Subordinate Lien Bonds	7,630	235
Total Refunding Revenue Bonds	$ 38,145	$ 1,190

d. Parking Revenue and Tax Allocation Bonds

The former RDA issued parking revenue bonds for the purpose of financing certain public parking facilities and tax allocation bonds for the purpose of financing or refinancing redevelopment activities. The parking revenue and tax allocation bonds are secured by certain pledged revenues of the former RDA and are not direct liabilities of the City. In no event will the bonds be payable out of any funds or properties other than those of the Successor

Agency or former RDA, along with any monies held by the Trustee in the funds and accounts established under the indenture, and any amounts, including proceeds of the sale of the Bonds, held in any fund or account established pursuant to the Indenture.

As of June 30, 2015, the status of each of the parking revenue and tax allocation bonds issued is as follows:

	Original Amount	Balance June 30, 2015
Revenue Bonds:		
Centre City Parking Revenue Bonds, Series 1999 A	$ 12,105	$ 6,835
Centre City Parking Revenue Bonds, Series 2003 B	20,515	8,715
Total Revenue Bonds	32,620	15,550
Tax Allocation Bonds:		
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	1,200	400
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	12,970	1,070
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	25,680	14,950
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	13,610	9,570
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	5,690	4,070
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	10,141	6,138
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	6,100	3,480
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	21,390	14,175
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	15,025	8,800
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	13,000	9,370
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	7,000	5,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A	58,425	51,039
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	31,000	11,980
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	4,955	4,825
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	4,530	3,235
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	8,000	4,255

Continued on Next Page

	Original Amount	Balance June 30, 2015
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	$ 7,145	$ 4,700
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	5,360	5,360
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	101,180	69,365
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	27,785	19,690
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	8,905	6,335
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	76,225	63,190
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	33,760	28,205
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	69,000	39,900
North Park Redevelopment Project Tax Allocation Bonds, Series 2009 A	13,930	13,930
City Heights Redevelopment Project Tax Allocation Bonds, Series 2010 A	5,635	5,635
City Heights Redevelopment Project Tax Allocation Bonds, Series 2010 B	9,590	9,590
Crossroads Redevelopment Project Tax Allocation Bonds, Series 2010 A	4,915	4,715
Housing Set-Aside Tax Allocation Bonds, Series 2010 A	58,565	57,535
Naval Training Center Redevelopment Project Tax Allocation Bonds, Series 2010 A	19,765	18,420
San Ysidro Redevelopment Project Tax Allocation Bonds, Series 2010 A	2,900	2,900
San Ysidro Redevelopment Project Tax Allocation Bonds, Series 2010 B	5,030	4,625
Total Tax Allocation Bonds	697,786	515,887
Total Parking Revenue and Tax Allocation Bonds	$ 730,406	$ 531,437
Accreted Interest Payable on Tax Allocation Bonds:		
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B		$ 10,545
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A		14,212
Total Accreted Interest Payable		$ 24,757

e. Pooled Financing Bonds

PFFA issued pooled financing bonds in July 2007 for the purpose of making loans to the former RDA to be used for financing and refinancing redevelopment activities. The bonds are obligations of PFFA, payable solely from and secured by amounts received from the loan agreement, certain pledged revenues, and monies held by trustee in the funds and the accounts established under the indenture, and any amounts, including proceeds from the sale of the bonds, held in any fund or account established pursuant to the indenture. The loan between PFFA and the former RDA has been eliminated from this note since the pooled financing bonds and related loans are both obligations transferred to the Successor Agency.

	Original Amount	Balance June 30, 2015
Pooled Financing Bonds:		
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 A	$ 17,230	$ 13,735
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 B	17,755	14,740
Total Pooled Financing Bonds	$ 34,985	$ 28,475

f. Loans Payable

The former RDA issued loans for the purpose of financing redevelopment activities. The loans are secured by certain pledged revenues of the former RDA. Additional information on obligations due to the City is included in Note 17.

	Original Amount	Balance June 30, 2015
Loans Payable:		
City San Diego - Naval Training Center Section 108 Loan dated June 2004	$ 5,910	$ 4,346
City San Diego - HUD Settlement Agreement dated various dates	45,311	34,130
City of San Diego - Miscellaneous dated various dates	65,167	65,795
Total Loans Payable	$ 117,638	$ 104,271
Accrued Interest Payable:		
City San Diego - HUD Settlement Agreement	$ 33,476	$ 33,204
City of San Diego - Miscellaneous	-	771
Total Accrued Interest Payable	$ 33,476	$ 33,975

g. Amortization Requirements

The annual requirements to amortize the private-purpose trust fund long-term debt outstanding as of June 30, 2015, including interest payments to maturity, are as follows:

Year Ending June 30	Loans Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2016	$ 8,516	$ 1,146	$ 1,320	$ 848
2017	11,687	1,614	1,390	776
2018	788	14,488	1,465	697
2019	673	16,233	1,545	614
2020	364	139	1,635	524
2021-2025	2,163	323	6,570	1,346
2026-2030	-	15	1,625	70
Unscheduled [1]	80,080	1,478	-	-
Total	$ 104,271	$ 35,436	$ 15,550	$ 4,875

Year Ending June 30	Tax Allocation Bonds			Pooled Financing Bonds	
	Principal	Unaccreted Appreciation [2]	Interest	Principal	Interest
2016	$ 28,502	$ 2,440	$ 27,724	$ 1,000	$ 1,621
2017	30,006	2,414	26,222	1,050	1,568
2018	31,572	2,376	24,648	1,105	1,512
2019	33,188	2,325	22,986	1,175	1,450
2020	33,655	2,175	21,255	1,235	1,382
2021-2025	135,699	7,694	83,535	5,710	5,916
2026-2030	103,984	1,137	51,431	7,290	4,052
2031-2035	61,020	-	28,650	7,100	1,712
2036-2040	48,600	-	12,259	2,810	255
2041-2045	9,661	-	334	-	-
Total	515,887	20,561	299,044	28,475	19,468
Add: Accreted Appreciation through June 30, 2015	24,757	-	-	-	-
Total	$ 540,644	$ 20,561	$ 299,044	$ 28,475	$ 19,468

[1] The loans payable to the City in the amount of $80,080 and accrued interest associated with loans payable of $1,478 are payable when practicable under the original loan terms prior to dissolution of the former RDA, but could be disallowed under provisions of AB X1 26 (see Note 17).

[2] Unaccreted Appreciation represents the amount to be accreted in future years regardless of the timing of cash flows.

h. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the private-purpose trust fund for the year ended June 30, 2015. The effects of bond accretion, bond premiums and discounts are reflected as adjustments to long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance
Arbitrage Liability	$ 4	$ -	$ (1)	$ 3
Liability Claims	70,207	-	(398)	69,809
Loans Payable	102,339	3,182	(1,250)	104,271
Revenue Bonds	21,980	-	(6,430)	15,550
Unamortized Bond Premiums and Discounts	(62)	-	5	(57)
Net Revenue Bonds	21,918	-	(6,425)	15,493
Tax Allocation Bonds	542,989	-	(27,102)	515,887
Interest Accretion	23,754	2,459	(1,456)	24,757
Balance with Accretion	566,743	2,459	(28,558)	540,644
Unamortized Bond Premiums and Discounts	3,047	-	(218)	2,829
Net Tax Allocation Bonds	569,790	2,459	(28,776)	543,473
Pooled Financing Bonds	29,425	-	(950)	28,475
Unamortized Bond Premiums and Discounts	290	-	(14)	276
Net Pooled Financing Bonds	29,715	-	(964)	28,751
Interest Accrued on City Loans and Note	161,056	112	(127,193)	33,975
Total	$ 955,029	$ 5,753	$ (165,007)	$ 795,775

i. Revival of Long-Term Debt Interfund Loan

On October 1, 2015, the City submitted its most recent Recognized Obligation Payments Schedule (ROPS 15-16B) to the California Department of Finance, which included new line items that will become "enforceable obligations" as a result of language in Senate Bill 107 (SB 107) which clarifies or modifies the previous dissolution laws, subject to approval from the DOF. Specifically, line item 628, which revives the portion of the Long Term Debt Agreement regarding the outstanding CDBG and HUD section 108 loans. The City has dismissed pending litigation regarding the Long-Term Debt Agreement of March 1, 2011 due to the low likelihood of success on the merits and the submission of the new line 628 in ROPS 15-16B; therefore, the City has written off the accrued interest of $127,193, resulting in an extraordinary gain to the Successor Agency Private-Purpose Trust Fund. See Note 24 for more information on the potential impacts of SB 107 (See Note 24 - Subsequent Events).

j. Revival of CDBG Repayment Agreement

Under the terms of SB 107, line item 626 was added to the ROPS 15-16B submission to revive the outstanding amount owed by the Successor Agency to the City of San Diego under the CDBG Repayment Agreement of $67,334, which includes the annual installment payments for fiscal year 2014 through 2019 in the aggregate amount of $64,040, and the annual installment payment for fiscal year 2011 in the amount of $3,294 that the DOF "clawed back" from the City as part of the Non-Housing DDR. See Note 24 for more information on the potential impacts of SB 107 (See Note 24 - Subsequent Events).

19. CLOSURE AND POSTCLOSURE CARE COST (Dollars in Thousands)

State and federal laws and regulations require that the City place a final cover on its Miramar Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition, federal and state regulations require that the City set aside funds annually to fund closure and postclosure care costs and to demonstrate financial resources sufficient to meet certain corrective actions.

Postclosure Care Liability

The City is currently permitted by the State to keep the landfill open through fiscal year 2025. However, based on recent changes in recycling policies and compaction methods, the City projects the life expectancy of the landfill will be extended through 2030. 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 financial statement date.

The $23,269 reported as landfill closure and postclosure care liability as of June 30, 2015 represents the cumulative amount reported to date based on the use of 84% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of $4,584 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2015. The costs are estimates and subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

Funding Requirements

As of June 30, 2015, the City is in compliance with state and federal laws and regulations requiring annual contributions to finance closure and postclosure care costs. At the end of fiscal year 2015, cash or equity in pooled cash and investments of $47,810 was currently held for this purpose. The net position related to this amount is reported as restricted assets on the Statement of Net Position for the Environmental Services Fund. The City expects that future inflation costs will be paid from interest earnings on the balance of these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are imposed (due to changes in technology or applicable laws or regulations, for example), these costs may need to be paid by charges to future landfill users or from other sources.

As of June 30, 2015, the City is in compliance with state and federal laws and regulations to demonstrate financial resources sufficient to conduct corrective action for all known or reasonably foreseeable releases from the Miramar Landfill site, meeting the cost estimate approved by the San Diego Regional Water Quality Control Board. At the end of fiscal year 2015, cash or equity in pooled cash and investments of $1,573 was currently held for this purpose. This amount is reported as restricted assets on the Statement of Net Position in the Environmental Services Fund. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are imposed (due to changes in technology or applicable laws or regulations, for example), these costs may need to be paid by charges to future landfill users or from other sources.

20. OPERATING AGREEMENTS (Dollars in Thousands)

City of San Diego and Padres L.P.

On February 1, 2000, the City entered into a Joint Use and Management Agreement (Agreement) with the San Diego Padres baseball team (Padres) governing the rights and duties of the City and Padres with respect to the use and operation of the Petco Park Ballpark Facility (Facility). The Padres own 30% and the City owns 70% of the Facility, which is shown as a capital asset on the City's Statement of Net Position. The occupancy agreement expires on December 14, 2033 and includes the right of the Padres to exercise two five-year extensions. Upon expiration, the Padres' ownership interest will automatically transfer to the City. Under the terms of the Agreement, the Padres are responsible for Facility operation and management, including maintenance, repairs and security required to preserve its condition. The City is responsible for paying certain expenses associated with the operation and maintenance of the Facility, subject to certain inflationary adjustments. In fiscal year 2015, the City paid approximately $4,355 related to the operation and maintenance of the Facility.

21. FUND BALANCES (Dollars in Thousands)

The following table provides additional detail regarding the City's governmental fund balances:

	General Fund	Other Governmental Funds	Total Governmental Funds
NONSPENDABLE			
Not in Spendable Form	$ 849	$ 127	$ 976
Legally/Contractually Required to be Maintained Intact	-	21,300	21,300
Total Nonspendable	849	21,427	22,276
RESTRICTED			
Low and Moderate Income Housing	-	286,129	286,129
Facilities Benefit Assessments	-	230,128	230,128
Public Facilities Financing Authority	-	170,448	170,448
Capital Outlay	-	125,729	125,729
Impact Fees	-	95,865	95,865
Emergency Reserve	89,922	-	89,922
Underground Surcharge	-	86,979	86,979
Grants [1]	658	67,230	67,888
Traffic Congestion Relief (Prop 42)	-	35,900	35,900
Tourism Marketing Districts	-	32,235	32,235
Parking Meter Districts	27,694	-	27,694
Maintenance Assessment Districts	-	20,946	20,946
Developer Contributions	-	19,674	19,674
Mission Bay Reserve	-	19,296	19,296
TransNet	-	17,319	17,319
Tobbacco Settlement Revenue Funding Corporation	-	12,261	12,261
Regional Parks	-	11,221	11,221
Special Gas Tax Street Improvement	10,965	-	10,965
Sea World Traffic Mitigation	-	8,945	8,945
Fiesta Island Sludge Mitigation	-	7,071	7,071
Environmental Growth	6,972	-	6,972
Library Donations	-	5,852	5,852
Section 108	-	5,093	5,093
6th & K Operating Fund	-	2,840	2,840
Seized Assets	-	2,277	2,277
Animal Shelter Campaign	-	1,780	1,780
Prop C Implementation	-	1,734	1,734
Storm Drain	1,625	-	1,625
Civic San Diego	-	1,662	1,662
Other [2]	2,522	20,125	22,647
Total Restricted	140,358	1,288,739	1,429,097

[1] Restricted Fund Balance for Grants of $64,040 and Committed Fund Balance for Capital Outlay of $31,183 represent long-term receivables due from the Successor Agency. These amounts are not available to satisfy liabilities of the current period.

[2] The amounts reported in the Restricted and Committed categories as "Other" are composed of a variety of small restrictions/commitments, none of which are significant enough to be identified separately in this schedule.

	General Fund	Other Governmental Funds	Total Governmental Funds
COMMITTED			
Public Liability	$ 61,690	$ -	$ 61,690
Workers' Compensation	47,741	-	47,741
Capital Outlay [1]	-	38,784	38,784
Transient Occupancy Tax	-	12,279	12,279
Civil Penalty Enforcement	-	6,186	6,186
Parks and Recreation Districts	-	5,749	5,749
Low-Income Housing Lease Revenue	-	5,744	5,744
SAP Support	5,064	-	5,064
Qualcomm Stadium Operations	-	4,690	4,690
City TV	-	4,669	4,669
Library Improvement	4,261	-	4,261
Foreign Trade Zone Expansion	-	3,881	3,881
Tobacco Settlement Revenue	-	3,790	3,790
Police Decentralization	2,459	-	2,459
Major Events	-	2,245	2,245
Information Technology	2,189	-	2,189
Trench Cut Fees	-	2,179	2,179
Miscellaneous Public Safety Funds	-	2,066	2,066
De Anza Operating/Settlement	1,933	-	1,933
Wireless Communications Technology	1,853	-	1,853
Proposition 64	-	1,557	1,557
Automated Refuse Containers	-	1,547	1,547
Cemetery Pre-Need Trust	-	1,502	1,502
Imperial Marketplace	1,137	-	1,137
Emergency Medical Services	269	-	269
Other [2]	2,295	11,371	13,666
Total Committed	130,891	108,239	239,130
ASSIGNED			
Budgeted Excess Equity	6,162	-	6,162
UNASSIGNED	99,555	(11,287)	88,268
TOTAL FUND BALANCE	$ 377,815	$ 1,407,118	$ 1,784,933

22. EXTRAORDINARY GAIN AND SPECIAL ITEM (Dollars in Thousands)

Private-Purpose Trust Fund

On March 1, 2011 the City and the former RDA entered into a Long-Term Debt Agreement memorializing various forms of unpaid debt in the aggregate amount of $193,759 that had been issued from the City to the former RDA since the late 1970's. On February 1, 2012, pursuant to Assembly Bill x1 26 ("AB 26"), the former RDA was dissolved and all City/Agency loans were purportedly nullified, subject to limited exceptions, pursuant to AB 26 and subsequent legislation. On December 27, 2012, as part of its review of the third Recognized Obligation Payment Schedule ("ROPS"), the California Department of Finance ("DOF") disallowed any payments on the third ROPS, or future ROPS of certain City/Agency loans or cooperation agreements, including the Long-Term Debt Agreement.

California Health and Safety Code Section 34191.4(b) enabled the Successor Agency and the City to reinstate, subject to certain conditions and on modified terms, any loan agreement between the former RDA and the City. On September 10, 2014, the Successor Agency Oversight Board passed and adopted a resolution approving the reinstatement of a modified version of the Long-Term Debt Agreement. However, on October 28, 2014, the DOF disallowed the reinstatement of the original loan on modified terms, stating that the original loan was not valid because the DOF could not determine if there was an actual exchange of monies, or if any exchange of monies were legally required to be repaid.

On September 21, 2015, the Successor Agency Oversight Board passed and adopted a resolution approving the ROPS15-16B which included new line items that will become "enforceable obligations" as a result of language in Senate Bill 107 (SB 107) which clarifies or modifies the previous dissolution laws. Specifically, line item 628 reaffirms the portion of the Long-Term Debt Agreement regarding the outstanding CDBG and HUD section108 loans in the approximate amount of $151,494. While the City had filed an appeal of a trial court decision upholding the DOF's invalidation of the Long-Term Debt Agreement of March 1, 2011, the City recently dismissed the appeal due to the low likelihood of success on the merits and the submission of the new line 628 in ROPS 15-16B. Therefore, the City has written off the accrued interest of $127,193 under the Long-Term Debt Agreement, resulting in an extraordinary gain to the Successor Agency Private-Purpose Trust Fund. This amount represents the final resolution of the issue that existed at the time of the dissolution of the former RDA, which was deemed an extraordinary event.

The City and the former RDA entered into the CDBG Repayment Agreement dated June 30, 2010 by and between the Redevelopment Agency of the City of San Diego and the City of San Diego. The CDBG Repayment Agreement requires the former RDA to pay the total amount of $78,787 to the City, in specific annual installments from fiscal year 2010 through 2019 that generally escalate over time, and further requires the City to treat all repayments as program income to the San Diego CDBG Program. In the final determination letter for the due diligence review of non-housing funds ("Non-Housing DDR"), the DOF compelled the City to return the fiscal year 2011 payment of $3,294 to the Successor Agency and compelled the Successor Agency to include this amount in the Non-Housing DDR payment to the County Auditor-Controller for distribution to the local taxing entities. Under the terms of SB 107, the Successor Agency added line item 626 to the ROPS 15-16B submission to reaffirm the outstanding amount owed by the Successor Agency to the City under the CDBG Repayment Agreement in the amount of $67,334, which includes the annual installment payments for fiscal years 2014 through 2019 in the aggregate amount of $64,040, and the annual installment payment for fiscal year 2011 in the amount of $3,294, that the DOF "clawed back" from the City as part of the Non-Housing DDR. The revival of the fiscal year 2011 payment resulted in an extraordinary loss to the Successor Agency Private-Purpose Trust Fund.

See Note 24 for more information on the potential impacts of SB 107.

San Diego Convention Center Corporation

During fiscal year 2015, a special item totaling $5,362 was recognized upon the disposal of the Phase III expansion project, as a result of not receiving funding from expansion bonds to satisfy the note payable obligation. In order for the City to issue bonds, a public vote of the funding mechanism for expansion bonds is required as determined by a state appeals court ruling in July 2014.

23. RESTATEMENTS OF NET POSITION (Dollars in Thousands)

Implementation of GASB Statements No. 68 and 71

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* (GASB 68). Accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating the City's beginning net position for its governmental and business-type activities, as well as the Pension Trust Fiduciary Fund. The restatements resulted from reversing the Net Pension Obligation and reducing Net Position for the Net Pension Liability and deferred outflows of resources as described in the next paragraph. The restatement resulted in a decrease to Net Position of $1,747,070.

In addition, the City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of GASB 68. The statement requires that, in the year of implementation of GASB 68, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning Net Pension Liability. The restatement increased Net Position by $279,659 as a result of reporting actual contributions made during fiscal year 2014 as deferred outflows of resources.

Readers interested in more detailed information regarding the Pension Plans should refer to Note 11.

The tables below summarize the net position restatements:

	Governmental Activities	Business-Type Activities	Fiduciary Funds Pension Trust
Net Position as of June 30, 2014, as Previously Reported	$ 4,819,721	$ 4,192,152	$ 7,749,894
GASB Statement No. 68 Adjustments:			
Reverse Net Pension Obligation	111,685	22,330	218
Establish Net Pension Liability	(1,732,935)	(427,434)	-
Reverse FY 2014 Employer Contributions	224,328	55,331	-
Net Position as of June 30, 2014, as Restated	$ 3,422,799	$ 3,842,379	$ 7,750,112

	Proprietary Funds			
	Sewer Utility	Water Utility	Other Enterprise	Internal Service
Net Position as of June 30, 2014, as Previously Reported	$ 2,349,378	$ 1,683,916	$ 166,022	$ 162,548
GASB Statement No. 68 Adjustments:				
Reverse Net Pension Obligation	8,142	6,187	8,001	2,133
Establish Net Pension Liability	(159,317)	(135,224)	(132,893)	(61,796)
Reverse FY 2014 Employer Contributions	20,623	17,505	17,203	7,999
Net Position as of June 30, 2014, as Restated	$ 2,218,826	$ 1,572,384	$ 58,333	$ 110,884

24. SUBSEQUENT EVENTS (Dollars in Thousands)

The following information describes certain events that occurred after the end of the fiscal year.

Labor Agreements

On July 1, 2015, the San Diego Police Officers Association (SDPOA), the labor group that represents sworn safety officers, entered into a Memorandum of Understanding (MOU) with the City for fiscal years 2016 through 2020, which increased salaries and benefits for its members. The MOU included general salary increases of 3.3% on July 1, 2018 and 3.3% on July 1, 2019, in addition to increases in benefits and other non-pensionable compensation for the five year period. SDPOA employees represent approximately 18% of the City's labor force, based on fiscal year 2016 budgeted positions. The City estimates total additional personnel costs for fiscal year 2016 resulting from the agreement to be approximately $11,096, and approximately $91,914 for the five year period of the agreement.

On October 15, the San Diego Municipal Employee Association (MEA), the labor group that represents technical, office, professional, and supervisory City employees, voted to ratify a tentative agreement between MEA and the City for fiscal years 2017 through 2020, which increased salaries and benefits for its members. The tentative agreement includes general salary increases of 3.3% on July 1, 2018 and 3.3% on July 1, 2019, in addition to increases in benefits and other non-pensionable compensation for the four year period. MEA employees represent approximately 44% of the City's labor force, based on fiscal year 2016 budgeted positions. The City estimates total additional personnel costs for fiscal year 2017 resulting from the agreement to be approximately $6,362 and approximately $73,281 for the four year period of the agreement.

Loan Agreements

On July 14, 2015, the City received an additional $2,166 disbursement from a $30,235 State Revolving Fund Loan agreement with the California State Water Resources Control Board for the Point Loma Grit Processing Improvement Project. The interest rate on the loan is 2.70% and the repayment period for the loan is 20 years, beginning one year after the completion of construction on the project.

On July 14, 2015, the City received a $3,597 disbursement from a $12,000 State Revolving Fund Loan agreement with the California State Water Resources Control Board for the Metropolitan Biosolids Center (MBC) - Dewatering Centrifuge Replacement Project. The interest rate on the loan is 1.70% and the repayment period for the loan is 20 years, beginning one year after the completion of construction on the project.

On August 14, 2015, the City received a $5,902 disbursement from a $7,554 State Revolving Fund Loan agreement with the California State Water Resources Control Board for the MBC - Storage Silos Project. The interest rate on the loan is 1.70% and the repayment period for the loan is 20 years, beginning one year after the completion of construction on the project.

Redemption of Reassessment District Series 1999A, 1999B and No. 1999-1

On September 2, 2015, all remaining outstanding bonds of the PFFA Refunding Revenue Bonds (Reassessment District No. 1999-1) Series 1999A and 1999B were optionally called. District funds, including the cash funded portion of the debt service reserve fund and other available funds of the district were used to redeem the obligations. In conjunction with the optional redemption of the Series 1999A and 1999B, the Reassessment District 1999-1 Limited Obligation Refunding Bonds, issued February 1999, were also extinguished.

Sewer Revenue Refunding Bonds Issued

On September 24, 2015, the PFFA of the City of San Diego issued senior sewer revenue refunding bonds in an amount of $313,620 for the purpose of refunding a portion of the outstanding Senior Sewer Revenue Bonds, Series 2009A, Senior Sewer Revenue Refunding Bonds, Series 2009B and Senior Sewer Revenue Refunding Bonds, Series 2010A. The 2015 Bonds are limited obligations of the PFFA and are payable solely from the revenues of the pledged sewer system net revenue.

Changes to Pension Actuarial Assumptions

On November 13, 2015, the SDCERS Board approved a change in the long-term discount rate to include in the June 30, 2015 actuarial valuation. The discount rate was lowered from 7.25% to 7.125% effective July 1, 2016, and to 7.00% effective July 1, 2017. Employer and employee contributions are anticipated to change; however the revised contribution rates are not expected until Spring of 2016.

Passage of California Senate Bill 107 (SB 107)

On September 22, 2015, the Governor signed SB 107, which clarifies or modifies existing redevelopment dissolution laws. SB 107 effectively reverses certain adverse decisions made by the California Department of Finance (DOF), affecting agreements between the City and the former RDA by establishing a new, broader legal standard to determine the enforceability of Successor Agency obligations. SB 107 includes two significant clarifying provisions affecting the City and Successor Agency: 1) An "enforceable obligation" includes an agreement between a City and its counterpart RDA if the agreement requires the RDA to repay or fulfill an outstanding loan or development obligation imposed by a grant or loan awarded or issued by a federal agency, including Housing and Urban Development (HUD), to the City which subsequently loaned or provided those funds to the RDA; and 2) A City and its counterpart Successor Agency may reinstate, on modified terms, a previously-invalidated agreement under which the City transferred real property to the RDA for a lawful purpose and the RDA agreed to pay the City for the real property.

On October 1, 2015, the City submitted its most recent Recognized Obligation Payments Schedule (ROPS 15-16B) to the DOF. Relying on the first provision in SB 107, the Successor Agency has added line items to ROPS 15-16B to revive or reiterate the Successor Agency's obligation to repay federal obligations under the following agreements: 1) Community Development Block Grant (CDBG) Repayment Agreement dated June 30, 2010 for an outstanding loan amount of $67,334 including $64,040 in loan repayments payable to the CDBG fund to be recognized as CDBG program income, subject to restrictions of the CDBG program; and the balance of $3,294 payable to the General Fund, related to a loan repayment made by the General Fund to the CDBG fund on behalf of the Successor Agency in fiscal year 2011; 2) Naval Training Center (NTC) Section 108 loan agreement dated March 1, 2011 with outstanding payments of approximately $6,244 owed to HUD; and 3) Long-Term Debt Agreement dated March 1, 2011 with outstanding CDBG and Section 108 loans of approximately $151,494 also payable to the CDBG fund to be recognized as CDBG program income.

Relying on the second provision in SB 107, the Successor Agency has added a new line item to ROPS 15-16B reinstating the NTC interfund purchase price loan on modified terms. Pursuant to the NTC cooperation agreement executed on June 26, 2000, the City sold to the former RDA the majority of the NTC site, comprising of approximately 259 acres, for the purchase price of $8,300. The RDA agreed to pay the purchase price on a deferred basis, accruing interest at 8% per annum. The DOF had previously invalidated the NTC purchase price loan, but SB 107 will allow the City and the Successor Agency to reinstate the loan on modified terms. Under the modified terms, the City will receive

repayment of the original $8,300, plus accrued interest at 3% compounded annually, for an approximate total of $11,989.

On November 12, 2015, the DOF issued its preliminary determination letter in response to the submission of ROPS 15-16B and summarily approved each of these items subject to the provisions of SB 107.

The City receives property tax revenue from tax sharing distributions in accordance with redevelopment dissolution laws and a proportional share of residual property tax payments of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after Recognized Obligation Payments are made. This revenue is deposited in the General Fund. Approval of the additional Recognized Obligation Payments described above will reduce the amount of residual property tax payments to the City by approximately 17.7% of the approved Recognized Obligation Payment amounts.

Water Rate Increases

On November 17, 2015, the City Council authorized a water rate adjustment, increasing water rate system revenue by 9.8% effective January 1, 2016, 6.4% effective July 1, 2016 and July 1, 2017, 5.0% effective July 1, 2018, and 7.0% effective July 1, 2019. Additionally, the City Council authorized adjustments to the proposed water base fee and commodity charge consistent with the recommendations of the 2015 Water Cost of Service Study (COSS), to reflect a proportionate share of revenue between user classifications.

The City Council further authorized unitary recycled water based fee and commodity charge adjustments consistent with the revised Recycled Water Pricing Study. The rate charged for recycled water increased from its current rate of $0.80 (whole dollars) per hundred cubic feet (HCF) to $1.73 (whole dollars) per HCF.

Litigation

On November 17, 2015, the City Council approved a global settlement regarding outstanding litigation with several De La Fuente actions. The settlement amount of $25,000, including accrued defense costs, will be fully funded by the City's insurance carrier.

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

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DEFINED BENEFIT PENSION PLAN
OPEB PLAN

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REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
June 30, 2015

PRESERVATION OF BENEFITS (POB) PLAN

Schedule of Funding Progress
The following table shows the funding progress of the City's POB Plan for the last three valuations (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll[1] (c)	UAAL as a Percentage of Covered Payroll[1] ((b – a)/c)
6/30/2012	$ -	$ 7,447	$ 7,447	0.00%	N/A	N/A
6/30/2013	-	8,393	8,393	0.00%	N/A	N/A
6/30/2014	-	7,896	7,896	0.00%	N/A	N/A

Source: Cheiron, Inc.
[1]Payments are based on annual determination of pension benefits that are above IRS section 415(b) limits and are funded on a pay-go basis.

GASB 67 and 68 Reporting for June 30, 2014 Measurement Date
Schedule of Changes in Net Pension Liability and Related Ratios

Total Pension Liability	
Service Cost	$ 107,003
Interest (Includes Interest on Service Cost)	537,875
Benefit Payments, Including Refunds of Member Contributions	(384,980)
Net change in Total Pension Liability	259,898
Total Pension Liability, Beginning	7,555,527
Total Pension Liability, Ending	7,815,425
Plan Fiduciary Net Position	
Contributions-Employer	279,659
Contributions-Member	65,467
Net Investment Income	935,051
Benefit Payments, Including Refunds of Member Contributions	(384,980)
Administrative Expense	(10,467)
Net Change in Plan Fiduciary Net Position	884,730
Plan Fiduciary Net Position, Beginning	5,395,158
Plan Fiduciary Net Position, Ending	6,279,888
Net Pension Liability, Ending	$ 1,535,537
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.35%
Covered-Employee Payroll	$ 611,580
Net Pension Liability as a Percentage of Covered Employee Payroll	251.08%

Schedule of Employer Contributions
Last 10 Fiscal Years

	2015	2014	2013	2012	2011
Actuarially Determined Contribution	$ 263,600	$ 275,400	$ 231,100	$ 231,200	$ 229,100
Contributions in Relation to the Actuarially Determined Contribution	263,600	275,400	231,143	231,200	229,297
Contribution Deficiency/(Excess)	$ -	$ -	$ (43)	$ -	$ (197)
Covered-Employee Payroll [1]	$ 602,361	$ 611,580	$ 628,435	$ 615,202	$ 621,973
Contributions as a Percentage of Covered-Employee Payroll	43.76%	45.03%	36.78%	37.58%	36.87%

	2010	2009	2008	2007	2006
Actuarially Determined Contribution	$ 154,200	$ 161,700	$ 137,700	$ 162,000	$ 170,071
Contributions in Relation to the Actuarially Determined Contribution	192,533	162,475	165,581	169,126	271,349
Contribution Deficiency/(Excess)	$ (38,333)	$ (775)	$ (27,881)	$ (7,126)	$ (101,278)
Covered-Employee Payroll [1]	$ 536,591	$ 535,774	$ 512,440	$ 534,103	$ 557,631
Contributions as a Percentage of Covered-Employee Payroll	35.88%	30.33%	32.31%	31.67%	48.66%

Valuation Date: 6/30/2013

Key Methods and Assumptions Used to Determine Contributions:

Actuarial Cost Method	Entry Age Normal. Prior to the 2007 valuation, Projected Unit Credit was used.
Asset Valuation Method	Expected Value Method. Prior to the 2006 valuation, the "book value" smoothing method was used. The actuarial value of assets was set to the market rate for the 2006 valuation, with the new smoothing method first applying to investment experience for the 2007 fiscal year.
Amortization Method [2]	Closed periods. Payments are a level percentage of payroll (Police) or level dollar (non-Police).
Discount Rate	7.25%. The discount rate was reduced from 8.00% to 7.75% in the 2008 valuation, from 7.75% to 7.50% in the 2011 valuation, and from 7.50% to 7.25% in the 2013 valuation.
Amortization Growth Rate	3.30%. Same pattern of changes described below for salary increase assumption (excluding freezes).
Salary Increases	3.30% (following assumed freezes in fiscal years 2013-2018) plus merit component based on employee classification and years of service. The across-the-board salary increase assumption was reduced from 4.25% to 4.00% in the 2008 valuation, from 4.00% to 3.75% in the 2011 valuation, and from 3.75% to 3.30% in the 2013 valuation. In the 2011 valuation, a two-year salary freeze assumption (for fiscal years 2013-2014) was added and in the 2013 valuation an additional four-year freeze was assumed (fiscal years 2015-2018).
Cost-Of-Living Adjustments	2.00%
Mortality	Healthy retired members use the RP-2000 Combined Mortality Table (male and female). For Safety female members, rates are set forward one year. From 2004-2007 (valuation years), the UP-1994 table was used, with a two-year set back for males and females. From 2008-2010, the RP-2000 Combined Mortality Table was used, with a two-year set forward for males and females.

A complete description of the methods and assumptions used to determine contribution rates for the year ended June 30, 2015 can be found in the June 30, 2013 actuarial valuation reports.

[1] Covered-Employee Payroll from fiscal years 2011-2015 represents total compensation for pensionable employees. Comparable information for fiscal years 2006-2010 is not available, but represents pensionable pay only.

[2] In the 2007 valuation, the amortization period was reduced from 27 to 20 years, with subsequent gains or losses amortized over different periods depending on the source. In the 2012 valuation, as a result of Proposition B, the UAL for the non-Police portion of the Plan was re-amortized over a closed 15-year period with level dollar payments.

OPEB TRUST FUND

Schedule of Funding Progress

The following table shows the funding progress of the City's OPEB trust fund for the last three fiscal years (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll [1] (c)	UAAL as a Percentage of Covered Payroll ((b – a)/c)
6/30/2013	$ 113,404	$ 557,551	$ 444,147	20.34%	$ 112,782	393.81%
6/30/2014	128,238	607,712	479,474	21.10%	98,742	485.58%
6/30/2015	121,115	658,408	537,293	18.40%	87,252	615.79%

[1] Includes payroll for active employees in the defined benefit options only.

Schedule of Employer Contributions

The following table shows contributions to the City's OPEB trust fund for the last three fiscal years (dollars in thousands):

Fiscal Year	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/2013	$ 35,348	$ 37,464	105.99%
6/30/2014	38,097	34,244	89.89%
6/30/2015	41,740	32,193	77.13%

Source: Buck Consultants

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GENERAL FUND

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GENERAL FUND

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

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

Current expenditures are classified by the following functions: General Government and Support; Public Safety - Police; Public Safety - Fire and Life Safety and Homeland Security; Parks, Recreation, Culture and Leisure; Transportation; Sanitation and Health; Neighborhood Services; Capital Outlay; and Debt Service Principal and Interest. This fund is appropriated annually.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Original Budget	Final Budget	Actual Amounts[1]	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	$ 445,429	$ 446,628	$ 449,244	$ 2,616
Sales Taxes	257,106	258,106	256,507	(1,599)
Transient Occupancy Taxes	92,332	93,732	98,138	4,406
Other Local Taxes	81,220	86,620	89,915	3,295
Licenses and Permits	24,460	25,309	24,732	(577)
Fines, Forfeitures and Penalties	28,929	28,929	30,194	1,265
Revenue from Use of Money and Property	47,326	50,675	51,320	645
Revenue from Federal Agencies	3,257	3,257	520	(2,737)
Revenue from Other Agencies	6,238	10,833	11,520	687
Revenue from Private Sources	2,150	2,150	2,164	14
Charges for Current Services	120,671	118,716	120,898	2,182
Other Revenue	2,299	2,709	9,385	6,676
TOTAL REVENUES	1,111,417	1,127,664	1,144,537	16,873
EXPENDITURES				
Current:				
General Government and Support	200,242	192,778	185,026	7,752
Public Safety - Police	414,098	421,658	419,278	2,380
Public Safety - Fire and Life Safety and Homeland Security	217,462	225,825	225,421	404
Parks, Recreation, Culture and Leisure	138,562	139,898	139,849	49
Transportation	52,449	52,774	51,847	927
Sanitation and Health	75,370	75,082	75,082	-
Neighborhood Services	27,751	28,315	26,149	2,166
Capital Outlay	3,356	2,988	2,951	37
Debt Service:				
Principal Retirement	2,813	2,294	2,168	126
Interest	1,274	1,274	1,110	164
TOTAL EXPENDITURES	1,133,377	1,142,886	1,128,881	14,005
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,960)	(15,222)	15,656	30,878
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	-	268	268	-
Transfers from Other Funds	77,133	75,457	76,418	961
Transfers to Proprietary Funds	(12,940)	(719)	(719)	-
Transfers to Other Funds	(56,106)	(73,658)	(73,658)	-
TOTAL OTHER FINANCING SOURCES (USES)	8,087	1,348	2,309	961
NET CHANGE IN FUND BALANCE	(13,873)	(13,874)	17,965	31,839
FUND BALANCE AT BEGINNING OF YEAR	183,777	183,777	183,777	-
FUND BALANCE AT END OF YEAR	$ 169,904	$ 169,903	$ 201,742	$ 31,839

See accompanying note to required supplementary information.

[1] Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Data

On or before the first meeting in May of each year, the Mayor submits to the City Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. This budget includes annual budgets for the following governmental funds:

- **General Fund**
- **Special Revenue Funds**
  - City of San Diego:
    - Acquisition, Improvement and Operations
    - Qualcomm Stadium Operations
    - Transient Occupancy Tax
    - Underground Surcharge
    - Zoological Exhibits
    - Other Special Revenue
  - Civic San Diego
- **Capital Projects Funds**
  - City of San Diego:
    - TransNet
    - Capital Outlay

Included in the budget are funds that include appropriations for personnel expenses and capital projects and certain funds that collect restricted or committed revenue sources. For those funds not specifically included in the budget, the Appropriation Ordinance includes authorization to appropriate funds for the purpose established by applicable laws and/or in accordance with provisions of agreements authorized by the City Council.

Public hearings are conducted to obtain residents' comments on the proposed budget. A budget resolution legally adopting the budget for the next fiscal year is passed prior to June 30. During the month of July, the Appropriation Ordinance is passed by the City Council appropriating funds according to the budget resolution. Budgets are prepared on the modified accrual basis of accounting, with the exception that any increase/decrease in advances to other funds and agencies are considered as additions/deductions of expenditures. The City budget is prepared excluding unrealized gains or losses resulting from the change in fair value of investments and proceeds from capital leases.

Budgetary control is established at the highest level by the City Charter and further defined by the City Council in the Appropriation Ordinance. The level of budgetary control for all City funds is exercised at the salaries and wages and non-personnel expenditures level. Budgetary control for the General Fund is at the department level, while control for 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 Appropriation Ordinance.

Reported budget figures are as originally adopted or subsequently amended. Appropriations lapse at year-end to the extent that they have not been expended except for those of a capital nature, which continue to subsequent years.

The following is a reconciliation of the net change in fund balance for the General Fund prepared on a GAAP basis to that prepared on the budgetary basis for the year ended June 30, 2015 (dollars in thousands):

	General Fund
Net Change in Fund Balance - GAAP Basis	$ 27,701
Add (Deduct):	
Unrealized Gain, June 30, 2015	(519)
Unrealized Gain, June 30, 2014	321
Working Capital Advance, June 30, 2015	(848)
Working Capital Advance, June 30, 2014	1,248
Other Perspective Differences [1]	5,053
Other Fund Activity [2]	(14,991)
Net Change in Fund Balance - Budgetary Basis	$ 17,965

[1]In fiscal year 2015, the General Fund accrued expenditures of $5,053, in the Statement of Revenues, Expenditures and Changes in Fund Balance (GAAP Basis), for low flow diversion capacity charges due to the Sewer Utility Fund. The City budgeted the first of five equal installment payments in fiscal year 2016 and intends to budget the next four payments over the following four fiscal years. The City considers this to be a perspective difference between the GAAP basis and the budgetary basis of accounting. As such, the $5,053 has been excluded from the budgetary comparison schedule for the General Fund and reported as Other Perspective Differences in the table above.

[2] The General Fund budgetary schedule includes funds associated with General Fund operations as reported in the City's budget. General Fund financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as a special revenue fund, pursuant to GASB Statement No. 54. The City administers certain of these funds as separate budgetary entities.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

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GENERAL FUND

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GENERAL FUND
SCHEDULE OF REVENUES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
PROPERTY TAXES					
One Percent Property Tax Allocation	$ -	$ -	$ -	$ 314,336	$ (314,336)
Current Year - Secured (One Percent Allocation)	286,575	-	286,575	-	286,575
Current Year Supplemental - Secured	3,827	-	3,827	-	3,827
Current Year - Unsecured	9,655	-	9,655	-	9,655
Current Unsecured Supplemental Roll	42	-	42	-	42
Homeowners' Exemptions - Secured	2,547	-	2,547	-	2,547
Homeowners' Exemptions - Unsecured	2	-	2	-	2
Prior years' - Secured	1,045	-	1,045	-	1,045
Prior years' - Unsecured	(198)	-	(198)	-	(198)
In-Lieu Vehicle License Fees	115,334	-	115,334	115,168	166
Interest and Penalties on Delinquent Taxes	1,170	-	1,170	-	1,170
Escapes - Secured	4,082	-	4,082	-	4,082
Escapes - Unsecured	393	-	393	-	393
Other Property Taxes	18,556	-	18,556	17,124	1,432
State Secured Unitary	6,214	-	6,214	-	6,214
TOTAL PROPERTY TAXES	449,244	-	449,244	446,628	2,616
SALES TAXES	256,507	-	256,507	258,106	(1,599)
TRANSIENT OCCUPANCY TAXES	98,138	-	98,138	93,732	4,406
OTHER LOCAL TAXES					
Franchises	81,251	-	81,251	77,444	3,807
Property Transfer Tax	8,664	-	8,664	9,176	(512)
TOTAL OTHER LOCAL TAXES	89,915	-	89,915	86,620	3,295
LICENSES AND PERMITS					
General Business Licenses	7,663	-	7,663	7,477	186
Refuse Collection Business Licenses	854	-	854	700	154
Other Regulatory Business Licenses	-	-	-	1	(1)
Rental Unit Tax	7,328	-	7,328	7,272	56
Other Licenses and Permits	8,887	-	8,887	9,859	(972)
TOTAL LICENSES AND PERMITS	24,732	-	24,732	25,309	(577)
FINES, FORFEITURES AND PENALTIES					
California Vehicle Code Violations	25,957	-	25,957	25,893	64
Other City Ordinance Code Violations	4,237	-	4,237	3,036	1,201
TOTAL FINES, FORFEITURES AND PENALTIES	30,194	-	30,194	28,929	1,265
REVENUE FROM USE OF MONEY AND PROPERTY					
Interest on Investments	787	(198)	589	1,414	(825)
Balboa Park Rents and Concessions	453	-	453	389	64
Mission Bay Park Rents and Concessions	29,526	-	29,526	30,045	(519)
Other Rents and Concessions	20,752	-	20,752	18,827	1,925
TOTAL REVENUE FROM USE OF MONEY AND PROPERTY	51,518	(198)	51,320	50,675	645
REVENUE FROM FEDERAL AGENCIES	520	-	520	3,257	(2,737)

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[1] Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54.

GENERAL FUND
SCHEDULE OF REVENUES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	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	$ 564	$ -	$ 564	$ -	$ 564
Local Relief	87	-	87	110	(23)
State Grants	10,869	-	10,869	10,723	146
TOTAL REVENUE FROM OTHER AGENCIES	11,520	-	11,520	10,833	687
REVENUE FROM PRIVATE SOURCES	2,164	-	2,164	2,150	14
CHARGES FOR CURRENT SERVICES					
Administrative Services to Other Agencies	1,299	-	1,299	1,305	(6)
Cemetery Revenue	651	-	651	665	(14)
Engineering Services	50	-	50	38	12
Fire Services	5,620	-	5,620	8,179	(2,559)
Library Revenue	1,200	-	1,200	933	267
Miscellaneous Recreation Revenue	4,739	-	4,739	4,023	716
Other Services	2,326	-	2,326	947	1,379
Planning and Miscellaneous Filing Fees	87	-	87	30	57
Police Services	5,582	-	5,582	5,606	(24)
Swimming Pools Revenue	1,165	-	1,165	1,166	(1)
Services Rendered to Other Funds for:					
General Government and Financial	90,143	-	90,143	86,565	3,578
Park Design	-	-	-	1,735	(1,735)
Miscellaneous Services	8,036	-	8,036	7,524	512
TOTAL CHARGES FOR CURRENT SERVICES	120,898	-	120,898	118,716	2,182
OTHER REVENUE					
Other Refunds of Prior Years' Expenditures	6,393	128	6,521	470	6,051
Repairs and Damage Recoveries	582	-	582	370	212
Sale of Personal Property	35	-	35	113	(78)
Miscellaneous Revenue	2,247	-	2,247	1,756	491
TOTAL OTHER REVENUE	9,257	128	9,385	2,709	6,676
TOTAL REVENUES	1,144,607	(70)	1,144,537	1,127,664	16,873
TRANSFERS FROM PROPRIETARY FUNDS					
Internal Service Funds:					
City of San Diego:					
Fleet Services	268	-	268	268	-
TRANSFERS FROM OTHER FUNDS					
Special Revenue Funds:					
City of San Diego:					
Interfund Transfers	45,143	-	45,143	44,182	961
Transient Occupancy Tax	17,353	-	17,353	17,353	-
Zoological Exhibits	17	-	17	17	-
Grants	3,926	-	3,926	3,926	-
Other Special Revenue - Unbudgeted	238	-	238	238	-
Capital Projects Funds:					
City of San Diego:					
TransNet	8,913	-	8,913	8,913	-
Capital Grants	45	-	45	45	-
Capital Outlay - Unbudgeted	311	-	311	311	-
Permanent Funds:					
Cemetery Perpetuity	472	-	472	472	-
TOTAL TRANSFERS FROM OTHER FUNDS	76,418	-	76,418	75,457	961
CAPITAL LEASE PROCEEDS	44,806	(44,806)	-	-	-
TOTAL REVENUE, TRANSFERS, AND CAPITAL LEASE PROCEEDS	$ 1,266,099	$ (44,876)	$ 1,221,223	$ 1,203,389	$ 17,834

[1] Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54. Transfers between the General Fund and these additional funds are titled "Interfund Transfers."

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
GENERAL GOVERNMENT AND SUPPORT					
Departmental:					
Office of the Mayor					
Salaries and Wages	$ 2,175	$ -	$ 2,175	$ 2,237	$ 62
Non-Personnel	1,966	-	1,966	2,041	75
Total Office of the Mayor	4,141	-	4,141	4,278	137
City Council District 1					
Salaries and Wages	468	-	468	469	1
Non-Personnel	470	-	470	559	89
Total City Council District 1	938	-	938	1,028	90
City Council District 2					
Salaries and Wages	641	-	641	642	1
Non-Personnel	602	-	602	662	60
Total City Council District 2	1,243	-	1,243	1,304	61
City Council District 3					
Salaries and Wages	604	-	604	616	12
Non-Personnel	777	-	777	843	66
Total City Council District 3	1,381	-	1,381	1,459	78
City Council District 4					
Salaries and Wages	529	-	529	529	-
Non-Personnel	435	-	435	504	69
Total City Council District 4	964	-	964	1,033	69
City Council District 5					
Salaries and Wages	545	-	545	588	43
Non-Personnel	377	-	377	687	310
Total City Council District 5	922	-	922	1,275	353
City Council District 6					
Salaries and Wages	512	-	512	628	116
Non-Personnel	406	-	406	494	88
Total City Council District 6	918	-	918	1,122	204
City Council District 7					
Salaries and Wages	640	-	640	709	69
Non-Personnel	467	-	467	490	23
Total City Council District 7	1,107	-	1,107	1,199	92
City Council District 8					
Salaries and Wages	596	-	596	645	49
Non-Personnel	543	-	543	602	59
Total City Council District 8	1,139	-	1,139	1,247	108
City Council District 9					
Salaries and Wages	514	-	514	514	-
Non-Personnel	565	-	565	731	166
Total City Council District 9	1,079	-	1,079	1,245	166
Council Administration					
Salaries and Wages	975	-	975	1,078	103
Non-Personnel	876	-	876	1,045	169
Total Council Administration	1,851	-	1,851	2,123	272

Continued on Next Page

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
City Clerk					
Salaries and Wages	$ 2,292	$ -	$ 2,292	$ 2,293	$ 1
Non-Personnel	2,882	-	2,882	3,001	119
Total City Clerk	5,174	-	5,174	5,294	120
Independent Budget Analyst					
Salaries and Wages	1,054	-	1,054	1,063	9
Non-Personnel	737	-	737	753	16
Total Independent Budget Analyst	1,791	-	1,791	1,816	25
City Attorney					
Salaries and Wages	25,643	-	25,643	25,739	96
Non-Personnel	19,898	-	19,898	19,946	48
Total City Attorney	45,541	-	45,541	45,685	144
Personnel					
Salaries and Wages	3,908	-	3,908	3,909	1
Non-Personnel	3,335	-	3,335	3,336	1
Total Personnel	7,243	-	7,243	7,245	2
Ethics Commission					
Salaries and Wages	457	-	457	458	1
Non-Personnel	486	-	486	566	80
Total Ethics Commission	943	-	943	1,024	81
Office of the City Auditor					
Salaries and Wages	1,875	-	1,875	1,876	1
Non-Personnel	1,299	-	1,299	1,618	319
Total Office of the City Auditor	3,174	-	3,174	3,494	320
Assistant Chief Operating Officer					
Salaries and Wages	631	-	631	636	5
Non-Personnel	450	-	450	470	20
Total Assistant Chief Operating Officer	1,081	-	1,081	1,106	25
Performance and Analytics					
Salaries and Wages	695	-	695	739	44
Non-Personnel	595	-	595	595	-
Total Performance and Analytics	1,290	-	1,290	1,334	44
Human Resources					
Salaries and Wages	1,596	-	1,596	1,647	51
Non-Personnel	1,482	-	1,482	1,486	4
Total Human Resources	3,078	-	3,078	3,133	55
Department of Information Technology					
Non-Personnel	416	-	416	417	1
Office of the Chief Operating Officer					
Salaries and Wages	533	-	533	533	-
Non-Personnel	396	-	396	405	9
Total Office of the Chief Operating Officer	929	-	929	938	9
Internal Operations					
Salaries and Wages	231	-	231	231	-
Non-Personnel	183	-	183	183	-
Total Internal Operations	414	-	414	414	-

[1] Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54. Transfers between the General Fund and these additional funds are titled "Interfund Transfers."

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Communications					
Salaries and Wages	$ 881	$ -	$ 881	$ 1,849	$ 968
Non-Personnel	713	-	713	714	1
Total Communications	1,594	-	1,594	2,563	969
Chief Financial Officer					
Salaries and Wages	284	-	284	285	1
Non-Personnel	216	-	216	216	-
Total Chief Financial Officer	500	-	500	501	1
City Comptroller					
Salaries and Wages	5,746	-	5,746	5,747	1
Non-Personnel	5,293	-	5,293	5,293	-
Total City Comptroller	11,039	-	11,039	11,040	1
Debt Management					
Salaries and Wages	1,461	-	1,461	1,462	1
Non-Personnel	1,062	-	1,062	1,062	-
Total Debt Management	2,523	-	2,523	2,524	1
Financial Management					
Salaries and Wages	2,161	-	2,161	2,274	113
Non-Personnel	1,791	-	1,791	1,791	-
Total Financial Management	3,952	-	3,952	4,065	113
Purchasing and Contracting					
Salaries and Wages	3,070	-	3,070	3,265	195
Non-Personnel	2,372	-	2,372	2,375	3
Total Purchasing and Contracting	5,442	-	5,442	5,640	198
City Treasurer					
Salaries and Wages	5,678	-	5,678	5,790	112
Non-Personnel	8,965	-	8,965	8,978	13
Total City Treasurer	14,643	-	14,643	14,768	125
Neighborhood Services					
Salaries and Wages	561	-	561	585	24
Non-Personnel	244	-	244	244	-
Total Neighborhood Services	805	-	805	829	24
Real Estate Assets					
Salaries and Wages	2,049	-	2,049	2,065	16
Non-Personnel	2,183	-	2,183	2,184	1
Total Real Estate Assets	4,232	-	4,232	4,249	17
General Services					
Salaries and Wages	6,504	-	6,504	6,588	84
Non-Personnel	10,380	-	10,380	10,410	30
Total General Services	16,884	-	16,884	16,998	114
Public Works/Infrastructure					
Salaries and Wages	624	-	624	659	35
Non-Personnel	442	-	442	442	-
Total Public Works/Infrastructure	1,066	-	1,066	1,101	35

Continued on Next Page

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
Public Works - Contracts					
Salaries and Wages	$ 1,046	$ -	$ 1,046	$ 1,186	$ 140
Non-Personnel	843	-	843	946	103
Total Public Works - Contracts	1,889	-	1,889	2,132	243
Citywide Expenses					
Non-Personnel	33,700	-	33,700	37,155	3,455
TOTAL GENERAL GOVERNMENT AND SUPPORT	185,026	-	185,026	192,778	7,752
PUBLIC SAFETY - POLICE					
Departmental:					
Police					
Salaries and Wages	209,571	-	209,571	211,951	2,380
Non-Personnel	209,707	-	209,707	209,707	-
Total Police	419,278	-	419,278	421,658	2,380
TOTAL PUBLIC SAFETY - POLICE	419,278	-	419,278	421,658	2,380
PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY					
Fire - Rescue					
Salaries and Wages	115,577	-	115,577	115,629	52
Non-Personnel	107,802	-	107,802	107,996	194
Total Fire - Rescue	223,379	-	223,379	223,625	246
Office of Homeland Security					
Salaries and Wages	1,023	-	1,023	1,081	58
Non-Personnel	1,019	-	1,019	1,119	100
Total Office of Homeland Security	2,042	-	2,042	2,200	158
TOTAL PUBLIC SAFETY - FIRE AND LIFE SAFETY AND HOMELAND SECURITY	225,421	-	225,421	225,825	404
PARKS, RECREATION, CULTURE AND LEISURE					
Departmental:					
Library					
Salaries and Wages	18,559	-	18,559	18,560	1
Non-Personnel	26,244	-	26,244	26,244	-
Total Library	44,803	-	44,803	44,804	1
Parks and Recreation					
Salaries and Wages	33,870	-	33,870	33,871	1
Non-Personnel	59,058	-	59,058	59,065	7
Total Parks and Recreation	92,928	-	92,928	92,936	8
Reservoir Concessions					
Non-Personnel	2,118	-	2,118	2,158	40
TOTAL PARKS, RECREATION CULTURE AND LEISURE	139,849	-	139,849	139,898	49

[1] Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54. Transfers between the General Fund and these additional funds are titled "Interfund Transfers."

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSPORTATION					
Departmental:					
Transportation & Storm Water					
Salaries and Wages	$ 17,191	$ -	$ 17,191	$ 17,776	$ 585
Non-Personnel	34,656	-	34,656	34,998	342
Total Transportation & Storm Water	51,847	-	51,847	52,774	927
TOTAL TRANSPORTATION	51,847	-	51,847	52,774	927
SANITATION AND HEALTH					
Departmental:					
Environmental Services					
Salaries and Wages	7,764	-	7,764	7,764	-
Non-Personnel	26,093	-	26,093	26,093	-
Total Environmental Services	33,857	-	33,857	33,857	-
Storm Water					
Salaries and Wages	7,433	-	7,433	7,433	-
Non-Personnel	33,792	-	33,792	33,792	-
Total Storm Water	41,225	-	41,225	41,225	-
TOTAL SANITATION AND HEALTH	75,082	-	75,082	75,082	-
NEIGHBORHOOD SERVICES					
Departmental:					
Development Services					
Salaries and Wages	3,414	-	3,414	3,545	131
Non-Personnel	3,272	-	3,272	3,476	204
Total Development Services	6,686	-	6,686	7,021	335
Economic Development					
Salaries and Wages	2,992	-	2,992	3,354	362
Non-Personnel	8,723	(272)	8,451	8,731	280
Total Economic Development	11,715	(272)	11,443	12,085	642
Planning					
Salaries and Wages	3,869	-	3,869	4,395	526
Non-Personnel	4,151	-	4,151	4,814	663
Total Planning	8,020	-	8,020	9,209	1,189
TOTAL NEIGHBORHOOD SERVICES	26,421	(272)	26,149	28,315	2,166
CAPITAL OUTLAY	47,757	(44,806)	2,951	2,988	37
DEBT SERVICE					
Principal Retirement	2,168	-	2,168	2,294	126
Interest	1,110	-	1,110	1,274	164
TOTAL DEBT SERVICE	3,278	-	3,278	3,568	290
TOTAL EXPENDITURES	1,173,959	(45,078)	1,128,881	1,142,886	14,005

Continued on Next Page

GENERAL FUND
SCHEDULE OF EXPENDITURES AND TRANSFERS
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Actual [1]	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
TRANSFERS TO PROPRIETARY FUNDS					
Enterprise Funds:					
City of San Diego:					
Development Services	$ 52	$ -	$ 52	$ 52	$ -
Internal Service Funds:					
City of San Diego:					
Fleet Services	667	-	667	667	-
TOTAL TRANSFERS TO PROPRIETARY FUNDS	719	-	719	719	-
TRANSFERS TO OTHER FUNDS					
Special Revenue Funds:					
City of San Diego:					
Interfund Transfers	24,446	-	24,446	24,446	-
Acquisition, Improvement and Operations	2,104	-	2,104	2,104	-
Other Special Revenue - Budgeted	9,528	-	9,528	9,528	-
Grants	137	-	137	137	-
Other Special Revenue - Unbudgeted	1,383	-	1,383	1,383	-
Total Special Revenue Funds	37,598	-	37,598	37,598	-
Debt Service Funds:					
City of San Diego:					
McGuigan Loan Fund	8,008	-	8,008	8,008	-
Public Facilities Financing Authority	11,987	-	11,987	11,987	-
Total Debt Service Funds	19,995	-	19,995	19,995	-
Capital Projects Funds:					
City of San Diego:					
Capital Outlay - Unbudgeted	15,964	-	15,964	15,964	-
Public Facilities Financing Authority	101	-	101	101	-
Total Capital Projects Funds	16,065	-	16,065	16,065	-
TOTAL TRANSFERS TO OTHER FUNDS	73,658	-	73,658	73,658	-
TOTAL EXPENDITURES AND TRANSFERS	$ 1,248,336	$ (45,078)	$ 1,203,258	$ 1,217,263	$ 14,005

[1] Amounts include funds associated with General Fund operations as reported in the City's budget. Financial statements prepared on a GAAP basis include additional funds that do not meet the criteria to be classified as special revenue funds, pursuant to GASB Statement No. 54. Transfers between the General Fund and these additional funds are titled "Interfund Transfers."

NONMAJOR GOVERNMENTAL FUNDS

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NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$ 361,293	$ 5	$ 450,501	$ -	$ 811,799
Receivables:					
Taxes - Net of Allowance for Uncollectibles	27,616	-	55,387	-	83,003
Accounts - Net of Allowance for Uncollectibles	6,181	5,021	2,152	1	13,355
Special Assessments	375	-	-	-	375
Notes	230,032	-	31,183	-	261,215
Loans	68,386		-	-	68,386
Accrued Interest	466	8	640	15	1,129
Grants	11,743	-	7,579	-	19,322
Advances to Other Funds	-	-	5,207	-	5,207
Advances to Other Agencies	12,313	-	11	-	12,324
Land Held for Resale	32,212	-	-	-	32,212
Prepaid Items	24	-	-	-	24
Restricted Cash and Investments	9,730	29,024	222,115	23,965	284,834
TOTAL ASSETS	$ 760,371	$ 34,058	$ 774,775	$ 23,981	$ 1,593,185
LIABILITIES					
Accounts Payable	$ 34,988	$ -	$ 12,512	$ 17	$ 47,517
Accrued Wages and Benefits	639	-	-	-	639
Other Accrued Liabilities	904	-	-	-	904
Due to Other Funds	5,303	-	17,634	-	22,937
Unearned Revenue	5,709	-	20,390	-	26,099
Advances from Other Funds	6,055	-	-	-	6,055
TOTAL LIABILITIES	53,598	-	50,536	17	104,151
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Taxes	4,146	-	55,387	-	59,533
Unavailable Revenue - Grants	3,374	-	6,959	-	10,333
Unavailable Revenue - Other	4,877	5,021	2,151	1	12,050
TOTAL DEFERRED INFLOWS OF RESOURCES	12,397	5,021	64,497	1	81,916
FUND BALANCES					
Nonspendable	24	-	103	21,300	21,427
Restricted	634,015	29,037	623,024	2,663	1,288,739
Committed	63,706	-	44,533	-	108,239
Unassigned	(3,369)	-	(7,918)	-	(11,287)
TOTAL FUND BALANCES	694,376	29,037	659,742	23,963	1,407,118
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 760,371	$ 34,058	$ 774,775	$ 23,981	$ 1,593,185

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2015
(Dollars in Thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
REVENUES					
Property Taxes	$ 11,271	$ -	$ -	$ -	$ 11,271
Special Assessments	57,343	-	-	-	57,343
Sales Taxes	-	-	28,634	-	28,634
Transient Occupancy Taxes	88,552	-	-	-	88,552
Other Local Taxes	78,965	-	2	-	78,967
Licenses and Permits	10,679	-	21,982	-	32,661
Fines, Forfeitures and Penalties	3,234	-	-	2	3,236
Revenue from Use of Money and Property	25,150	511	4,388	551	30,600
Revenue from Federal Agencies	39,755	-	4,883	-	44,638
Revenue from Other Agencies	3,075	9,020	63,359	-	75,454
Revenue from Private Sources	6,097	-	63,185	135	69,417
Charges for Current Services	26,317	-	660	80	27,057
Other Revenue	18,662	-	498	-	19,160
TOTAL REVENUES	369,100	9,531	187,591	768	566,990
EXPENDITURES					
Current:					
General Government and Support	43,910	-	2,193	-	46,103
Public Safety - Police	4,766	-	-	-	4,766
Public Safety - Fire, Life Safety and Homeland Security	23,114	-	11	-	23,125
Parks, Recreation, Culture and Leisure	86,007	-	1,246	124	87,377
Transportation	46,444	-	4,212	-	50,656
Sanitation and Health	2,213	-	368	70	2,651
Neighborhood Services	43,880	-	1,290	-	45,170
Capital Outlay	21,091	-	113,606	-	134,697
Debt Service:					
Principal Retirement	280	32,951	636	-	33,867
Cost of Issuance	-	1,140	-	-	1,140
Interest	227	32,454	145	-	32,826
TOTAL EXPENDITURES	271,932	66,545	123,707	194	462,378
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	97,168	(57,014)	63,884	574	104,612
OTHER FINANCING SOURCES (USES)					
Transfers from Proprietary Funds	-	819	63	-	882
Transfers from Other Funds	26,638	54,937	136,217	-	217,792
Transfers to Other Funds	(67,909)	(120,042)	(11,700)	(587)	(200,238)
Proceeds from the Sale of Capital Assets	-	-	45	-	45
Loans Issued	-	-	1,512	-	1,512
Revenue Bonds Issued	-	107,290	-	-	107,290
Premium on Bonds Issued	-	13,910	-	-	13,910
TOTAL OTHER FINANCING SOURCES (USES)	(41,271)	56,914	126,137	(587)	141,193
NET CHANGE IN FUND BALANCES	55,897	(100)	190,021	(13)	245,805
Fund Balances at Beginning of Year	638,479	29,137	469,721	23,976	1,161,313
FUND BALANCES AT END OF YEAR	$ 694,376	$ 29,037	$ 659,742	$ 23,963	$ 1,407,118

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE

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SPECIAL REVENUE FUNDS

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

CITY OF SAN DIEGO

ACQUISITION, IMPROVEMENT AND OPERATIONS - BUDGETED

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.

QUALCOMM STADIUM OPERATIONS - BUDGETED

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

TRANSIENT OCCUPANCY TAX - BUDGETED

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 since August 1994, the tax rate is 10.5%.

UNDERGROUND SURCHARGE - BUDGETED

This fund was established to account for activities related to the undergrounding of utilities. This fund receives and disburses undergrounding surcharge revenue in accordance with the City's franchise agreements with SDG&E.

ZOOLOGICAL EXHIBITS - BUDGETED

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

OTHER SPECIAL REVENUE – BUDGETED

This fund was established to account for revenues derived specifically for a variety of budgeted special programs administered by City 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 - UNBUDGETED

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.

LOW-MODERATE INCOME HOUSING - UNBUDGETED

This fund was established to account for affordable housing assets transferred from the Successor Agency to the Successor Housing Entity, which is the City, as required by California Health and Safety Code Section 34176(d), due to the dissolution of the Redevelopment Agency. This fund will also account for any future revenues generated from the housing assets.

OTHER SPECIAL REVENUE - UNBUDGETED

This fund was established to account for revenues earmarked for a variety of special programs administered by such City 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

CIVIC SAN DIEGO

Civic San Diego (CSD) is a not-for-profit public benefit corporation resulting from restructuring and reorganizing the former Centre City Development Corporation (CCDC) and the Southeastern Economic Development Corporation (SEDC) into a single corporation. CCDC and SEDC were originally established to administer certain redevelopment project areas throughout the City. Upon dissolution of the former San Diego Redevelopment Agency (former RDA), CSD's main function is now focused on providing administrative and advisory services to the City as the Successor Agency. CSD also assists the City with downtown parking management administration and affordable housing development.

SAN DIEGO INDUSTRIAL DEVELOPMENT AUTHORITY

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

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION (TSRFC)

This fund was established to account for the activities of the TSRFC. TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's special revenue fund is used to account for the expenditures incurred for administrative services provided by the City.

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NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	City of San Diego	Civic San Diego	San Diego Industrial Development Authority	Tobacco Settlement Revenue Funding Corporation	Total
ASSETS					
Cash and Investments	$ 359,473	$ 1,753	$ 67	$ -	$ 361,293
Receivables:					
Taxes - Net of Allowance for Uncollectibles	27,616	-	-	-	27,616
Accounts - Net of Allowance for Uncollectibles	4,765	1,416	-	-	6,181
Special Assessments	375	-	-	-	375
Notes	230,032	-	-	-	230,032
Loans	68,386	-	-	-	68,386
Accrued Interest	466	-	-	-	466
Grants	11,743	-	-	-	11,743
Advances to Other Agencies	12,313	-	-	-	12,313
Land Held for Resale	32,212	-	-	-	32,212
Prepaid Items	7	7	-	10	24
Restricted Cash and Investments	4,113	5,452	-	165	9,730
TOTAL ASSETS	$ 751,501	$ 8,628	$ 67	$ 175	$ 760,371
LIABILITIES					
Accounts Payable	$ 34,988	$ -	$ -	$ -	$ 34,988
Accrued Wages and Benefits	639	-	-	-	639
Other Accrued Liabilities	19	885	-	-	904
Due to Other Funds	5,284	19	-	-	5,303
Unearned Revenue	5,709	-	-	-	5,709
Advances from Other Funds	-	6,055	-	-	6,055
TOTAL LIABILITIES	46,639	6,959	-	-	53,598
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Taxes	4,146	-	-	-	4,146
Unavailable Revenue - Grants	3,374	-	-	-	3,374
Unavailable Revenue - Other	4,877	-	-	-	4,877
TOTAL DEFERRED INFLOWS OF RESOURCES	12,397	-	-	-	12,397
FUND BALANCES					
Fund Balances:					
Nonspendable	7	7	-	10	24
Restricted	632,188	1,662	-	165	634,015
Committed	63,639	-	67	-	63,706
Unassigned	(3,369)	-	-	-	(3,369)
TOTAL FUND BALANCES	692,465	1,669	67	175	694,376
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 751,501	$ 8,628	$ 67	$ 175	$ 760,371

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2015
(Dollars in Thousands)

	City of San Diego	Civic San Diego	San Diego Industrial Development Authority	Tobacco Settlement Revenue Funding Corporation	Total
REVENUES					
Property Taxes	$ 11,271	$ -	$ -	$ -	$ 11,271
Special Assessments	57,343	-	-	-	57,343
Transient Occupancy Taxes	88,552	-	-	-	88,552
Other Local Taxes	78,965	-	-	-	78,965
Licenses and Permits	10,679	-	-	-	10,679
Fines, Forfeitures and Penalties	3,234	-	-	-	3,234
Revenue from Use of Money and Property	24,975	175	-	-	25,150
Revenue from Federal Agencies	39,755	-	-	-	39,755
Revenue from Other Agencies	2,870	205	-	-	3,075
Revenue from Private Sources	6,097	-	-	-	6,097
Charges for Current Services	18,582	7,735	-	-	26,317
Other Revenue	18,567	95	-	-	18,662
TOTAL REVENUES	360,890	8,210	-	-	369,100
EXPENDITURES					
Current:					
General Government and Support	36,439	7,422	-	49	43,910
Public Safety - Police	4,766	-	-	-	4,766
Public Safety - Fire and Life Safety and Homeland Security	23,114	-	-	-	23,114
Parks, Recreation, Culture and Leisure	86,007	-	-	-	86,007
Transportation	46,444	-	-	-	46,444
Sanitation and Health	2,213	-	-	-	2,213
Neighborhood Services	43,880	-	-	-	43,880
Capital Outlay	20,728	363	-	-	21,091
Debt Service:					
Principal Retirement	280	-	-	-	280
Interest	227	-	-	-	227
TOTAL EXPENDITURES	264,098	7,785	-	49	271,932
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	96,792	425	-	(49)	97,168
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	26,596	-	-	42	26,638
Transfers to Other Funds	(67,909)	-	-	-	(67,909)
TOTAL OTHER FINANCING SOURCES (USES)	(41,313)	-	-	42	(41,271)
Extraordinary Gain	-	-	-	-	-
NET CHANGE IN FUND BALANCES	55,479	425	-	(7)	55,897
Fund Balances at Beginning of Year	636,986	1,244	67	182	638,479
FUND BALANCES AT END OF YEAR	$ 692,465	$ 1,669	$ 67	$ 175	$ 694,376

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	City of San Diego	
	Actual on Budgetary Basis	**Final Budget**
REVENUES		
Property Taxes	$ 11,238	$ 10,746
Special Assessments	16,247	15,862
Sales Taxes	8,788	8,803
Transient Occupancy Taxes	88,552	83,938
Other Local Taxes	118,907	98,022
Licenses and Permits	10,466	9,556
Fines, Forfeitures and Penalties	-	116
Revenue from Use of Money and Property	12,268	10,865
Revenue from Federal Agencies	806	1,200
Revenue from Other Agencies	109	238
Revenue from Private Sources	1,137	930
Charges for Current Services	122,524	123,287
Other Revenue	1,520	1
TOTAL REVENUES	392,562	363,564
EXPENDITURES		
Current:		
General Government and Support	84,221	92,133
Public Safety - Police	6,273	6,920
Public Safety - Fire and Life Safety and Homeland Security	9,000	9,532
Parks, Recreation, Culture and Leisure	95,598	132,368
Transportation	91,135	153,899
Sanitation and Health	1,480	1,614
Neighborhood Services	1,926	2,886
Capital Outlay	16,861	-
Debt Service:		
Principal Retirement	6,775	7,184
Interest	199	516
TOTAL EXPENDITURES	313,470	407,052
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	79,092	(43,488)
OTHER FINANCING SOURCES (USES)		
Transfers from Other Funds	28,972	31,375
Transfers to Other Funds	(106,908)	(117,948)
Proceeds from the Sale of Capital Assets	2	-
Capital Leases	266	-
TOTAL OTHER FINANCING SOURCES (USES)	(77,668)	(86,573)
NET CHANGE IN FUND BALANCES	1,425	(130,061)
Fund Balances - Beginning	197,420	197,420
FUND BALANCES - ENDING	$ 198,845	$ 67,359

Civic San Diego		Total		
Actual on Budgetary Basis	Final Budget	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
$ -	$ -	$ 11,238	$ 10,746	$ 492
-	-	16,247	15,862	385
-	-	8,788	8,803	(15)
-	-	88,552	83,938	4,614
-	-	118,907	98,022	20,885
-	-	10,466	9,556	910
-	-	-	116	(116)
175	-	12,443	10,865	1,578
-	-	806	1,200	(394)
205	-	314	238	76
-	-	1,137	930	207
7,735	6,740	130,259	130,027	232
95	-	1,615	1	1,614
8,210	6,740	400,772	370,304	30,468
7,422	6,740	91,643	98,873	7,230
-	-	6,273	6,920	647
-	-	9,000	9,532	532
-	-	95,598	132,368	36,770
-	-	91,135	153,899	62,764
-	-	1,480	1,614	134
-	-	1,926	2,886	960
363	-	17,224	-	(17,224)
-	-	6,775	7,184	409
-	-	199	516	317
7,785	6,740	321,255	413,792	92,537
425	-	79,517	(43,488)	123,005
-	-	28,972	31,375	(2,403)
-	-	(106,908)	(117,948)	11,040
-	-	2	-	2
-	-	266	-	266
-	-	(77,668)	(86,573)	8,905
425	-	1,850	(130,061)	131,911
1,244	1,244	198,664	198,664	-
$ 1,669	$ 1,244	$ 200,514	$ 68,603	$ 131,911

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	Budgeted		
	Acquisition, Improvement and Operations	Qualcomm Stadium Operations	Transient Occupancy Tax
ASSETS			
Cash and Investments	$ 23,969	$ 6,538	$ 7,515
Receivables:			
Taxes - Net of Allowance for Uncollectibles	-	-	12,498
Accounts - Net of Allowance for Uncollectibles	427	188	908
Special Assessments	362	-	-
Notes	-	-	-
Loans	-	-	-
Accrued Interest	34	8	5
Grants	-	-	-
Advances to Other Agencies	419	-	98
Land Held for Resale	-	-	-
Prepaid Items	-	-	7
Restricted Cash and Investments	-	3	-
TOTAL ASSETS	$ 25,211	$ 6,737	$ 21,031
LIABILITIES			
Accounts Payable	$ 2,015	$ 1,671	$ 4,724
Accrued Wages and Benefits	237	179	74
Other Accrued Liabilities	-	3	-
Due to Other Funds	-	-	-
Unearned Revenue	-	4	-
	-		
TOTAL LIABILITIES	2,252	1,857	4,798
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	-	-	3,947
Unavailable Revenue - Grants	-	-	-
Unavailable Revenue - Other	749	190	-
TOTAL DEFERRED INFLOWS OF RESOURCES	749	190	3,947
FUND BALANCES			
Nonspendable	-	-	7
Restricted	20,946	-	-
Committed	1,264	4,690	12,279
Unassigned	-	-	-
TOTAL FUND BALANCES	22,210	4,690	12,286
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 25,211	$ 6,737	$ 21,031

			Unbudgeted			
Underground Surcharge	Zoological Exhibits	Other Special Revenue	Grants	Low-Moderate Income Housing	Other Special Revenue	Total
$ 80,473	$ 6,957	$ 73,675	$ 5,519	$ 24,599	$ 130,228	$ 359,473
14,874	244	-	-	-	-	27,616
-	-	304	6	-	2,932	4,765
-	-	-	-	-	13	375
-	-	-	-	227,506	2,526	230,032
-	-	-	64,040	-	4,346	68,386
120	-	99	13	32	155	466
-	-	-	11,743	-	-	11,743
-	-	-	-	-	11,796	12,313
-	-	-	-	32,212	-	32,212
-	-	-	-	-	-	7
-	-	-	-	4,110	-	4,113
$ 95,467	$ 7,201	$ 74,078	$ 81,321	$ 288,459	$ 151,996	$ 751,501
$ 8,447	$ 6,391	$ 2,637	$ 3,160	$ 2,330	$ 3,613	$ 34,988
41	-	108	-	-	-	639
-	-	-	-	-	16	19
-	-	-	5,284	-	-	5,284
-	-	-	5,642	-	63	5,709
8,488	6,391	2,745	14,086	2,330	3,692	46,639
-	199	-	-	-	-	4,146
-	-	-	3,374	-	-	3,374
-	-	18	-	-	3,920	4,877
-	199	18	3,374	-	3,920	12,397
-	-	-	-	-	-	7
86,979	611	68,924	67,230	286,129	101,369	632,188
-	-	2,391	-	-	43,015	63,639
-	-	-	(3,369)	-	-	(3,369)
86,979	611	71,315	63,861	286,129	144,384	692,465
$ 95,467	$ 7,201	$ 74,078	$ 81,321	$ 288,459	$ 151,996	$ 751,501

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2015
(Dollars in Thousands)

	Budgeted		
	Acquisition, Improvement and Operations	Qualcomm Stadium Operations	Transient Occupancy Tax
REVENUES			
Property Taxes	$ -	$ -	$ -
Special Assessments	16,247	-	-
Transient Occupancy Taxes	-	-	88,552
Other Local Taxes	-	-	-
Licenses and Permits	-	14	64
Fines, Forfeitures and Penalties	-	-	-
Revenue from Use of Money and Property	125	6,003	1,921
Revenue from Federal Agencies	-	-	-
Revenue from Other Agencies	-	-	-
Revenue from Private Sources	40	-	1,097
Charges for Current Services	5,324	11	31
Other Revenue	575	11	31
TOTAL REVENUES	22,311	6,039	91,696
EXPENDITURES			
Current:			
General Government and Support	3,286	-	-
Public Safety - Police	-	-	-
Public Safety - Fire and Life Safety and Homeland Security	-	-	-
Parks, Recreation, Culture and Leisure	18,473	10,736	39,995
Transportation	-	-	3
Sanitation and Health	-	-	-
Neighborhood Services	1,921	-	-
Capital Outlay	1,540	217	17
Debt Service:			
Principal Retirement	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	25,220	10,953	40,015
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,909)	(4,914)	51,681
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	3,818	10,275	-
Transfers to Other Funds	(15)	(4,795)	(54,545)
TOTAL OTHER FINANCING SOURCES (USES)	3,803	5,480	(54,545)
NET CHANGE IN FUND BALANCES	894	566	(2,864)
Fund Balances at Beginning of Year	21,316	4,124	15,150
FUND BALANCES AT END OF YEAR	$ 22,210	$ 4,690	$ 12,286

			Unbudgeted			
Underground Surcharge	Zoological Exhibits	Other Special Revenue	Grants	Low-Moderate Income Housing	Other Special Revenue	Total
$ -	$ 11,238	$ -	$ -	$ -	$ 33	$ 11,271
-	-	-	-	-	41,096	57,343
-	-	-	-	-	-	88,552
64,402	-	14,480	-	-	83	78,965
-	-	10,393	-	-	208	10,679
-	-	-	-	-	3,234	3,234
456	17	467	24	4,719	11,243	24,975
-	-	806	38,949	-	-	39,755
-	-	-	2,772	98	-	2,870
-	-	-	-	-	4,960	6,097
-	-	1,592	-	-	11,624	18,582
-	-	-	-	16,905	1,045	18,567
64,858	11,255	27,738	41,745	21,722	73,526	360,890
352	-	2,551	2,357	-	27,893	36,439
-	-	1,272	3,295	-	199	4,766
-	-	586	20,104	-	2,424	23,114
-	11,193	492	144	-	4,974	86,007
37,329	-	9,063	39	-	10	46,444
-	-	1,420	761	-	32	2,213
-	-	-	12,406	13,913	15,640	43,880
8,330	-	4,318	2,497	-	3,809	20,728
-	-	-	-	-	280	280
-	-	-	-	-	227	227
46,011	11,193	19,702	41,603	13,913	55,488	264,098
18,847	62	8,036	142	7,809	18,038	96,792
-	-	9,678	87	1,181	1,557	26,596
(7)	(17)	(7,288)	(875)	-	(367)	(67,909)
(7)	(17)	2,390	(788)	1,181	1,190	(41,313)
18,840	45	10,426	(646)	8,990	19,228	55,479
68,139	566	60,889	64,507	277,139	125,156	636,986
$ 86,979	$ 611	$ 71,315	$ 63,861	$ 286,129	$ 144,384	$ 692,465

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Acquisition, Improvement and Operations				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Special Assessments	16,247	-	16,247	15,862	385
Sales Taxes	-	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	125	(11)	114	76	38
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	40	-	40	-	40
Charges for Current Services	5,324	-	5,324	2,316	3,008
Other Revenue	575	-	575	-	575
TOTAL REVENUES	22,311	(11)	22,300	18,254	4,046
EXPENDITURES					
Current:					
General Government and Support	3,286	19	3,305	3,661	356
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety and Homeland Security	-	-	-	-	-
Parks, Recreation, Culture and Leisure	18,473	1,342	19,815	35,188	15,373
Transportation	-	-	-	-	-
Sanitation and Health	-	-	-	-	-
Neighborhood Services	1,921	5	1,926	2,886	960
Capital Outlay	1,540	-	1,540	-	(1,540)
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	25,220	1,366	26,586	41,735	15,149
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,909)	(1,377)	(4,286)	(23,481)	19,195
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	3,818	-	3,818	5,600	(1,782)
Transfers to Other Funds	(15)	-	(15)	(15)	-
Proceeds from the Sale of Capital Assets	-	-	-	-	-
Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	3,803	-	3,803	5,585	(1,782)
NET CHANGE IN FUND BALANCES	894	(1,377)	(483)	(17,896)	17,413
Fund Balances at Beginning of Year	21,316	-	21,316	21,316	-
FUND BALANCES AT END OF YEAR	$ 22,210	$ (1,377)	$ 20,833	$ 3,420	$ 17,413

Qualcomm Stadium Operations					Transient Occupancy Tax				
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)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	88,552	-	88,552	83,938	4,614
-	-	-	-	-	-	-	-	-	-
14	-	14	8	6	64	-	64	50	14
-	-	-	-	-	-	-	-	-	-
6,003	(4)	5,999	6,277	(278)	1,921	(1)	1,920	1,087	833
-	-	-	-	-	-	-	-	-	-
-	-	-	43	(43)	-	-	-	-	-
-	-	-	-	-	1,097	-	1,097	930	167
11	-	11	49	(38)	31	-	31	100	(69)
11	-	11	1	10	31	-	31	-	31
6,039	(4)	6,035	6,378	(343)	91,696	(1)	91,695	86,105	5,590
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
10,736	7	10,743	15,049	4,306	39,995	76	40,071	41,425	1,354
-	-	-	-	-	3	-	3	27	24
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
217	-	217	-	(217)	17	-	17	-	(17)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
10,953	7	10,960	15,049	4,089	40,015	76	40,091	41,452	1,361
(4,914)	(11)	(4,925)	(8,671)	3,746	51,681	(77)	51,604	44,653	6,951
10,275	-	10,275	10,275	-	-	-	-	175	(175)
(4,795)	-	(4,795)	(4,795)	-	(54,545)	-	(54,545)	(54,550)	5
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
5,480	-	5,480	5,480	-	(54,545)	-	(54,545)	(54,375)	(170)
566	(11)	555	(3,191)	3,746	(2,864)	(77)	(2,941)	(9,722)	6,781
4,124	-	4,124	4,124	-	15,150	-	15,150	15,150	-
$ 4,690	$ (11)	$ 4,679	$ 933	$ 3,746	$ 12,286	$ (77)	$ 12,209	$ 5,428	$ 6,781

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CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Underground Surcharge				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Special Assessments	-	-	-	-	-
Sales Taxes	-	-	-	-	-
Transient Occupancy Taxes	-	-	-	-	-
Other Local Taxes	64,402	-	64,402	50,393	14,009
Licenses and Permits	-	-	-	-	-
Fines, Forfeitures and Penalties	-	-	-	-	-
Revenue from Use of Money and Property	456	(47)	409	200	209
Revenue from Federal Agencies	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Revenue from Private Sources	-	-	-	-	-
Charges for Current Services	-	-	-	-	-
Other Revenue	-	-	-	-	-
TOTAL REVENUES	64,858	(47)	64,811	50,593	14,218
EXPENDITURES					
Current:					
General Government and Support	352	157	509	2,672	2,163
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety and Homeland Security	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	-	-	-	-
Transportation	37,329	14,297	51,626	86,796	35,170
Sanitation and Health	-	-	-	-	-
Neighborhood Services	-	-	-	-	-
Capital Outlay	8,330	-	8,330	-	(8,330)
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	46,011	14,454	60,465	89,468	29,003
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,847	(14,501)	4,346	(38,875)	43,221
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	-	-	-	-
Transfers to Other Funds	(7)	-	(7)	(7)	-
Proceeds from the Sale of Capital Assets	-	-	-	-	-
Capital Leases	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(7)	-	(7)	(7)	-
NET CHANGE IN FUND BALANCES	18,840	(14,501)	4,339	(38,882)	43,221
Fund Balances at Beginning of Year	68,139	-	68,139	68,139	-
FUND BALANCES AT END OF YEAR	$ 86,979	$ (14,501)	$ 72,478	$ 29,257	$ 43,221

Zoological Exhibits					Other Special Revenue				
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)
$ 11,238	$ -	$ 11,238	$ 10,746	$ 492	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	8,788	-	8,788	8,803	(15)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	54,505	-	54,505	47,629	6,876
-	-	-	-	-	10,388	-	10,388	9,498	890
-	-	-	-	-	-	-	-	116	(116)
17	-	17	17	-	3,881	(72)	3,809	3,208	601
-	-	-	-	-	806	-	806	1,200	(394)
-	-	-	-	-	109	-	109	195	(86)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	117,158	-	117,158	120,822	(3,664)
-	-	-	-	-	903	-	903	-	903
11,255	-	11,255	10,763	492	196,538	(72)	196,466	191,471	4,995
-	-	-	-	-	79,966	441	80,407	85,800	5,393
-	-	-	-	-	5,782	491	6,273	6,920	647
-	-	-	-	-	8,931	69	9,000	9,532	532
11,193	-	11,193	11,193	-	12,789	987	13,776	29,513	15,737
-	-	-	-	-	26,615	12,891	39,506	67,076	27,570
-	-	-	-	-	1,480	-	1,480	1,614	134
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	6,757	-	6,757	-	(6,757)
-	-	-	-	-	6,775	-	6,775	7,184	409
-	-	-	-	-	199	-	199	516	317
11,193	-	11,193	11,193	-	149,296	14,879	164,175	208,155	43,980
62	-	62	(430)	492	47,242	(14,951)	32,291	(16,684)	48,975
-	-	-	-	-	14,879	-	14,879	15,325	(446)
(17)	-	(17)	(17)	-	(47,529)	-	(47,529)	(58,564)	11,035
-	-	-	-	-	2	-	2	-	2
-	-	-	-	-	266	-	266	-	266
(17)	-	(17)	(17)	-	(32,382)	-	(32,382)	(43,239)	10,857
45	-	45	(447)	492	14,861	(14,951)	(90)	(59,923)	59,833
566	-	566	566	-	88,125	-	88,125	88,125	-
$ 611	$ -	$ 611	$ 119	$ 492	$ 102,986	$ (14,951)	$ 88,035	$ 28,202	$ 59,833

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CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	Total				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Property Taxes	$ 11,238	$ -	$ 11,238	$ 10,746	$ 492
Special Assessments	16,247	-	16,247	15,862	385
Sales Taxes	8,788	-	8,788	8,803	(15)
Transient Occupancy Taxes	88,552	-	88,552	83,938	4,614
Other Local Taxes	118,907	-	118,907	98,022	20,885
Licenses and Permits	10,466	-	10,466	9,556	910
Fines, Forfeitures and Penalties	-	-	-	116	(116)
Revenue from Use of Money and Property	12,403	(135)	12,268	10,865	1,403
Revenue from Federal Agencies	806	-	806	1,200	(394)
Revenue from Other Agencies	109	-	109	238	(129)
Revenue from Private Sources	1,137	-	1,137	930	207
Charges for Current Services	122,524	-	122,524	123,287	(763)
Other Revenue	1,520	-	1,520	1	1,519
TOTAL REVENUES	392,697	(135)	392,562	363,564	28,998
EXPENDITURES					
Current:					
General Government and Support	83,604	617	84,221	92,133	7,912
Public Safety - Police	5,782	491	6,273	6,920	647
Public Safety - Fire and Life Safety and Homeland Security	8,931	69	9,000	9,532	532
Parks, Recreation, Culture and Leisure	93,186	2,412	95,598	132,368	36,770
Transportation	63,947	27,188	91,135	153,899	62,764
Sanitation and Health	1,480	-	1,480	1,614	134
Neighborhood Services	1,921	5	1,926	2,886	960
Capital Outlay	16,861	-	16,861	-	(16,861)
Debt Service:					
Principal Retirement	6,775	-	6,775	7,184	409
Interest	199	-	199	516	317
TOTAL EXPENDITURES	282,688	30,782	313,470	407,052	93,582
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	110,009	(30,917)	79,092	(43,488)	122,580
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	28,972	-	28,972	31,375	(2,403)
Transfers to Other Funds	(106,908)	-	(106,908)	(117,948)	11,040
Proceeds from the Sale of Capital Assets	2	-	2	-	2
Capital Leases	266	-	266	-	266
TOTAL OTHER FINANCING SOURCES (USES)	(77,668)	-	(77,668)	(86,573)	8,905
NET CHANGE IN FUND BALANCES	32,342	(30,917)	1,425	(130,061)	131,486
Fund Balances at Beginning of Year	197,420	-	197,420	197,420	-
FUND BALANCES AT END OF YEAR	$ 229,762	$ (30,917)	$ 198,845	$ 67,359	$ 131,486

NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE

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DEBT SERVICE FUNDS

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for general long-term debt principal, interest, and related costs.

CITY OF SAN DIEGO

MCGUIGAN LOAN FUND

This fund was established to account for the initial receipt and principal and interest payments related to a loan from Bank of America; the proceeds of which were used to satisfy the outstanding obligation of the McGuigan Settlement. This loan is serviced by contributions from various operating departments within the City. The Judgment Installment Payments to BANA have a fixed rate of 3.79% and the fourth and final payment was made on July 1, 2014.

BLENDED COMPONENT UNITS

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

This fund was established to account for the debt service activities of the CCEFA. CCEFA, created by the City and the Port of San Diego, facilitates the financing, acquisition and construction of an expansion to the San Diego Convention Center. CCEFA's debt service fund is used to account for the payment of long-term debt principal and interest.

PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the debt service activities of the PFFA. PFFA, a joint powers authority consisting of the City, the Successor Agency and the Housing Authority of the City of San Diego, facilitates the financing, acquisition and construction of public capital facility improvements. PFFA's debt service fund is used to account for the payment of long-term debt principal and interest.

TOBACCO SETTLEMENT REVENUE FUNDING CORPORATION (TSRFC)

This fund was established to account for the debt service activities of the TSRFC. TSRFC was established for the purpose of acquiring the tobacco settlement revenues allocated to the City from the State of California, pursuant to the Master Settlement Agreement. The TSRFC's debt service fund is used to account for the payment of long-term debt principal and interest.

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	City of San Diego	Convention Center Expansion Financing Authority
ASSETS		
Cash and Investments	$ -	$ -
Receivables:		
Accounts	-	-
Accrued Interest	-	-
Restricted Cash and Investments	-	-
TOTAL ASSETS	$ -	$ -
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Other	$ -	$ -
FUND BALANCES		
Restricted	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ -	$ -

Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
$ 5	$ -	$ 5
-	5,021	5,021
8	-	8
16,928	12,096	29,024
$ 16,941	$ 17,117	$ 34,058
$ -	$ 5,021	$ 5,021
16,941	12,096	29,037
$ 16,941	$ 17,117	$ 34,058

NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2015
(Dollars in Thousands)

	City of San Diego	Convention Center Expansion Financing Authority
REVENUES		
Revenue from Use of Money and Property	$ -	$ -
Revenue from Other Agencies	-	-
TOTAL REVENUES	-	-
EXPENDITURES		
Debt Service:		
Principal Retirement	8,661	6,680
Cost of Issuance	-	-
Interest	333	5,881
TOTAL EXPENDITURES	8,994	12,561
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(8,994)	(12,561)
OTHER FINANCING SOURCES (USES)		
Transfers from Proprietary Funds	819	-
Transfers from Other Funds	8,175	12,561
Transfers to Other Funds	-	-
Revenue Bonds Issued	-	-
Premium on Bonds Issued	-	-
TOTAL OTHER FINANCING SOURCES (USES)	8,994	12,561
NET CHANGE IN FUND BALANCE	-	-
Fund Balance at Beginning of Year	-	-
FUND BALANCE AT END OF YEAR	$ -	$ -

Public Facilities Financing Authority	Tobacco Settlement Revenue Funding Corporation	Total
$ 23	$ 488	$ 511
-	9,020	9,020
23	9,508	9,531
13,530	4,080	32,951
1,140	-	1,140
20,707	5,533	32,454
35,377	9,613	66,545
(35,354)	(105)	(57,014)
-	-	819
34,201	-	54,937
(120,000)	(42)	(120,042)
107,290	-	107,290
13,910	-	13,910
35,401	(42)	56,914
47	(147)	(100)
16,894	12,243	29,137
$ 16,941	$ 12,096	$ 29,037

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2015
(Dollars in Thousands)

	Unbudgeted McGuigan Loan Fund
EXPENDITURES	
Debt Service:	
Principal Retirement	$ 8,661
Interest	333
TOTAL EXPENDITURES	8,994
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(8,994)
OTHER FINANCING SOURCES	
Transfers from Proprietary Funds	819
Transfers from Other Funds	8,175
TOTAL OTHER FINANCING SOURCES (USES)	8,994
NET CHANGE IN FUND BALANCE	-
Fund Balance at Beginning of Year	-
FUND BALANCE AT END OF YEAR	$ -

NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS

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CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities.

CITY OF SAN DIEGO

TRANSNET - BUDGETED

This fund was established to account for transportation improvements funded by the 2009 extension of a local sales tax approved by voters in the County of San Diego. Funds are used to relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

CAPITAL OUTLAY - BUDGETED

This fund was established to account for the acquisition of real property, as well as the construction and completion of permanent public improvements per Section 77 of the City Charter. This fund also accounts for a variety of capital projects including, but not limited to, building improvements to city facilities, and park and street improvements. Revenues in this fund are derived from the sale of City-owned real property.

CAPITAL GRANTS - UNBUDGETED

This fund was established to account for capital grants from Federal, State and other governmental agencies.

PARKS & RECREATION DISTRICTS - UNBUDGETED

This fund was established to account for park fees collected at the time of subdivision or permit issuance and is mandated per the City of San Diego Municipal Code. Fee assessments are only to be used for park purposes within a Community Park Service District to purchase land, facilities, or reimburse those who have donated more than their proportionate responsibilities.

FACILITIES BENEFIT ASSESSMENTS - UNBUDGETED

This fund was established to account for building permit fees collected at the time of permit issuance and is mandated by the City Charter. Fee assessments are only to be used in the community the assessments are collected and are the primary source of project funding, excluding maintenance costs.

IMPACT FEES - UNBUDGETED

This fund was established to account for building permit fees collected at the time of permit issuance and has specific State reporting requirements. Fee assessments are only to be used in the community the assessments are collected and are not the primary source of project funding and exclude maintenance costs.

SPECIAL ASSESSMENT/SPECIAL TAX BONDS - UNBUDGETED

This fund was established to account for Community Facilities Districts and Special Assessment Districts, which under various sections of State law, issue limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties within each district, and are repaid through revenues generated by the annual levy of special taxes or special assessments on the benefiting properties.

TRANSNET - UNBUDGETED

This fund was established to account for transportation improvements funded by local sales tax approved by voters in the County of San Diego, as well as developer impact fees under the SANDAG administered TransNet Program. Funds are used to relieve traffic congestion, increase safety, and improve air quality by performing repairs, restorations, and construction of needed facilities within the public rights-of-way.

CAPITAL OUTLAY - UNBUDGETED

This fund was established to account for the acquisition, construction and completion of permanent public improvements and real property. This fund also accounts for a variety of capital projects including, but not limited to, park and street improvements, and the construction of public facilities in new development areas. Revenues in this fund are derived from developer contributions, private donations, special assessments, special taxes, fees, leases, and interest derived there from.

BLENDED COMPONENT UNITS

PUBLIC FACILITIES FINANCING AUTHORITY

This fund was established to account for the capital improvement acquisition and construction activities of the Public Facilities Financing Authority (PFFA). PFFA, which was created by the City and the former Redevelopment Agency, facilitates the financing and construction of public capital improvements. PFFA's current members are the City, the Successor Agency and the Housing Authority of the City of San Diego. Revenues are derived from the issuance of bonds and interest earnings on investments.

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NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	City of San Diego	Public Facilities Financing Authority	Total
ASSETS			
Cash and Investments	$ 450,277	$ 224	$ 450,501
Receivables:			
Taxes - Net	55,387	-	55,387
Accounts	2,152	-	2,152
Notes	31,183	-	31,183
Accrued Interest	579	61	640
Grants	7,579	-	7,579
Advances to Other Funds	5,207	-	5,207
Advances to Other Agencies	11	-	11
Restricted Cash and Investments	54,977	167,138	222,115
TOTAL ASSETS	$ 607,352	$ 167,423	$ 774,775
LIABILITIES			
Accounts Payable	$ 9,918	$ 2,594	$ 12,512
Due to Other Funds	6,312	11,322	17,634
Unearned Revenue	20,390	-	20,390
TOTAL LIABILITIES	36,620	13,916	50,536
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	55,387	-	55,387
Unavailable Revenue - Grants	6,959	-	6,959
Unavailable Revenue - Other	2,151	-	2,151
TOTAL DEFERRED INFLOWS OF RESOURCES	64,497	-	64,497
FUND BALANCES			
Nonspendable	103	-	103
Restricted	469,517	153,507	623,024
Committed	44,533	-	44,533
Unassigned	(7,918)	-	(7,918)
TOTAL FUND BALANCES	506,235	153,507	659,742
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 607,352	$ 167,423	$ 774,775

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2015
(Dollars in Thousands)

	City of San Diego	Public Facilities Financing Authority	Total
REVENUES			
Sales Taxes	$ 28,634	$ -	$ 28,634
Other Local Taxes	2	-	2
Licenses and Permits	21,982	-	21,982
Revenue from Use of Money and Property	4,246	142	4,388
Revenue from Federal Agencies	4,883	-	4,883
Revenue from Other Agencies	63,359	-	63,359
Revenue from Private Sources	63,185	-	63,185
Charges for Current Services	660	-	660
Other Revenue	498	-	498
TOTAL REVENUES	187,449	142	187,591
EXPENDITURES			
Current:			
General Government and Support	2,193	-	2,193
Public Safety - Fire and Life Safety and Homeland Security	11	-	11
Parks, Recreation, Culture and Leisure	1,238	8	1,246
Transportation	4,212	-	4,212
Sanitation and Health	368	-	368
Neighborhood Services	1,290	-	1,290
Capital Outlay	73,375	40,231	113,606
Debt Service:			
Principal Retirement	636	-	636
Interest	145	-	145
TOTAL EXPENDITURES	83,468	40,239	123,707
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	103,981	(40,097)	63,884
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	63	-	63
Transfers from Other Funds	16,116	120,101	136,217
Transfers to Other Funds	(11,700)	-	(11,700)
Proceeds from the Sale of Capital Assets	45	-	45
Loans Issued	1,512	-	1,512
TOTAL OTHER FINANCING SOURCES (USES)	6,036	120,101	126,137
NET CHANGE IN FUND BALANCES	110,017	80,004	190,021
Fund Balances at Beginning of Year	396,218	73,503	469,721
FUND BALANCES AT END OF YEAR	$ 506,235	$ 153,507	$ 659,742

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	Budgeted		
	TransNet	Capital Outlay	Capital Grants
ASSETS			
Cash and Investments	$ 2,437	$ 6,826	$ 253
Receivables:			
Taxes - Net	55,387	-	-
Accounts	-	-	-
Notes	-	-	-
Accrued Interest	3	-	-
Grants	-	-	7,579
Advances to Other Funds	-	-	-
Advances to Other Agencies	-	-	-
Restricted Cash and Investments	-	-	-
TOTAL ASSETS	$ 57,827	$ 6,826	$ 7,832
LIABILITIES			
Accounts Payable	$ 3,399	$ 259	$ 1,267
Due to Other Funds	-	-	6,312
Unearned Revenue	-	-	253
TOTAL LIABILITIES	3,399	259	7,832
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	55,387	-	-
Unavailable Revenue - Grants	-	-	6,959
Unavailable Revenue - Other	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	55,387	-	6,959
FUND BALANCES			
Fund Balances:			
Nonspendable	-	-	-
Restricted	-	6,567	-
Committed	-	-	-
Unassigned	(959)	-	(6,959)
TOTAL FUND BALANCES (DEFICIT)	(959)	6,567	(6,959)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	$ 57,827	$ 6,826	$ 7,832

Unbudgeted						
Parks & Recreation Districts	Facilities Benefit Assessments	Impact Fees	Special Assessment/ Special Tax Bonds	TransNet	Capital Outlay	Total
$ 5,742	$ 230,352	$ 97,123	$ 472	$ 18,480	$ 88,592	$ 450,277
-	-	-	-	-	-	55,387
-	-	1	-	-	2,151	2,152
-	-	-	-	-	31,183	31,183
8	300	136	1	25	106	579
-	-	-	-	-	-	7,579
-	-	-	-	-	5,207	5,207
-	-	-	-	-	11	11
-	-	-	3	-	54,974	54,977
$ 5,750	$ 230,652	$ 97,260	$ 476	$ 18,505	$ 182,224	$ 607,352
$ 1	$ 524	$ 1,395	$ -	$ 326	$ 2,747	$ 9,918
-	-	-	-	-	-	6,312
-	-	-	-	860	19,277	20,390
1	524	1,395	-	1,186	22,024	36,620
-	-	-	-	-	-	55,387
-	-	-	-	-	-	6,959
-	-	-	-	-	2,151	2,151
-	-	-	-	-	2,151	64,497
-	-	-	-	-	103	103
-	230,128	95,865	476	17,319	119,162	469,517
5,749	-	-	-	-	38,784	44,533
-	-	-	-	-	-	(7,918)
5,749	230,128	95,865	476	17,319	158,049	506,235
$ 5,750	$ 230,652	$ 97,260	$ 476	$ 18,505	$ 182,224	$ 607,352

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2015
(Dollars in Thousands)

	Budgeted		
	TransNet	Capital Outlay	Capital Grants
REVENUES			
Sales Taxes	$ 28,292	$ -	$ -
Other Local Taxes	-	-	-
Licenses and Permits	-	-	-
Revenue from Use of Money and Property	(2)	46	6
Revenue from Federal Agencies	-	-	4,883
Revenue from Other Agencies	-	-	6,926
Revenue from Private Sources	-	-	-
Charges for Current Services	-	-	-
Other Revenue	-	-	-
TOTAL REVENUES	28,290	46	11,815
EXPENDITURES			
Current:			
General Government and Support	230	-	-
Public Safety - Fire and Life Safety and Homeland Security	-	-	-
Parks, Recreation, Culture and Leisure	-	1	16
Transportation	1,323	-	1
Sanitation and Health	-	-	270
Neighborhood Services	-	-	1,040
Capital Outlay	22,102	1,775	7,500
Debt Service:			
Principal Retirement	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	23,655	1,776	8,827
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,635	(1,730)	2,988
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	-	-	-
Transfers from Other Funds	-	72	50
Transfers to Other Funds	(8,913)	(2,092)	-
Proceeds from the Sale of Capital Assets	-	45	-
Loans Issued	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(8,913)	(1,975)	50
NET CHANGE IN FUND BALANCES	(4,278)	(3,705)	3,038
Fund Balances (Deficit) at Beginning of Year	3,319	10,272	(9,997)
FUND BALANCES (DEFICIT) AT END OF YEAR	$ (959)	$ 6,567	$ (6,959)

Unbudgeted						
Parks & Recreation Districts	Facilities Benefit Assessments	Impact Fees	Special Assessment/ Special Tax Bonds	TransNet	Capital Outlay	Total
$ -	$ -	$ -	$ -	$ 342	$ -	$ 28,634
-	-	-	-	-	2	2
-	-	17,691	-	4,291	-	21,982
35	1,239	553	3	103	2,263	4,246
-	-	-	-	-	-	4,883
-	-	-	-	-	56,433	63,359
-	61,021	73	1,003	-	1,088	63,185
-	-	-	-	-	660	660
-	-	-	-	-	498	498
35	62,260	18,317	1,006	4,736	60,944	187,449
-	1,181	559	68	44	111	2,193
-	-	-	-	-	11	11
-	1,192	-	-	-	29	1,238
-	1,643	-	1,100	49	96	4,212
-	98	-	-	-	-	368
-	-	-	-	-	250	1,290
493	13,416	10,467	-	6,680	10,942	73,375
-	-	-	-	-	636	636
-	-	-	-	-	145	145
493	17,530	11,026	1,168	6,773	12,220	83,468
(458)	44,730	7,291	(162)	(2,037)	48,724	103,981
-	-	-	-	-	63	63
-	-	-	-	-	15,994	16,116
-	-	-	-	-	(695)	(11,700)
-	-	-	-	-	-	45
-	-	-	-	-	1,512	1,512
-	-	-	-	-	16,874	6,036
(458)	44,730	7,291	(162)	(2,037)	65,598	110,017
6,207	185,398	88,574	638	19,356	92,451	396,218
$ 5,749	$ 230,128	$ 95,865	$ 476	$ 17,319	$ 158,049	$ 506,235

CITY OF SAN DIEGO
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2015
(Dollars in Thousands)

	TransNet				
	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Final Budget	Variance with Final Budget Positive (Negative)
REVENUES					
Sales Taxes	$ 28,292	$ -	$ 28,292	$ 30,010	$ (1,718)
Revenue from Use of Money and Property	(2)	1	(1)	-	(1)
TOTAL REVENUES	28,290	1	28,291	30,010	(1,719)
EXPENDITURES					
Current:					
General Government and Support	230	-	230	492	262
Public Safety - Police	-	-	-	-	-
Public Safety - Fire and Life Safety and Homeland Security	-	-	-	-	-
Parks, Recreation, Culture and Leisure	-	209	209	617	408
Transportation	1,323	9,104	10,427	68,507	58,080
Sanitation and Health	-	607	607	6,375	5,768
Neighborhood Services	-	-	-	-	-
Capital Outlay	22,102	-	22,102	-	(22,102)
TOTAL EXPENDITURES	23,655	9,920	33,575	75,991	42,416
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,635	(9,919)	(5,284)	(45,981)	40,697
OTHER FINANCING USES					
Transfers from Other Funds	-	-	-	-	-
Transfers to Other Funds	(8,913)	-	(8,913)	(8,913)	-
Proceeds from the Sale of Capital Assets	-	-	-	-	-
TOTAL OTHER FINANCING USES	(8,913)	-	(8,913)	(8,913)	-
NET CHANGE IN FUND BALANCES	(4,278)	(9,919)	(14,197)	(54,894)	40,697
Fund Balances at Beginning of Year	3,319	-	3,319	3,319	-
FUND BALANCES AT END OF YEAR	$ (959)	$ (9,919)	$ (10,878)	$ (51,575)	$ 40,697

Capital Outlay					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)
$ -	$ -	$ -	$ -	$ -	$ 28,292	$ -	$ 28,292	$ 30,010	$ (1,718)
46	-	46	-	46	44	1	45	-	45
46	-	46	-	46	28,336	1	28,337	30,010	(1,673)
-	39	39	2,228	2,189	230	39	269	2,720	2,451
-	-	-	42	42	-	-	-	42	42
-	-	-	303	303	-	-	-	303	303
1	87	88	5,294	5,206	1	296	297	5,911	5,614
-	25	25	2,963	2,938	1,323	9,129	10,452	71,470	61,018
-	49	49	250	201	-	656	656	6,625	5,969
-	21	21	626	605	-	21	21	626	605
1,775	-	1,775	-	(1,775)	23,877	-	23,877	-	(23,877)
1,776	221	1,997	11,706	9,709	25,431	10,141	35,572	87,697	52,125
(1,730)	(221)	(1,951)	(11,706)	9,755	2,905	(10,140)	(7,235)	(57,687)	50,452
72	-	72	-	72	72	-	72	-	72
(2,092)	-	(2,092)	(2,046)	(46)	(11,005)	-	(11,005)	(10,959)	(46)
45	-	45	-	45	45	-	45	-	45
(1,975)	-	(1,975)	(2,046)	71	(10,888)	-	(10,888)	(10,959)	71
(3,705)	(221)	(3,926)	(13,752)	9,826	(7,983)	(10,140)	(18,123)	(68,646)	50,523
10,272	-	10,272	10,272	-	13,591	-	13,591	13,591	-
$ 6,567	$ (221)	$ 6,346	$ (3,480)	$ 9,826	$ 5,608	$ (10,140)	$ (4,532)	$ (55,055)	$ 50,523

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NONMAJOR GOVERNMENTAL FUNDS
PERMANENT

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PERMANENT FUNDS

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs (i.e., for the benefit of the City or its citizens).

CARROLL CANYON VERNAL POOL MITIGATION

This fund was established to account for an endowment from the San Diego Unified School District (The District). The endowment is to be used to implement a Memorandum of Understanding between the City and the District for biological mitigation, park land and joint use facilities involving Salk Elementary School, McAuliffe Community Park, and the Carroll Canyon Vernal Pool Preserve.

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.

LIBRARY ENDOWMENTS

This fund includes the Effie Sergeant and Jane Cameron Estate endowments, which were established to account for donations to benefit the North Park and Rancho Bernardo branch libraries, respectively. Investment earnings are used to finance library services and programs.

LOS PENASQUITOS CANYON

This fund was established to account for the Los Penasquitos Canyon Preserve Trust Fund. Investment earnings are used to finance operations, land acquisitions, historical restoration, and maintenance of the Penasquitos Preserve Park.

OTHER ENDOWMENTS

This fund includes several miscellaneous endowments, including Crescent Heights Habitat Management, Carmel Valley Sewer Maintenance, Figg Estate, Zoological Society-Mission Trails, Sycamore Estates, and the Environmental Trust Bankruptcy Endowment.

NONMAJOR GOVERNMENTAL FUNDS - PERMANENT
COMBINING BALANCE SHEET
June 30, 2015
(Dollars in Thousands)

	Carroll Canyon Vernal Pool Mitigation	Cemetery Perpetuity
ASSETS		
Receivables:		
Accounts - Net of Allowance for Uncollectibles	$ -	$ 1
Accrued Interest	3	12
Restricted Cash and Investments	2,510	11,730
TOTAL ASSETS	$ 2,513	$ 11,743
LIABILITIES		
Accounts Payable	$ -	$ -
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Other	-	1
FUND BALANCES		
Nonspendable	2,482	11,742
Restricted	31	-
TOTAL FUND BALANCES	2,513	11,742
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 2,513	$ 11,743

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2015
(Dollars in Thousands)

	Carroll Canyon Vernal Pool Mitigation	Cemetery Perpetuity
REVENUES		
Fines, Forfeitures and Penalties	$ -	$ 2
Revenue from Use of Money and Property	15	191
Revenue from Private Sources	-	-
Charges for Current Services	-	80
TOTAL REVENUES	15	273
EXPENDITURES		
Current:		
Parks, Recreation, Culture and Leisure	-	-
Sanitation and Health	-	70
TOTAL EXPENDITURES	-	70
EXCESS OF REVENUES OVER EXPENDITURES	15	203
OTHER FINANCING USES		
Transfers to Other Funds	-	(472)
NET CHANGE IN FUND BALANCES	15	(269)
Fund Balances at Beginning of Year	2,498	12,011
FUND BALANCES AT END OF YEAR	$ 2,513	$ 11,742

Library Endowments	Los Penasquitos Canyon	Other Endowments	Total
$ -	$ -	$ -	$ 1
-	-	-	15
5,384	3,177	1,164	23,965
$ 5,384	$ 3,177	$ 1,164	$ 23,981
$ 13	$ -	$ 4	$ 17
-	-	-	1
4,938	1,000	1,138	21,300
433	2,177	22	2,663
5,371	3,177	1,160	23,963
$ 5,384	$ 3,177	$ 1,164	$ 23,981

Library Endowments	Los Penasquitos Canyon	Other Endowments	Total
$ -	$ -	$ -	$ 2
210	132	3	551
135	-	-	135
-	-	-	80
345	132	3	768
115	5	4	124
-	-	-	70
115	5	4	194
230	127	(1)	574
-	(115)	-	(587)
230	12	(1)	(13)
5,141	3,165	1,161	23,976
$ 5,371	$ 3,177	$ 1,160	$ 23,963

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NONMAJOR BUSINESS-TYPE FUNDS
ENTERPRISE

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ENTERPRISE FUNDS

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. These funds use full accrual accounting.

CITY OF SAN DIEGO

AIRPORTS

This fund was established to account for the operation, maintenance and development of both City-owned airports—Montgomery and Brown Fields. Airports Fund revenues are derived from such sources as rent/lease revenue, usage fees, earnings on investments and aid from other governmental agencies.

DEVELOPMENT SERVICES

This fund was established to account for construction management, development project review, permitting, and inspection services for the City.

ENVIRONMENTAL SERVICES

This fund was established to account for refuse disposal, resource management, and other environmental programs.

GOLF COURSE

This fund was established to operate, maintain, and improve physical conditions and initiate capital improvement programs for Torrey Pines, Mission Bay, and Balboa golf courses. Revenues are derived from green fees and leases.

RECYCLING

This fund was established to account for the planning, implementation, operation and management of City recycling and waste diversion programs. Revenues are derived from the recycling fee on all waste generated in the City or disposed of at the City landfill.

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2015
(Dollars in Thousands)

	Airports	Development Services
ASSETS		
Current Assets:		
Cash and Investments	$ 16,735	$ 28,065
Receivables:		
Accounts - Net of Allowance for Uncollectibles	389	1,578
Accrued Interest	24	46
Grants	538	-
Total Current Assets	17,686	29,689
Non-Current Assets:		
Restricted Cash and Investments	74	7,248
Capital Assets - Non-Depreciable	4,052	177
Capital Assets - Depreciable	13,757	536
Total Non-Current Assets	17,883	7,961
TOTAL ASSETS	35,569	37,650
DEFERRED OUTFLOWS OF RESOURCES		
Pension Contributions	255	7,711
LIABILITIES		
Current Liabilities:		
Accounts Payable	530	1,138
Accrued Wages and Benefits	90	2,243
Other Accrued Liabilities	-	-
Long-Term Liabilities Due Within One Year	54	1,300
Unearned Revenue	-	19,017
Customer Deposits Payable	-	-
Total Current Liabilities	674	23,698
Non-Current Liabilities:		
Deposits/Advances from Others	74	7,248
Compensated Absences	41	1,213
Liability Claims	143	1,793
Estimated Landfill Closure and Postclosure Care	-	-
Net Other Postemployment Benefits Obligation	413	7,457
Net Pension Liability	1,850	47,949
Total Non-Current Liabilities	2,521	65,660
TOTAL LIABILITIES	3,195	89,358
DEFERRED INFLOWS OF RESOURCES		
Unamortized Actuarial Gains	622	14,187
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	17,809	713
Restricted for Closure/Postclosure Maintenance	-	-
Unrestricted (Deficit)	14,198	(58,897)
TOTAL NET POSITION (DEFICIT)	$ 32,007	$ (58,184)

Environmental Services	Golf Course	Recycling	Total
$ 36,797	$ 33,727	$ 18,907	$ 134,231
985	259	1,712	4,923
130	49	46	295
-	-	-	538
37,912	34,035	20,665	139,987
49,383	5	10,702	67,412
12,621	1,985	70	18,905
18,603	17,754	127	50,777
80,607	19,744	10,899	137,094
118,519	53,779	31,564	277,081
3,210	1,235	1,961	14,372
984	665	1,047	4,364
764	371	542	4,010
-	25	-	25
598	233	329	2,514
-	107	373	19,497
-	5	10,702	10,707
2,346	1,406	12,993	41,117
-	-	-	7,322
461	170	176	2,061
1,577	698	1,475	5,686
23,269	-	-	23,269
4,002	2,376	2,480	16,728
20,911	10,426	13,393	94,529
50,220	13,670	17,524	149,595
52,566	15,076	30,517	190,712
5,185	2,479	3,794	26,267
30,809	19,739	197	69,267
26,245	-	-	26,245
6,924	17,720	(983)	(21,038)
$ 63,978	$ 37,459	$ (786)	$ 74,474

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2015
(Dollars in Thousands)

	Airports	Development Services
OPERATING REVENUES		
Charges for Services	$ 317	$ 54,556
Revenue from Use of Property	4,292	-
Other	9	1,839
TOTAL OPERATING REVENUES	4,618	56,395
OPERATING EXPENSES		
Maintenance and Operations	1,864	34,549
Administration	1,094	16,254
Depreciation	815	42
TOTAL OPERATING EXPENSES	3,773	50,845
OPERATING INCOME	845	5,550
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	101	169
Federal Grant Assistance	4	-
Other Agency Grant Assistance	-	-
Loss on Sale/Retirement of Capital Assets	-	(16)
Other	44	263
TOTAL NONOPERATING REVENUES (EXPENSES), NET	149	416
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	994	5,966
Capital Contributions	696	-
Transfers from Other Funds	-	-
Transfers from Governmental Funds	-	52
Transfers to Other Funds	-	-
Transfers to Governmental Funds	(14)	(291)
CHANGE IN NET POSITION	1,676	5,727
Net Position (Deficit) at Beginning of Year, as Restated	30,331	(63,911)
NET POSITION (DEFICIT) AT END OF YEAR	$ 32,007	$ (58,184)

Environmental Services	Golf Course	Recycling	Total
$ 29,563	$ 18,736	$ 18,072	$ 121,244
80	1,378	175	5,925
834	2	2,058	4,742
30,477	20,116	20,305	131,911
20,291	12,873	14,624	84,201
4,915	1,819	3,155	27,237
3,442	1,273	23	5,595
28,648	15,965	17,802	117,033
1,829	4,151	2,503	14,878
502	197	167	1,136
-	-	-	4
35	-	378	413
(2,627)	-	(5)	(2,648)
917	50	182	1,456
(1,173)	247	722	361
656	4,398	3,225	15,239
674	-	-	1,370
29	-	554	583
-	-	-	52
(537)	-	-	(537)
(123)	(52)	(86)	(566)
699	4,346	3,693	16,141
63,279	33,113	(4,479)	58,333
$ 63,978	$ 37,459	$ (786)	$ 74,474

NONMAJOR BUSINESS-TYPE FUNDS - ENTERPRISE
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2015
(Dollars in Thousands)

	Airports	Development Services
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	$ 4,720	$ 56,852
Receipts from Interfund Services Provided	-	1,718
Payments to Suppliers	(896)	(6,103)
Payments to Employees	(1,589)	(43,118)
Payments for Interfund Services Used	(306)	(5,604)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	1,929	3,745
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Other Funds	-	-
Transfers from Governmental Funds	-	52
Transfers to Other Funds	-	-
Transfers to Governmental Funds	(14)	(291)
Operating Grants Received	4	-
Proceeds from Advances and Deposits	-	439
Payments for Advances and Deposits	(6)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(16)	200
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions	491	-
Acquisition of Capital Assets	(970)	(59)
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(479)	(59)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	96	160
Net Increase in Cash and Cash Equivalents	1,530	4,046
Cash and Cash Equivalents at Beginning of Year	15,279	31,267
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 16,809	$ 35,313
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Position:		
Cash and Investments	$ 16,735	$ 28,065
Restricted Cash and Investments	74	7,248
Total Cash and Cash Equivalents at End of Year	$ 16,809	$ 35,313
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating Income	$ 845	$ 5,550
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	815	42
Other Nonoperating Revenue	44	263
(Increase) Decrease in Assets:		
Accounts Receivable - Net	58	393
Increase (Decrease) in Liabilities and Deferred Outflows/Inflows of Resources:		
Accounts Payable	343	209
Accrued Wages and Benefits	14	268
Unearned Revenue	-	1,519
Contract Deposits	-	-
Compensated Absences	(31)	9
Liability Claims	(40)	186
Estimated Landfill Closure and Postclosure Care	-	-
Net OPEB Obligation	14	260
Net Pension Liability	(133)	(4,954)
Total Adjustments	1,084	(1,805)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 1,929	$ 3,745
Noncash Investing, Capital, and Financing Activites:		
Capital Asset Acquisitions related to Accounts Payable	$ 33	$ -
Noncash Retirement of Capital Assets	-	-
Transfers of Capital Assets	-	(16)

Environmental Services	Golf Course	Recycling	Total
$ 29,544	$ 20,275	$ 17,956	$ 129,347
998	-	1,019	3,735
(11,421)	(7,310)	(8,789)	(34,519)
(16,462)	(7,859)	(10,386)	(79,414)
(401)	(231)	(171)	(6,713)
2,258	4,875	(371)	12,436
29	-	554	583
-	-	-	52
(537)	-	-	(537)
(123)	(52)	(86)	(566)
49	-	378	431
-	-	1,541	1,980
-	(21)	-	(27)
(582)	(73)	2,387	1,916
-	-	-	491
(1,408)	(2,518)	(75)	(5,030)
(1,408)	(2,518)	(75)	(4,539)
481	188	156	1,081
749	2,472	2,097	10,894
85,431	31,260	27,512	190,749
$ 86,180	$ 33,732	$ 29,609	$ 201,643
$ 36,797	$ 33,727	$ 18,907	$ 134,231
49,383	5	10,702	67,412
$ 86,180	$ 33,732	$ 29,609	$ 201,643
$ 1,829	$ 4,151	$ 2,503	$ 14,878
3,442	1,273	23	5,595
917	50	182	1,456
(852)	(23)	(1,507)	(1,931)
(586)	179	4	149
24	9	27	342
-	107	(5)	1,621
-	25	-	25
(75)	(19)	(28)	(144)
(328)	(197)	(416)	(795)
(21)	-	-	(21)
111	73	69	527
(2,203)	(753)	(1,223)	(9,266)
429	724	(2,874)	(2,442)
$ 2,258	$ 4,875	$ (371)	$ 12,436
$ (125)	$ 79	$ -	$ (13)
(2,627)	-	-	(2,627)
674	-	(5)	653

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INTERNAL SERVICE FUNDS

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INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units and/or funds.

CITY OF SAN DIEGO

FLEET SERVICES

This fund was established to account for the acquisition, replacement, maintenance and fueling of the City's motive equipment.

CENTRAL STORES

This fund was established to provide centralized storeroom services to all City departments.

PUBLISHING SERVICES

This fund was established to provide printing and reproduction services to all City departments.

MISCELLANEOUS INTERNAL SERVICE

This fund accounts for various administrative activities including risk management administration, energy conservation, and administration and operation of various employee related programs such as unused compensatory time, unused sick leave, unemployment insurance, and long-term disability. Revenues are derived from rates or fees charged to the departments for specific services rendered.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF FUND NET POSITION
June 30, 2015
(Dollars in Thousands)

	Fleet Services	Central Stores
ASSETS		
Current Assets:		
Cash and Investments	$ 106,472	$ 2,138
Receivables:		
Accounts - Net of Allowance for Uncollectibles	2,734	-
Accrued Interest	11	2
Grants	-	-
Inventories	-	2,245
Total Current Assets	109,217	4,385
Non-Current Assets:		
Capital Assets - Non-Depreciable	3,383	-
Capital Assets - Depreciable	102,988	152
Total Non-Current Assets	106,371	152
TOTAL ASSETS	215,588	4,537
DEFERRED OUTFLOWS OF RESOURCES		
Pension Contributions	3,993	333
LIABILITIES		
Current Liabilities:		
Accounts Payable	6,457	1,912
Accrued Wages and Benefits	1,091	86
Other Accrued Liabilities	-	-
Interest Accrued on Long-Term Debt	209	-
Long-Term Liabilities Due Within One Year	7,159	38
Total Current Liabilities	14,916	2,036
Non-Current Liabilities:		
Compensated Absences	595	22
Liability Claims	2,899	174
Capital Lease Obligations	24,909	-
Net Other Postemployment Benefits Obligation	6,124	540
Net Pension Obligation	-	-
Net Pension Liability	28,300	2,343
Total Non-Current Liabilities	62,827	3,079
TOTAL LIABILITIES	77,743	5,115
DEFERRED INFLOWS OF RESOURCES		
Unamortized Actuarial Gains	7,502	581
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	75,110	152
Unrestricted (Deficit)	59,226	(978)
TOTAL NET POSITION (DEFICIT)	$ 134,336	$ (826)

Publishing Services	Miscellaneous Internal Service	Total
$ 1,112	$ 32,334	$ 142,056
3	80	2,817
1	44	58
-	256	256
-	-	2,245
1,116	32,714	147,432
-	292	3,675
22	1,830	104,992
22	2,122	108,667
1,138	34,836	256,099
170	1,921	6,417
355	753	9,477
43	484	1,704
-	130	130
-	-	209
26	3,837	11,060
424	5,204	22,580
28	2,855	3,500
34	6,804	9,911
-	-	24,909
431	2,269	9,364
-	13	13
1,192	12,352	44,187
1,685	24,293	91,884
2,109	29,497	114,464
290	3,555	11,928
22	2,122	77,406
(1,113)	1,583	58,718
$ (1,091)	$ 3,705	$ 136,124

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2015
(Dollars in Thousands)

	Fleet Services	Central Stores
OPERATING REVENUES		
Charges for Services	$ 70,888	$ 11,839
Other	16	200
TOTAL OPERATING REVENUES	70,904	12,039
OPERATING EXPENSES		
Benefit and Claim Payments	-	-
Maintenance and Operations	41,912	2,147
Cost of Materials Issued	-	9,496
Administration	1,114	378
Depreciation	21,428	20
TOTAL OPERATING EXPENSES	64,454	12,041
OPERATING INCOME (LOSS)	6,450	(2)
NONOPERATING REVENUES (EXPENSES)		
Earnings on Investments	502	10
Federal Grant Assistance	-	-
Other Agency Grant Assistance	-	-
Gain (Loss) on Sale/Retirement of Capital Assets	786	-
Debt Service Interest Expense	(593)	-
Other	504	1
TOTAL NONOPERATING REVENUES (EXPENSES), NET	1,199	11
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	7,649	9
Capital Contributions	116	3
Transfers from Governmental Funds	667	-
Transfers to Other Funds	(196)	-
Transfers to Governmental Funds	(445)	(12)
CHANGE IN NET POSITION	7,791	-
Net Position (Deficit) at Beginning of Year, as Restated	126,545	(826)
NET POSITION (DEFICIT) AT END OF YEAR	$ 134,336	$ (826)

Publishing Services	Miscellaneous Internal Service	Total
$ 3,645	$ 29,540	$ 115,912
-	403	619
3,645	29,943	116,531
-	1,609	1,609
2,908	1,870	48,837
-	-	9,496
362	10,691	12,545
4	179	21,631
3,274	14,349	94,118
371	15,594	22,413
5	178	695
-	881	881
-	469	469
-	(520)	266
-	-	(593)
4	554	1,063
9	1,562	2,781
380	17,156	25,194
-	-	119
-	-	667
-	-	(196)
(16)	(71)	(544)
364	17,085	25,240
(1,455)	(13,380)	110,884
$ (1,091)	$ 3,705	$ 136,124

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2015
(Dollars in Thousands)

	Fleet Services	Central Stores
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	$ -	$ -
Receipts from Interfund Services Provided	69,958	12,063
Payments to Suppliers	(20,815)	(8,857)
Payments to Employees	(21,127)	(1,800)
Payments for Interfund Services Used	(903)	(99)
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,113	1,307
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Governmental Funds	667	-
Transfers to Other Funds	(196)	-
Transfers to Governmental Funds	(445)	(12)
Operating Grants Received	-	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	26	(12)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(12,640)	-
Proceeds from the Sale of Capital Assets	1,468	-
Principal Payments on Capital Leases	(6,476)	-
Interest Paid on Long-Term Debt	(588)	-
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(18,236)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	500	10
Net Increase in Cash and Cash Equivalents	9,403	1,305
Cash and Cash Equivalents at Beginning of Year	97,069	833
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 106,472	$ 2,138
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	$ 6,450	$ (2)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:		
Depreciation	21,428	20
Other Nonoperating Revenue	504	1
(Increase) Decrease in Assets:		
Accounts Receivable - Net	(1,450)	23
Inventories	-	167
Increase (Decrease) in Liabilities and Deferred Outflows/Inflows of Resources:		
Accounts Payable	3,184	1,326
Accrued Wages and Benefits	24	3
Unearned Revenue	-	-
Compensated Absences	(40)	3
Liability Claims	(593)	(30)
Net OPEB Obligation	141	16
Net Pension Obligation	-	-
Net Pension Liability	(2,535)	(220)
Total Adjustments	20,663	1,309
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 27,113	$ 1,307
Noncash Investing, Capital, and Financing Activites:		
Capital Leases	$ 4,000	$ -
Capital Asset Acquisitions related to Accounts Payable	19	-
Noncash Retirement of Capital Assets	(665)	-
Transfers of Capital Assets	99	3

Publishing Services	Miscellaneous Internal Service	Total
$ -	$ 27,857	$ 27,857
3,646	2,615	88,282
(2,362)	(3,757)	(35,791)
(913)	(22,913)	(46,753)
(79)	(414)	(1,495)
292	3,388	32,100
-	-	667
-	-	(196)
(16)	(71)	(544)
-	1,807	1,807
(16)	1,736	1,734
-	(212)	(12,852)
-	-	1,468
-	-	(6,476)
-	-	(588)
-	(212)	(18,448)
5	164	679
281	5,076	16,065
831	27,258	125,991
$ 1,112	$ 32,334	$ 142,056
$ 371	$ 15,594	$ 22,413
4	179	21,631
4	554	1,063
(3)	(6)	(1,436)
-	-	167
29	227	4,766
4	13	44
-	(19)	(19)
(4)	171	130
(6)	(12,160)	(12,789)
6	68	231
-	(2)	(2)
(113)	(1,231)	(4,099)
(79)	(12,206)	9,687
$ 292	$ 3,388	$ 32,100
$ -	$ -	$ 4,000
-	69	88
-	-	(665)
-	(520)	(418)

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FIDUCIARY FUNDS

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FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of fiduciary funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF SAN DIEGO

PENSION TRUST FUNDS

PRESERVATION OF BENEFITS PLAN

The Preservation of Benefits Plan is a qualified governmental excess benefit plan under IRC section 415(m), which was created by Congress to allow for the payment of promised pension benefits that exceed the IRC section 415(b) limits and therefore can't be paid from the City's Pension and Employee Savings Trust Fund. This fund is maintained by the Retirement Board of Administration to reflect all amounts the City contributes for payment of pension benefits that exceed IRC section 415(b) limits.

POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN

Retiree Health Insurance Trust fund is a separate trust fund used solely for providing retiree health benefits. It is maintained by the Retirement Board of Administration to reflect all amounts the City and retirees contribute to pay retiree health benefits.

SUPPLEMENTAL PENSION SAVINGS PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by both the City and employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

401(a) PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by the City, employees and investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

401(k) PLAN

This fund is used to account for a defined contribution plan, where benefits depend solely on amounts contributed to the plan by City employees, plus investment earnings. Disbursements are made from the fund for terminations, retirements, allowable yearly withdrawals, and loans.

AGENCY FUNDS

These funds were established to account for assets held by the City as an agent for individuals, private organizations, other governments and/or funds, including federal and state income taxes withheld from employees, parking citation revenues, employee benefit plans and special assessments.

BLENDED COMPONENT UNIT

PENSION TRUST FUNDS

CITY EMPLOYEES' RETIREMENT SYSTEM

SDCERS provides retirement, disability, and death benefits. SDCERS is a defined benefit plan, whereby funds are accumulated from City and employee contributions, plus earnings from fund investments. Currently SDCERS also administers the Port of San Diego and the San Diego County Regional Airport Authority defined benefit plans. It also performs certain administrative functions on other post-employment benefits on behalf of the City.

FIDUCIARY FUNDS
PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015
(Dollars in Thousands)

	City Employees' Retirement System		
	City of San Diego	Unified Port District	Airport Authority
ASSETS			
Cash and Investments	$ 1,177	$ 319	$ 119
Cash with Custodian/Fiscal Agent	107,667	13,667	17,803
Investments at Fair Value:			
Domestic Fixed Income Securities	1,655,675	93,616	31,955
International Fixed Income Securities	401,425	22,931	7,846
Domestic Equity Securities (Stocks)	1,554,721	87,652	29,565
International Equity Securities (Stocks)	1,117,311	63,162	21,326
Global Equity Securities	310,786	17,630	5,692
Real Estate Equity	700,354	39,755	13,612
Equity Mutual Funds	-	-	-
Fixed Income Mutual Funds	-	-	-
Private Equity and Infrastructure	694,668	39,852	13,817
Receivables:			
Contributions	5,679	681	223
Accrued Interest	6,145	338	107
Loans	-	-	-
Securities Sold	131,592	7,472	2,615
Prepaid Expenses	146	7	2
Securities Lending Collateral	192,680	11,192	4,073
Capital Assets - Depreciable	6,260	375	137
TOTAL ASSETS	6,886,286	398,649	148,892
LIABILITIES			
Accounts Payable	7,581	496	337
Accrued Wages and Benefits	838	47	17
Supplemental Benefits Payable	11,116	260	28
Securities Lending Obligations	192,961	11,207	4,077
Securities Purchased	297,077	16,845	5,917
TOTAL LIABILITIES	509,573	28,855	10,376
NET POSITION			
Restricted for Pension Benefits	$ 6,376,713	$ 369,794	$ 138,516

Preservation of Benefits Plan	Postemployment Healthcare Benefit Plan	Supplemental Pension Savings Plan	401(a) Plan	401(k) Plan	Total
$ -	$ -	$ 540	$ 1	$ 1	$ 2,157
12	-	-	-	-	139,149
-	-	-	-	-	1,781,246
-	-	-	-	-	432,202
-	-	-	-	-	1,671,938
-	-	-	-	-	1,201,799
-	-	-	-	-	334,108
-	-	-	-	-	753,721
-	-	365,306	2,998	207,195	575,499
-	-	271,545	81	114,695	386,321
-	-	-	-	-	748,337
-	-	-	-	-	6,583
-	-	-	-	-	6,590
-	-	24,597	-	13,065	37,662
-	-	-	-	-	141,679
-	-	-	-	-	155
-	-	-	-	-	207,945
-	-	-	-	-	6,772
12	-	661,988	3,080	334,956	8,433,863
-	-	-	-	-	8,414
-	-	-	-	-	902
-	-	-	-	-	11,404
-	-	-	-	-	208,245
-	-	-	-	-	319,839
-	-	-	-	-	548,804
$ 12	$ -	$ 661,988	$ 3,080	$ 334,956	$ 7,885,059

FIDUCIARY FUNDS
PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2015
(Dollars in Thousands)

	City Employees' Retirement System		
	City of San Diego	**Unified Port District**	**Airport Authority**
ADDITIONS			
Employer Contributions	$ 265,660	$ 16,761	$ 5,625
Plan Member Contributions:			
Employee Contributions	56,643	1,184	1,034
DROP Contributions	4,800	251	79
Earnings on Investments:			
Investment Income	235,953	13,702	4,972
Investment Expense	(29,133)	(1,686)	(599)
Net Investment Income	206,820	12,016	4,373
Securities Lending:			
Gross Earnings	1,120	65	23
Borrower Rebates	(287)	(17)	(6)
Net Securities Lending Income	833	48	17
Other Income:			
Other Income	-	-	-
TOTAL ADDITIONS	534,756	30,260	11,128
DEDUCTIONS			
DROP Interest Expense	22,507	471	39
Benefit and Claim Payments	406,731	21,305	2,444
Administration	8,911	691	332
TOTAL DEDUCTIONS	438,149	22,467	2,815
CHANGE IN NET POSITION	96,607	7,793	8,313
Net Position at Beginning of Year, as Restated	6,280,106	362,001	130,203
NET POSITION AT END OF YEAR	$ 6,376,713	$ 369,794	$ 138,516

Preservation of Benefits Plan	Postemployment Healthcare Benefit Plan	Supplemental Pension Savings Plan	401(a) Plan	401(k) Plan	Total
$ 1,353	$ 31,515	$ 24,070	$ 357	$ -	$ 345,341
-	7,752	24,005	459	17,363	108,440
-	-	-	-	-	5,130
-	-	19,445	92	10,234	284,398
-	-	-	-	-	(31,418)
-	-	19,445	92	10,234	252,980
-	-	-	-	-	1,208
-	-	-	-	-	(310)
-	-	-	-	-	898
-	-	701	-	383	1,084
1,353	39,267	68,221	908	27,980	713,873
-	-	-	-	-	23,017
1,347	38,929	52,906	138	21,835	545,635
2	338	-	-	-	10,274
1,349	39,267	52,906	138	21,835	578,926
4	-	15,315	770	6,145	134,947
8	-	646,673	2,310	328,811	7,750,112
$ 12	$ -	$ 661,988	$ 3,080	$ 334,956	$ 7,885,059

FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015
(Dollars in Thousands)

	Employee Benefits	Other Miscellaneous Agency	Total
ASSETS			
Cash and Investments	$ 2,848	$ 15,052	$ 17,900
Receivables:			
Accounts - Net	148	839	987
Special Assessments	-	230	230
Accrued Interest	-	13	13
Restricted Cash and Investments	-	29,333	29,333
TOTAL ASSETS	$ 2,996	$ 45,467	$ 48,463
LIABILITIES			
Accounts Payable	$ -	$ 11,754	$ 11,754
Deposits/Advances from Others	-	154	154
Sundry Agency Liabilities	2,996	9,550	12,546
Due to Bondholders	-	24,009	24,009
TOTAL LIABILITIES	$ 2,996	$ 45,467	$ 48,463

FIDUCIARY FUNDS
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2015
(Dollars in Thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Employee Benefits				
ASSETS				
Cash and Investments	$ 4,949	$ 193,223	$ 195,324	$ 2,848
Receivables:				
Accounts - Net	150	2,927	2,929	148
TOTAL ASSETS	$ 5,099	$ 196,150	$ 198,253	$ 2,996
LIABILITIES				
Accounts Payable	$ 54	$ 81,984	$ 82,038	$ -
Sundry Agency Liabilities	5,045	108,319	110,368	2,996
TOTAL LIABILITIES	$ 5,099	$ 190,303	$ 192,406	$ 2,996
Other Miscellaneous Agency				
ASSETS				
Cash and Investments	$ 8,691	$ 229,543	$ 223,182	$ 15,052
Receivables:				
Accounts - Net	775	10,414	10,350	839
Special Assessments	353	231	354	230
Accrued Interest	5	13	5	13
Restricted Cash and Investments	33,600	35,224	39,491	29,333
TOTAL ASSETS	$ 43,424	$ 275,425	$ 273,382	$ 45,467
LIABILITIES				
Accounts Payable	$ 4,684	$ 30,021	$ 22,951	$ 11,754
Deposits/Advances from Others	154	-	-	154
Sundry Agency Liabilities	11,141	180,608	182,199	9,550
Due to Bondholders	27,445	23,054	26,490	24,009
TOTAL LIABILITIES	$ 43,424	$ 233,683	$ 231,640	$ 45,467
TOTAL AGENCY FUNDS				
ASSETS				
Cash and Investments	$ 13,640	$ 422,766	$ 418,506	$ 17,900
Receivables:				
Accounts - Net	925	13,341	13,279	987
Special Assessments	353	231	354	230
Accrued Interest	5	13	5	13
Restricted Cash and Investments	33,600	35,224	39,491	29,333
TOTAL ASSETS	$ 48,523	$ 471,575	$ 471,635	$ 48,463
LIABILITIES				
Accounts Payable	$ 4,738	$ 112,005	$ 104,989	$ 11,754
Deposits/Advances from Others	154	-	-	154
Sundry Agency Liabilities	16,186	288,927	292,567	12,546
Due to Bondholders	27,445	23,054	26,490	24,009
TOTAL LIABILITIES	$ 48,523	$ 423,986	$ 424,046	$ 48,463

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STATISTICAL SECTION
(UNAUDITED)

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STATISTICAL SECTION

The Statistical Section presents information as required by GASB Statement No. 44. In addition to utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information, the statistical data presented in this section helps users assess the City's economic condition. Ten-year trend information has been provided when available. The statistical tables are footnoted to indicate sources and when accounting data or other information is unavailable.

CONTENTS

FINANCIAL TRENDS

Tables 1 through 4 contain information to help the reader understand how the City's financial performance and well-being have changed over time.

REVENUE CAPACITY

Tables 5 through 8 contain information to help the reader assess the City's ability to generate its most significant local revenue source, property tax.

DEBT CAPACITY

Tables 9 through 14 present information to help the reader assess the affordability of the City's current levels of certain outstanding debt categories.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Tables 15 and 16 offer demographic and economic indicators to help the reader understand the environment in which the City's financial activities take place and to provide comparisons over time with other governments.

OPERATING INFORMATION

Tables 17 through 19 contain information about the City's resources and operations to help the reader understand how the City's financial report relates to the services provided and activities performed by the City.

*Additional financial information (audited and statistical) on the Sewer and Water Utilities can be obtained in the Annual Report Disclosure filings submitted to the Municipal Securities Rulemaking Board, http://emma.msrb.org, and the City's Investor Webpage, http://www.sandiego.gov/investorinformation.

CITY OF SAN DIEGO
NET POSITION BY CATEGORY (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2007	2008	2009
Governmental Activities				
Net Investment in Capital Assets	$ 3,472,531	$ 3,461,127	$ 3,518,704	$ 3,530,937
Restricted for:				
Capital Projects	273,575	300,288	314,931	293,284
Low-Moderate Income Housing	64,493	81,739	108,026	135,581
Permanent Endowments	14,568	16,509	16,757	13,280
Grants	-	-	-	-
Other	96,537	100,159	124,328	122,460
Unrestricted	(140,126)	(19,999)	70,635	162,661
Total Governmental Activities Net Position	3,781,578	3,939,823	4,153,381	4,258,203
Business-type Activities				
Net Investment in Capital Assets	2,867,469	2,998,848	2,933,012	2,970,351
Restricted for:				
Debt Service	2,970	2,977	2,660	4,372
Other	32,115	34,732	36,776	38,113
Unrestricted	308,575	343,280	517,261	587,443
Total Business-type Activities Net Position	3,211,129	3,379,837	3,489,709	3,600,279
Primary Government				
Net Investment in Capital Assets	6,340,000	6,459,975	6,451,716	6,501,288
Restricted for:				
Capital Projects	273,575	300,288	314,931	293,284
Debt Service	2,970	2,977	2,660	4,372
Low-Moderate Income Housing	64,493	81,739	108,026	135,581
Nonexpendable Permanent Endowments	14,568	16,509	16,757	13,280
Grants	-	-	-	-
Other	128,652	134,891	161,104	160,573
Unrestricted	168,449	323,281	587,896	750,104
Total Primary Government Net Position	$ 6,992,707	$ 7,319,660	$ 7,643,090	$ 7,858,482

Source: Comprehensive Annual Financial Reports

Table 1

Fiscal Year					
2010	2011	2012	2013	2014	2015
$ 3,780,474	$ 3,812,560	$ 3,835,923	$ 3,963,306	$ 3,988,284	$ 3,988,396
260,754	654,126	521,015	456,874	459,115	575,798
162,514	84,260	50,988	251,655	277,139	286,129
17,514	15,670	18,780	19,689	24,307	21,300
-	-	232,249	75,462	68,206	67,230
131,600	195,171	157,462	202,705	277,586	358,647
2,189	(392,384)	(278,413)	(341,390)	(274,916)	(1,493,831)
4,355,045	4,369,403	4,538,004	4,628,301	4,819,721	3,803,669
3,035,924	3,094,788	3,131,831	3,378,535	3,526,979	3,902,396
8,443	11,129	13,346	7,893	1,880	1,531
43,747	45,217	24,462	24,822	25,404	26,245
643,275	685,666	826,386	701,760	637,889	380,283
3,731,389	3,836,800	3,996,025	4,113,010	4,192,152	4,310,455
6,816,398	6,907,348	6,967,754	7,341,841	7,515,263	7,890,792
260,754	654,126	521,015	456,874	459,115	575,798
8,443	11,129	13,346	7,893	1,880	1,531
162,514	84,260	50,988	251,655	277,139	286,129
17,514	15,670	18,780	19,689	24,307	21,300
-	-	232,249	75,462	68,206	67,230
175,347	240,388	181,924	227,527	302,990	384,892
645,464	293,283	547,973	360,370	362,973	(1,113,548)
$ 8,086,434	$ 8,206,203	$ 8,534,029	$ 8,741,311	$ 9,011,873	$ 8,114,124

CITY OF SAN DIEGO
CHANGES IN NET POSITION (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2007	2008	2009
Expenses				
Governmental Activities				
General Government and Support	$ 252,295	$ 270,190	$ 322,157	$ 303,581
Public Safety - Police	370,990	376,581	382,907	418,549
Public Safety - Fire and Life Safety and Homeland Security	194,074	209,902	204,822	220,787
Parks, Recreation, Culture and Leisure	237,375	229,500	231,955	258,038
Transportation	200,883	272,780	212,255	239,305
Sanitation and Health	48,774	43,780	51,772	77,447
Neighborhood Services	111,886	99,870	91,110	116,735
Debt Service:				
Interest	71,109	84,920	82,211	84,070
Cost of Issuance	-	-	-	-
Total Governmental Activities Expenses	1,487,386	1,587,523	1,579,189	1,718,512
Business-type Activities				
Airports	4,100	3,755	4,109	5,140
City Store	810	843	788	321
Development Services	57,893	53,924	51,461	47,260
Environmental Services	44,493	40,138	37,279	35,718
Golf Course	9,563	10,690	11,142	11,864
Recycling	21,853	19,754	20,511	20,067
Sewer Utility	319,274	313,716	322,552	314,125
Water Utility	302,996	313,256	321,123	329,748
Total Business-type Activities Expenses	760,982	756,076	768,965	764,243
Total Primary Government Expenses	2,248,368	2,343,599	2,348,154	2,482,755
Program Revenues				
Governmental Activities				
Charges for Services:				
General Government and Support	96,345	107,257	111,714	152,630
Public Safety - Police	24,256	27,960	40,628	42,178
Public Safety - Fire and Life Safety and Homeland Security	18,572	16,548	19,156	20,449
Parks, Recreation, Culture and Leisure	51,196	52,656	64,030	80,795
Transportation	52,375	49,809	21,877	18,360
Sanitation and Health	10,697	10,224	9,832	9,306
Neighborhood Services	25,440	39,412	22,748	21,814
Operating Grants and Contributions	101,723	84,745	75,126	93,244
Capital Grants and Contributions	100,564	81,169	78,347	110,802
Total Governmental Activities Program Revenues	481,168	469,780	443,458	549,578
Business-type Activities				
Charges for Services:				
Airports	4,385	5,635	5,140	4,929
City Store	837	827	744	242
Development Services	55,011	48,746	45,945	37,310
Environmental Services	39,850	36,143	35,485	31,726
Golf Course	13,119	15,772	15,153	16,201
Recycling	21,345	20,476	23,390	16,027
Sewer Utility	290,568	304,749	328,119	322,571
Water Utility	280,567	310,292	318,626	342,719
Operating Grants and Contributions	1,909	1,203	2,312	1,739
Capital Grants and Contributions	77,602	141,419	58,400	60,863
Total Business-type Activities Program Revenues	785,193	885,262	833,314	834,327
Total Primary Government Program Revenues	1,266,361	1,355,042	1,276,772	1,383,905
Net (Expense)/Revenue				
Governmental Activities	(1,006,218)	(1,117,743)	(1,135,731)	(1,168,934)
Business-type Activities	24,211	129,186	64,349	70,084
Total Primary Government Net Expense	$ (982,007)	$ (988,557)	$ (1,071,382)	$ (1,098,850)

Source: Comprehensive Annual Financial Reports

Table 2

Fiscal Year					
2010	2011	2012	2013	2014	2015
$ 395,344	$ 361,098	$ 294,198	$ 313,800	$ 286,798	$ 271,094
402,222	427,724	409,374	429,849	441,803	380,344
214,975	223,174	233,635	241,029	253,741	221,446
266,343	248,668	270,199	270,540	267,523	263,127
190,054	191,402	224,187	202,376	192,928	198,242
78,171	74,639	73,299	67,623	89,448	92,833
137,971	85,588	219,499	89,354	70,191	80,299
72,672	77,443	58,838	37,942	35,226	33,790
-	-	-	-	518	-
1,757,752	1,689,737	1,783,229	1,652,513	1,638,176	1,541,175
5,671	4,297	3,614	4,759	4,663	3,740
-	-	-	-	-	-
36,640	43,552	43,842	46,024	50,825	50,244
33,955	34,904	36,357	32,205	33,724	30,939
14,618	15,503	15,217	15,689	16,423	15,827
19,265	19,611	18,105	18,895	20,475	17,200
338,688	315,591	311,367	322,431	326,437	316,465
365,683	362,830	382,314	420,809	443,453	466,552
814,520	796,288	810,816	860,812	896,000	900,967
2,572,272	2,486,025	2,594,045	2,513,325	2,534,176	2,442,142
179,461	185,696	193,766	191,256	198,856	249,241
39,636	44,879	38,367	44,723	42,976	40,304
19,916	30,655	31,724	22,539	34,984	33,547
61,495	65,033	80,673	72,297	51,721	53,093
31,485	27,304	56,742	28,759	30,262	34,459
11,788	11,784	14,452	13,790	15,342	14,269
25,959	27,013	22,699	35,792	36,339	49,825
71,829	81,159	62,181	82,760	60,591	49,049
60,139	51,674	46,770	152,193	120,538	106,237
501,708	525,197	547,374	644,109	591,609	630,024
4,849	4,749	4,188	4,906	4,371	4,618
-	-	-	-	-	-
37,338	45,743	44,557	50,006	52,402	56,395
26,342	28,246	25,123	24,607	26,043	30,477
15,671	15,715	17,428	18,367	19,764	20,116
16,946	18,592	17,323	18,056	19,046	20,305
382,125	357,731	370,299	361,637	364,548	364,467
376,461	371,515	408,119	414,508	447,565	455,222
3,289	8,355	2,939	1,761	1,531	1,044
45,738	30,692	75,194	91,878	70,739	386,952
908,759	881,338	965,170	985,726	1,006,009	1,339,596
1,410,467	1,406,535	1,512,544	1,629,835	1,597,618	1,969,620
(1,256,044)	(1,164,540)	(1,235,855)	(1,008,404)	(1,046,567)	(911,151)
94,239	85,050	154,354	124,914	110,009	438,629
$ (1,161,805)	$ (1,079,490)	$ (1,081,501)	$ (883,490)	$ (936,558)	$ (472,522)

Continued on Next Page

CITY OF SAN DIEGO
CHANGES IN NET POSITION (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2007	2008	2009
General Revenues and Other Changes in Net Position				
Governmental Activities				
Property Taxes	$ 459,777	$ 526,722	$ 576,605	$ 607,857
Transient Occupancy Taxes	136,803	154,810	159,348	140,657
Sales Taxes - Shared State Revenue	227,017	263,399	269,757	229,651
Other Local Taxes	148,001	157,941	151,267	161,485
Developer Contributions and Fees	53,502	62,693	38,331	16,148
Grants and Contributions not Restricted to Specific Programs	64,039	5,339	6,251	8,488
Investment Income	40,108	76,292	96,725	75,245
Gain on Sale of Capital Assets	1,214	6,546	17,884	1,922
Miscellaneous	21,227	25,671	29,570	33,528
Transfers	4,530	(3,425)	3,551	(1,225)
Total Governmental Activities General Revenues and Transfers	1,156,218	1,275,988	1,349,289	1,273,756
Business-type Activities				
Investment Income	16,938	30,713	41,224	31,004
Miscellaneous	6,502	5,384	7,850	8,257
Transfers	(4,530)	3,425	(3,551)	1,225
Total Business-type Activities General Revenues and Transfers	18,910	39,522	45,523	40,486
Total Primary Government General Revenues and Transfers	1,175,128	1,315,510	1,394,812	1,314,242
Extraordinary Gain (Loss)				
Governmental Activities	-	-	-	-
Business-type Activities	-	-	-	-
Change in Net Position				
Governmental Activities	150,001	158,245	213,558	104,822
Business-type Activities	43,121	168,708	109,872	110,570
Total Primary Government Change in Net Position	$ 193,122	$ 326,953	$ 323,430	$ 215,392

Source: Comprehensive Annual Financial Reports

Table 2

Fiscal Year					
2010	2011	2012	2013	2014	2015
$ 579,410	$ 560,577	$ 508,938	$ 421,894	$ 470,905	$ 460,948
123,332	140,752	148,184	158,105	173,376	182,466
244,406	246,452	253,624	269,504	282,345	296,837
183,694	158,797	173,954	166,548	186,747	208,970
21,022	14,131	55,635	66,312	47,765	86,440
18,065	10,320	115	705	674	653
30,472	25,488	15,708	9,220	13,627	8,786
1,854	133	-	-	-	-
20,458	16,207	36,086	14,471	32,482	47,071
(1,218)	6,040	16,739	20,012	15,269	(150)
1,221,495	1,178,897	1,208,983	1,126,771	1,223,190	1,292,021
22,332	13,717	11,519	2,429	8,489	8,012
13,321	12,684	8,225	11,520	12,096	21,285
1,218	(6,040)	(16,739)	(20,012)	(15,269)	150
36,871	20,361	3,005	(6,063)	5,316	29,447
1,258,366	1,199,258	1,211,988	1,120,708	1,228,506	1,321,468
-	-	195,473	(28,070)	(14,828)	-
-	-	1,866	(1,866)	-	-
(34,549)	14,357	168,601	90,297	161,795	380,870
131,110	105,411	159,225	116,985	115,325	468,076
$ 96,562	$ 119,768	$ 327,826	$ 207,282	$ 277,120	$ 848,946

CITY OF SAN DIEGO
FUND BALANCES OF GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Modified Accrual Basis of Accounting)

	Pre-GASB 54 Fiscal Year				
	2006	2007	2008	2009	2010
General Fund:					
Reserved	$ 21,288	$ 35,858	$ 45,843	$ 33,895	$ 7,996
Unreserved	40,353	96,190	78,938	80,497	107,027
Total General Fund	$ 61,641	$ 132,048	$ 124,781	$ 114,392	$ 115,023
Nonmajor Governmental Funds:					
Reserved	$ 401,019	$ 504,693	$ 652,222	$ 706,971	$ 776,324
Unreserved, reported in:					
Special Revenue Funds	267,576	350,096	233,388	221,089	219,394
Debt Service Funds	217	29	221,814	265,236	159,737
Capital Projects Funds	406,130	377,648	358,550	430,479	368,860
Permanent Funds	656	1,249	549	2,625	2
Total Nonmajor Governmental Funds	$ 1,075,598	$ 1,233,715	$ 1,466,523	$ 1,626,400	$ 1,524,317

Footnote:
[1] Starting in fiscal year 2011, data is reported in accordance with GASB Statement No. 54.

Source: Comprehensive Annual Financial Reports

Table 3

	Post-GASB 54 [1] Fiscal Year				
	2011	**2012**	**2013**	**2014**	**2015**
General Fund:					
Nonspendable	$ -	$ 22,140	$ -	$ 1,248	$ 849
Spendable:					
Restricted	145,880	102,104	60,507	104,885	140,358
Committed	1,183	44,831	40,953	147,053	130,891
Assigned	38,153	-	8,717	5,575	6,162
Unassigned	60,532	109,475	112,321	91,353	99,555
Total General Fund	$ 245,748	$ 278,550	$ 222,498	$ 350,114	$ 377,815
Nonmajor Governmental Funds:					
Nonspendable	$ 21,093	$ 19,502	$ 115,806	$ 24,326	$ 21,427
Spendable:					
Restricted	1,378,184	876,460	866,750	1,011,875	1,288,739
Committed	92,783	114,722	87,655	140,268	108,239
Unassigned	(29,569)	(43,841)	(22,578)	(15,156)	(11,287)
Total Nonmajor Governmental Funds	$ 1,462,491	$ 966,843	$ 1,047,633	$ 1,161,313	$ 1,407,118

CITY OF SAN DIEGO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2006	2007	2008	2009
Revenues				
Property Taxes	$ 457,908	$ 521,734	$ 573,311	$ 603,574
Special Assessments	36,699	36,585	50,274	63,500
Sales Taxes	227,017	264,587	270,791	233,140
In-Lieu Sales Taxes [1]	45,433	-	-	-
Transient Occupancy Taxes	136,801	153,574	159,348	140,657
Other Local Taxes	148,001	158,046	146,899	171,192
Licenses and Permits	42,117	41,425	50,693	39,349
Fines, Forfeitures and Penalties	35,441	42,932	32,785	34,406
Revenue from Use of Money and Property	89,438	117,552	129,582	107,784
Revenue from Federal Agencies	43,570	79,735	40,413	70,386
Revenue from Other Agencies	58,289	61,977	53,370	52,456
Revenue from Private Sources	91,287	59,549	23,013	21,593
Charges for Current Services	127,121	159,877	165,910	203,432
Other Revenue	25,923	31,027	30,824	25,711
Total Revenues	1,565,045	1,728,600	1,727,213	1,767,180
Expenditures				
Current:				
General Government and Support	290,550	267,461	310,814	344,930
Public Safety - Police	408,474	376,762	388,729	406,657
Public Safety - Fire and Life Safety and Homeland Security	212,069	202,031	205,660	225,696
Parks, Recreation, Culture and Leisure	216,038	182,197	195,808	211,759
Public Transportation	147,977	139,349	135,404	162,969
Sanitation and Health	49,094	44,729	53,957	78,260
Neighborhood Services	112,080	85,544	88,242	73,785
Capital Outlay	126,583	106,518	132,432	138,634
Debt Service:				
Principal Retirement	53,293	68,160	59,228	57,209
Cost of Issuance	-	5,145	3,618	1,001
Interest	68,732	82,928	78,133	78,659
Refunding Escrow	-	-	-	-
Total Expenditures	1,684,890	1,560,824	1,652,025	1,779,559
Excess (Deficiency) of Revenues Over Expenditures	(119,845)	167,776	75,188	(12,379)
Other Financing Sources (Uses)				
Transfers In	6,975	9,509	10,373	8,246
Transfers Out	(1,784)	(3,546)	(9,756)	(6,590)
Transfer to Escrow Agent	-	(159,690)	(10,676)	-
Contracts, Notes, and Loans Issued	13,873	13,003	16,063	12,583
Bonds Issued	217,797	182,328	108,121	115,236
Other Sources	20,609	19,144	36,228	32,392
Total Other Financing Sources (Uses)	257,470	60,748	150,353	161,867
Extraordinary Loss	-	-	-	-
Net Change in Fund Balances	$ 137,625	$ 228,524	$ 225,541	$ 149,488
Debt Service as a Percentage of Noncapital Expenditures	7.8%	10.7%	9.3%	8.3%

Footnote:
[1] The City reported In-Lieu Sales Taxes and Sales Taxes separately in fiscal year 2006.

Source: Comprehensive Annual Financial Reports

Table 4

Fiscal Year					
2010	2011	2012	2013	2014	2015
$ 584,342	$ 569,009	$ 512,178	$ 422,617	$ 470,960	$ 460,515
45,606	42,823	46,964	50,510	50,796	57,343
192,665	232,077	265,057	269,929	278,564	293,929
-	-	-	-	-	-
123,879	139,545	148,795	159,494	170,475	186,690
183,696	158,797	173,954	166,548	186,747	208,907
33,088	42,668	41,906	51,662	53,329	57,388
31,836	33,356	64,816	31,261	31,363	33,832
91,227	86,720	77,654	80,994	87,212	92,452
54,056	86,113	70,132	59,863	52,504	45,217
56,136	54,628	46,604	57,770	39,804	87,364
21,689	29,126	38,451	71,280	78,875	71,581
191,769	204,782	215,914	189,551	207,101	238,516
23,187	32,807	41,446	20,829	33,890	49,200
1,633,176	1,712,451	1,743,871	1,632,308	1,741,620	1,882,934
391,680	339,782	279,663	265,489	299,739	305,594
399,914	402,328	396,098	406,599	431,531	430,411
210,730	210,539	226,623	228,128	245,650	254,603
228,357	205,219	228,255	225,411	216,635	228,157
117,545	115,168	149,344	120,594	108,836	120,102
78,351	70,274	72,980	65,969	83,128	92,907
75,772	88,826	218,724	81,559	63,846	82,812
134,426	142,136	193,727	158,460	118,187	185,018
65,928	114,774	70,614	46,323	66,534	42,812
1,881	1,552	880	814	518	1,140
74,825	73,093	56,695	37,399	36,070	34,135
4,172	-	-	1,572	-	-
1,783,581	1,763,691	1,893,603	1,638,317	1,670,675	1,777,691
(150,405)	(51,240)	(149,732)	(6,009)	70,944	105,243
7,706	7,444	274,458	302,999	192,049	253,570
(13,444)	(6,564)	(286,274)	(294,922)	(173,249)	(253,139)
(161,194)	-	(152,936)	(18,973)	(16,025)	-
48,710	478	2,700	-	761	1,512
183,396	104,857	153,964	94,808	51,713	121,200
15,341	13,924	12,058	7,477	29,747	45,120
80,515	120,139	3,970	91,389	84,996	168,263
-	-	(317,084)	(60,642)	(21,067)	-
$ (69,890)	$ 68,899	$ (462,846)	$ 24,738	$ 134,874	$ 273,506
8.9%	11.7%	7.5%	5.8%	6.6%	4.9%

CITY OF SAN DIEGO
ASSESSED VALUE AND ESTIMATED VALUE OF TAXABLE PROPERTY (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	City			
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value
2006	$ 128,935,155	$ 7,067,580	$ (5,684,279)	$ 130,318,456
2007	142,036,802	7,629,006	(5,867,546)	143,798,262
2008	154,653,913	7,410,589	(6,329,714)	155,734,788
2009	162,580,727	7,880,341	(6,795,274)	163,665,794
2010	161,637,831	8,164,394	(7,157,357)	162,644,868
2011	158,803,280	7,873,095	(7,411,231)	159,265,144
2012	160,568,111	7,614,792	(7,713,035)	160,469,868
2013	159,731,138	7,784,851	(7,883,818)	159,632,171
2014	166,492,182	8,229,813	(8,321,763)	166,400,232
2015	176,702,157	8,671,311	(8,592,636)	176,780,832

Footnote:
[1] Pursuant to ABX1 26, the former Redevelopment Agency (RDA) dissolved as of February 1, 2012, at which time the City, as Successor Agency, received the former RDA's assets and assumed the responsibility for winding down the former RDA's operations.

Sources: MuniServices, LLC and San Diego County Assessor Data

Table 5

Successor Agency [1]				
Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Total Direct Tax Rate
$ 10,237,395	$ 628,841	$ (685,305)	$ 10,180,931	0.326%
13,029,366	892,425	(924,626)	12,997,165	0.333%
15,955,610	889,754	(1,064,583)	15,780,781	0.334%
17,769,284	918,239	(1,139,942)	17,547,581	0.333%
17,353,633	912,524	(1,289,122)	16,977,035	0.325%
17,676,415	953,539	(1,465,748)	17,164,206	0.323%
17,354,546	967,108	(1,610,637)	16,711,017	0.289%
17,571,696	977,717	(1,683,396)	16,866,017	0.239%
18,265,071	984,082	(1,712,162)	17,536,991	0.256%
19,634,360	1,015,145	(1,694,855)	18,954,650	0.235%

CITY OF SAN DIEGO
DIRECT AND OVERLAPPING PROPERTY TAX RATES (UNAUDITED)
Last Ten Fiscal Years
($1 Per $100 of Assessed Value)

	Fiscal Year			
Basic City and County Direct Rates	2006	2007	2008	2009
County of San Diego	0.15731%	0.15731%	0.15731%	0.15731%
City of San Diego	0.17213%	0.17213%	0.17213%	0.17213%
San Diego Unified School	0.44679%	0.44679%	0.44679%	0.44679%
San Diego Community College	0.06463%	0.06463%	0.06463%	0.06463%
County School Service	0.00748%	0.00748%	0.00748%	0.00748%
County School Service - Capital Outlay	0.00189%	0.00189%	0.00189%	0.00189%
Childrens Institution Tuition	0.00160%	0.00160%	0.00160%	0.00160%
Regional Occupational Center	0.00477%	0.00477%	0.00477%	0.00477%
Carlsbad Project	0.00010%	0.00010%	0.00010%	0.00010%
ERAF	0.14330%	0.14330%	0.14330%	0.14330%
Total Basic City and County Direct Rates [1]	1.00000%	1.00000%	1.00000%	1.00000%
Overlapping Rates				
City of San Diego	0.01165%	0.01094%	0.01069%	0.01038%
Education	0.10085%	0.08931%	0.08747%	0.07396%
Total Overlapping	0.11250%	0.10025%	0.09816%	0.08434%
Total Direct and Overlapping Tax Rates	1.11250%	1.10025%	1.09816%	1.08434%

[1]Property tax rates in California do not utilize millage rates. Proposition 13, enacted by the voters in 1978-79, held property tax to a maximum of 1% of the assessed value. Rates over 1% are allowable only for voter approved bond indebtedness.

Sources: MuniServices, LLC and San Diego County Auditor/Controller Data

Table 6

Fiscal Year					
2010	**2011**	**2012**	**2013**	**2014**	**2015**
0.15731%	0.15731%	0.15731%	0.15731%	0.15731%	0.15731%
0.17213%	0.17213%	0.17213%	0.17213%	0.17213%	0.17213%
0.44679%	0.44679%	0.44679%	0.44679%	0.44679%	0.44679%
0.06463%	0.06463%	0.06463%	0.06463%	0.06463%	0.06463%
0.00748%	0.00748%	0.00748%	0.00748%	0.00748%	0.00748%
0.00189%	0.00189%	0.00189%	0.00189%	0.00189%	0.00189%
0.00160%	0.00160%	0.00160%	0.00160%	0.00160%	0.00160%
0.00477%	0.00477%	0.00477%	0.00477%	0.00477%	0.00477%
0.00010%	0.00010%	0.00010%	0.00010%	0.00010%	0.00010%
0.14330%	0.14330%	0.14330%	0.14330%	0.14330%	0.14330%
1.00000%	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
0.01043%	0.00986%	0.00870%	0.00850%	0.00850%	0.00900%
0.09152%	0.09164%	0.10410%	0.10303%	0.17427%	0.17000%
0.10195%	0.10150%	0.11280%	0.11153%	0.18277%	0.17900%
1.10195%	1.10150%	1.11280%	1.11153%	1.18277%	1.17900%

Table 7

CITY OF SAN DIEGO
PRINCIPAL PROPERTY TAX PAYERS (UNAUDITED)
Current Year and Nine Years Ago
(Dollars in Thousands)

Taxpayer	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
For the Fiscal Year Ended June 30, 2015		
Qualcomm Inc.	$ 1,980,546	1.01%
Irvine Company LLC	1,683,876	0.86%
Kilroy Realty LP	1,329,703	0.68%
Host Hotels Resorts LP	781,319	0.40%
O C S D Holdings LLC	496,098	0.25%
One Park Boulevard LLC	460,382	0.24%
Fashion Valley Mall LLC	450,395	0.23%
Solar Turbines Inc.	443,382	0.23%
B R E Properties Inc.	428,778	0.22%
Seaworld Parks Entertainment	410,998	0.21%
For the Fiscal Year Ended June 30, 2006		
Kilroy Realty LP	679,312	0.48%
Qualcomm Inc.	646,693	0.46%
Pfizer Inc.	470,414	0.33%
Fashion Valley Mall LLC	428,018	0.30%
San Diego Family Housing LLC	407,398	0.29%
Irvine Company LLC	372,631	0.27%
Seaworld Parks Entertainment	358,828	0.26%
Manchester Resorts LP	341,093	0.24%
Pacific Gateway Ltd.	265,295	0.19%
University Energy Centre LLC	205,156	0.15%

Sources: MuniServices, LLC and San Diego County Assessor Data

Table 8

CITY OF SAN DIEGO
PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year [1]	Collected within the Fiscal Year of Levy		Delinquent Collections [3]	Total Collections to Date	
		Amount Collected [2]	Percent of Levy		Amount	Percent of Levy
2006	$ 265,581	$ 254,308	95.76%	$ 5,338	$ 259,646	97.77%
2007	283,855	270,583	95.32%	7,069	277,652	97.81%
2008	299,911	283,716	94.60%	10,269	293,985	98.02%
2009	303,593	290,480	95.68%	9,982	300,462	98.97%
2010	297,217	286,303	96.33%	8,834	295,137	99.30%
2011	293,624	285,913	97.37%	5,107	291,020	99.11%
2012	296,007	289,530	97.81%	4,656	294,186	99.38%
2013	299,332	293,577	98.08%	3,803	297,380	99.35%
2014	315,060	308,606	97.95%	3,286	311,892	98.99%
2015	331,187	325,794	98.37%	-	325,794	98.37%

Footnotes:

[1] Property Tax Levies and Collections for the General Fund and Zoological Exhibits Fund.

[2] Taxes levied and collected for the year include both the local and state assessments.

[3] Penalties and interest from delinquent collections are not included.

Source: County of San Diego

CITY OF SAN DIEGO
RATIOS OF OUTSTANDING DEBT BY TYPE (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

	Governmental Activities				
Fiscal Year Ended June 30	Capital Lease Obligations	Qualified Energy Conservation Bonds/Lease Obligation	Notes Payable	Loans Payable	General Obligation Bonds
2006	$ 40,541	$ -	$ 7,294	$ 64,199	$ 12,690
2007	39,130	-	8,555	60,493	10,705
2008	61,262	-	5,662	70,763	8,580
2009	89,519	-	4,786	78,347	6,315
2010	84,561	-	3,301	110,891	4,340
2011	68,018	13,142	-	52,963	2,240
2012	69,638	12,392	-	38,748	-
2013	65,369	11,637	-	27,268	-
2014	58,094	10,864	-	17,633	-
2015	92,539	10,071	-	9,568	-

	Business-Type Activities				
Fiscal Year Ended June 30	Capital Lease Obligations	Notes Payable	Loans Payable	Revenue Bonds Payable	Total Business-Type Activities
2006	$ 2,051	$ -	$ 91,247	$ 1,662,705	$ 1,756,003
2007	1,006	280,830	101,316	1,469,060	1,852,212
2008	166	430,830	95,875	1,425,445	1,952,316
2009	-	-	90,326	2,166,906	2,257,232
2010	-	-	84,673	2,073,075	2,157,748
2011	-	-	91,025	2,009,160	2,100,185
2012	-	-	125,406	1,919,920	2,045,326
2013	-	-	145,330	1,850,645	1,995,975
2014	2,590	-	161,360	1,778,310	1,942,260
2015	2,250	-	158,241	1,702,940	1,863,431

Footnotes:

Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

[1] Personal income is disclosed in Table 15

[2] Debt per Capita is calculated using population data, which is disclosed in Table 15

Source: Comprehensive Annual Financial Reports

Table 9

Governmental Activities							
Pooled Financing Bonds	Lease Revenue Bonds/ Certificates of Participation	Tax Allocation Bonds	Tobacco Settlement Asset-Backed Bonds	Total Governmental Activities	Total Primary Government	Percentage of Personal Income [1]	Debt Per Capita [2]
$ -	$ 549,850	$ 514,845	$ 105,400	$ 1,294,819	$ 3,050,822	8.08%	$ 2.34
-	521,210	502,804	102,700	1,245,597	3,097,809	7.88%	2.35
34,115	498,950	548,643	99,370	1,327,345	3,279,661	7.68%	2.45
33,460	579,500	534,547	95,380	1,421,854	3,679,086	8.58%	2.76
32,780	547,260	529,423	92,350	1,404,906	3,562,654	8.19%	2.62
32,010	531,550	615,495	89,600	1,405,018	3,505,203	8.69%	2.67
-	481,630	-	86,195	688,603	2,733,929	6.39%	2.07
-	533,235	-	81,635	719,144	2,715,119	6.24%	2.05
-	546,930	-	77,785	711,306	2,653,566	5.79%	1.97
-	634,010	-	73,705	819,893	2,683,324	5.80%	1.96

Table 10

CITY OF SAN DIEGO
RATIOS OF GENERAL BONDED DEBT OUTSTANDING (UNAUDITED)
Last Ten Fiscal Years

Fiscal Year Ended June 30	General Obligation Bonds (Thousands)	Assessed Valuation (Thousands)	Percentage of Assessed Value [1]	Population	Debt Per Capita [2]
2006	$ 12,690	$ 130,318,456 [3]	0.010%	1,305,625	$ 9.72
2007	10,705	143,798,262	0.007%	1,316,837	8.13
2008	8,580	155,734,788	0.006%	1,336,865	6.42
2009	6,315	163,665,794	0.004%	1,333,617	4.74
2010	4,340	162,644,868	0.003%	1,359,132	3.19
2011	2,240	159,265,144	0.001%	1,311,882	1.71
2012	-	160,469,868	0.000%	1,321,315	-
2013	-	159,632,171	0.000%	1,326,238	-
2014	-	166,400,232	0.000%	1,345,895	-
2015	-	176,780,832	0.000%	1,368,061	-

Footnotes:

Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

[1] Ratio is calculated using assessed property values.

[2] Ratio is calculated using population data.

[3] The City recognized a fluctuation in Taxable Assessed Value in fiscal year 2006 due to a change in the allocation method between the City and the Redevelopment Agency. This methodology change resulted from Management's decision to begin using an external source to calculate statistical information in conjunction with the implementation of GASB Statement No. 44.

Sources: MuniServices, LLC, California Department of Finance and Comprehensive Annual Financial Reports

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CITY OF SAN DIEGO
DIRECT AND OVERLAPPING DEBT (UNAUDITED)
June 30, 2015
(Dollars in Thousands)

	Total Debt June 30, 2015	% Applicable [1]	City's Share of Debt June 30, 2015
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	$ 110,420	8.507%	$ 9,393
Palomar Community College District	515,524	23.440%	120,839
San Diego Community College District	1,280,455	99.934%	1,279,610
Poway Unified School District School Facilities Improvement District No. 2002-1 & 2007-1	337,923	55.832 & 56.362%	189,618
San Diego Unified School District	2,269,763	99.937%	2,268,333
San Dieguito Union High School District	266,795	32.384%	86,399
San Ysidro School District	135,717	87.653%	118,960
Other School, High School and Community College Districts	1,687,741	Various	140,570
Grossmont Healthcare District	267,413	8.074%	21,591
Palomar Pomerado Health System	471,441	27.619%	130,207
City of San Diego Special Assessment/Special Tax Bonds [2]	-	100%	107,117
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	26,505	100%	26,505
North City West School District Community Facilities District	63,873	100%	63,873
Poway Unified School District Community Facilities Districts	349,314	99.609-100%	349,243
San Dieguito Union High School District Community Facilities Districts	40,696	81.063-100%	35,277
Sweetwater Union High School District Community Facilities Districts	19,515	8.935-100%	14,407
Solana Beach School District Community Facilities Districts	33,015	100%	33,015
Other Special District 1915 Act Bonds	18,572	Various	5,561
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$ 5,000,518
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	$ 351,670	47.028%	$ 165,383
San Diego County Pension Obligations	682,615	47.028%	321,020
San Diego Superintendent of Schools Certificates of Participation	14,733	47.028%	6,929
Palomar Community College District General Fund Obligations	4,350	23.440%	1,020
Poway Unified School District Certificates of Participation	62,409	63.698%	39,753
Sweetwater Union High School District Certificates of Participation	42,165	19.676%	8,296
Chula Vista School District General Fund Obligations	134,745	5.199%	7,005
San Ysidro School District Certificates of Participation	41,015	87.653%	35,951
Other School, High School and Community College District Certificates of Participation	126,092	Various	5,179
City of San Diego General Fund Obligations [3]	634,010	100%	634,010
Otay Municipal Water District Certificates of Participation	45,195	6.831%	3,087
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			1,227,633
Less: Otay Municipal Water District Certificates of Participation			3,087
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 1,224,546
OVERLAPPING TAX INCREMENT DEBT	$ 556,169	1.261-100%	$ 518,392
TOTAL DIRECT DEBT			634,010
TOTAL GROSS OVERLAPPING DEBT			6,112,533
TOTAL NET OVERLAPPING DEBT			6,109,446
GROSS COMBINED TOTAL DEBT [4]			6,746,543
NET COMBINED TOTAL DEBT			6,743,456

Table 11

Ratios to 2014-15 Assessed Valuations ($197,090,227):	
Overlapping Tax and Assessment Debt	2.54%
Total Direct Debt ($634,010)	0.32%
Gross Combined Total Debt	3.42%
Net Combined Total Debt	3.42%
Ratios to Successor Agency Incremental Valuation ($19,017,942)	
Total Overlapping Tax Increment Debt	2.73%

Footnotes:

[1] The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

[2] Amounts reconcile to Note 18, Total Special Assessment / Special Tax Bonds.

[3] Amounts for Total Debt reconcile to Note 5, Total Lease Revenue Bonds.

[4] Excludes Tax and Revenue Anticipation Notes, Enterprise Revenue, Mortgage Revenue and Non-Bonded Capital Lease Obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Sources: MuniServices, LLC and Comprehensive Annual Financial Reports

CITY OF SAN DIEGO
LEGAL DEBT MARGIN SCHEDULE (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

	Fiscal Year			
	2006	2007	2008	2009
Assessed valuation (restated) [1]	$ 130,318,456	$ 143,798,262	$ 155,734,788	$ 163,665,794
Conversion percentage [2]	25%	25%	25%	25%
Adjusted assessed valuation	32,579,614	35,949,566	38,933,697	40,916,449
Debt limit percentage [3]	25%	25%	25%	25%
Debt limit [4]	8,144,904	8,987,391	9,733,424	10,229,112
Total net debt applicable to limit:				
General Obligation Bonds	12,690	10,705	8,580	6,315
Legal debt margin	8,132,214	8,976,686	9,724,844	10,222,797
Total debt applicable to the limit as a percentage of the debt limit	0.16%	0.12%	0.09%	0.06%

Footnotes:

[1] The City recognized a fluctuation in Taxable Assessed Value in fiscal year 2006 due to a change in the allocation method between the City and the Redevelopment Agency. This methodology change resulted from Management's decision to begin using an external source to calculate statistical information in conjunction with the implementation of GASB 44.

[2] The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with fiscal year 1981-82, each parcel is now assessed at 100% of market value. The calculations shown above present a conversion of assessed valuation data for each fiscal year from the current 100% valuation to the 25% level that was in effect at the time the legal debt margin was enacted.

[3] 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.

[4] The current debt limitation for Water is 15% of the Adjusted Assessed Valuation, or $6,629,281 and the debt limitation for other purposes is 10% of the Adjusted Assessed Valuation, or $4,419,521.

Sources: MuniServices, LLC and Comprehensive Annual Financial Reports

Table 12

Fiscal Year					
2010	**2011**	**2012**	**2013**	**2014**	**2015**
$ 162,644,868	$ 159,265,144	$ 160,469,868	$ 159,632,171	$ 166,400,232	$ 176,780,832
25%	25%	25%	25%	25%	25%
40,661,217	39,816,286	40,117,467	39,908,043	41,600,058	44,195,208
25%	25%	25%	25%	25%	25%
10,165,304	9,954,072	10,029,367	9,977,011	10,400,015	11,048,802
4,340	2,240	-	-	-	-
10,160,964	9,951,832	10,029,367	9,977,011	10,400,015	11,048,802
0.04%	0.02%	0.00%	0.00%	0.00%	0.00%

CITY OF SAN DIEGO
PLEDGED-REVENUE COVERAGE - WATER OBLIGATIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Total System Revenues	Total Maintenance and Operation Costs (Excludes Depreciation)	Net System Revenues [1]	Less: Interest Earnings on Reserve Funds - Senior Obligations	Adjusted Net System Revenues [2]
2006	$ 303,453	$ 242,180	$ 61,273	$ (1,228)	$ 60,045
2007	336,599	255,486	81,113	(1,346)	79,767
2008	350,770	258,813	91,957	(1,481)	90,476
2009	364,413	263,280	101,133	(2,668)	98,465
2010	394,948	287,361	107,587	(3,767)	103,820
2011	397,755	285,059	112,696	(1,436)	111,260
2012	431,188 [4]	307,465	123,723	(1,919)	121,804
2013	444,751	342,989	101,762	(363)	101,399
2014	473,908	362,989	110,919	(1,017)	109,902
2015 [5]	468,274	381,389	86,885	(897)	85,988

Footnotes:

[1] Net System Revenues is defined as "System Revenues" less "Maintenance and Operation Costs" of the Water System for the fiscal year.

[2] Adjusted Net System Revenues is the "Net System Revenues" less "an amount equal to earnings from investments in any Reserve Fund or Reserve Account" for the fiscal year.

[3] All Obligations include Senior, Subordinate and State Revolving Fund (SRF) Loans.

[4] Includes receipt of State of California Prop 50 grants ($40,000) and transfers to Rate Stabilization Fund ($30,000).

[5] Total System Revenues and affected coverage ratios are net of an approximate $7,617 transfer to the Water Rate Stabilization Fund. Aggregate Debt Service before the transfer was approximately 1.41.

Source: Comprehensive Annual Financial Reports

Table 13

Senior Debt Service						All Obligations [3]	
Principal	Interest	Total	Less: Senior Interest Earnings	Adjusted Debt Service	Adjusted Debt Service Coverage	Total Debt Service	Aggregate Debt Service Coverage
$ 7,965	$ 13,390	$ 21,355	$ (1,228)	$ 20,127	2.98	$ 35,549	1.72
8,305	13,046	21,351	(1,346)	20,005	3.99	40,759	1.99
8,675	12,679	21,354	(1,481)	19,873	4.55	43,082	2.13
9,065	12,289	21,354	(2,668)	18,686	5.27	49,600	2.04
1,035	27,268	28,303	(3,767)	24,536	4.23	56,978	1.89
6,355	27,760	34,115	(1,436)	32,679	3.40	62,784	1.79
7,164	30,354	37,518	(1,919)	35,599	3.42	66,191	1.87
8,719	30,988	39,707	(363)	39,344	2.58	64,210	1.58
8,986	30,935	39,921	(1,017)	38,904	2.82	66,691	1.66
9,330	30,733	40,063	(897)	39,166	2.20	66,835	1.30

CITY OF SAN DIEGO
PLEDGED-REVENUE COVERAGE - SEWER OBLIGATIONS (UNAUDITED)
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year Ended June 30	Total System Revenues	Total Maintenance and Operation Costs (Excludes Depreciation)	Net System Revenues [1]	Senior Debt Service		
				Principal	Interest	Total
2006	$ 320,288	$ 202,111	$ 118,177	$ 27,390	$ 49,662	$ 77,052
2007 [3]	343,921	202,632	141,289	28,760	48,291	77,051
2008	361,511	211,449	150,062	30,250	46,805	77,055
2009	353,446	197,379	156,067	31,700	45,356	77,056
2010	406,076	220,701	185,375	43,320	59,909	103,229
2011	380,575	198,773	181,802	42,620	59,868	102,488
2012	391,588	202,132	189,456	44,230	58,253	102,483
2013	385,211	205,215	179,996	46,120	56,368	102,488
2014	396,042	210,981	185,061	48,821	54,473	103,294
2015 [4]	382,165	195,358	186,807	51,576	52,461	104,037

Footnotes:

[1] Net System Revenues is defined as "System Revenues" less "Maintenance and Operation Costs" of the Wastewater System for the fiscal year.

[2] All Obligations include Senior, Subordinate and State Revolving Fund (SRF) Loans.

[3] Senior Debt Service principal and interest amounts for fiscal year 2007 were updated for correct amounts.

[4] Total System Revenues and affected coverage ratios are net of an approximate $29,700 transfer to the Sewer Rate Stabilization Fund. Aggregate Debt Service Coverage before the transfer was approximately 1.91.

Source: Comprehensive Annual Financial Reports

Table 14

	All Obligations [2]	
Senior Debt Service Coverage	Total Debt Service	Aggregate Debt Service Coverage
1.53	$ 86,802	1.36
1.83	96,408	1.47
1.95	94,555	1.59
2.03	94,305	1.65
1.80	109,288	1.70
1.77	108,547	1.67
1.85	108,542	1.75
1.76	108,547	1.66
1.79	109,353	1.69
1.80	110,096	1.70

CITY OF SAN DIEGO
DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
Last Ten Fiscal Years

Table 15

Fiscal Year Ended June 30	Population [1]	Personal Income (Thousands)	Per Capita Personal Income [2]	City Unemployment Rate [3]
2006	1,305,625	$ 37,749,536	$ 28,913	4.2%
2007	1,316,837	39,302,317	29,846	4.6%
2008	1,336,865	42,678,078	31,924	5.9%
2009	1,333,617	42,857,116	32,136	10.0%
2010	1,359,132	43,522,125	32,022	10.2%
2011	1,311,882	40,336,436	30,747	10.2%
2012	1,321,315	42,754,529	32,358	9.0%
2013	1,326,238	43,540,765	32,830	7.7%
2014	1,345,895	45,869,488	34,081	6.1%
2015	1,368,061	46,297,920	33,842	4.7%

Footnotes:

[1] Population projections are provided by the California Department of Finance Projections.

[2] Income data is provided by the United States Census Bureau, 2010 American Community Survey.

[3] EDD Labor Market Information as of June 30 of each fiscal year.

Sources: MuniServices, LLC and California Department of Finance

CITY OF SAN DIEGO
PRINCIPAL EMPLOYERS (UNAUDITED)
Current Year and Nine Years Ago

Table 16

Employer	Number of Employees	Percentage of Total Employment [1]
For the Fiscal Year Ended June 30, 2015		
Naval Base San Diego [2]	29,948	4.32%
University Of California San Diego [3]	28,459	4.10%
Sharp Healthcare [4]	16,896	2.44%
County of San Diego	16,427	2.37%
Qualcomm, Inc. [5]	13,725	1.98%
San Diego Unified School District	13,446	1.94%
City of San Diego [6]	10,968	1.58%
Dex Com Inc	10,540	1.52%
Kaiser Permanente	7,549	1.09%
Scripps Health [7]	6,111	0.88%
Total Top Employers	154,069	22.22%
For the Fiscal Year Ended June 30, 2006		
Naval Base San Diego [2]	40,200	6.11%
University of California San Diego	27,200	4.13%
San Diego Unified School District	19,777	3.01%
County of San Diego	15,715	2.39%
Sharp Healthcare	13,377	2.03%
San Diego State University	11,114	1.69%
Scripps Health [7]	10,932	1.66%
City of San Diego [6]	10,990	1.67%
Kaiser Permanente	7,432	1.13%
Qualcomm Inc.	6,960	1.06%
Total Top Employers	163,697	24.88%

Footnotes:

[1] Percentage based on total employment of 709,800 and 657,900 for fiscal years 2015 and 2006, respectively, reported by EDD.

[2] Employee count includes Navy, Marine and Civil Services personnel.

[3] Employee count includes full and part-time, academic and support staff.

[4] Employee count is countywide.

[5] Count is from prior year

[6] Employee count is provided by the City of San Diego, Office of the Comptroller - Payroll Division.

[7] Current year employee count includes 3 hospital sites in San Diego. Previous count in 2006 was countywide.

Source: MuniServices, LLC

Table 17

CITY OF SAN DIEGO
FULL-TIME AND PART-TIME CITY EMPLOYEES BY FUNCTION (UNAUDITED) [1]
Last Ten Fiscal Years

	Fiscal Year									
Function	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
General Government and Support	1,816	1,870	1,979	2,248	2,217	2,143	2,101	2,058	2,134	2,283
Public Safety - Police	2,628	2,627	2,712	2,674	2,547	2,409	2,402	2,427	2,489	2,519
Public Safety - Fire, Life Safety, Homeland Security	1,322	1,333	1,314	1,304	1,331	1,265	1,208	1,235	1,283	1,397
Parks, Recreation, Culture and Leisure	1,701	1,663	1,705	1,682	1,675	1,556	1,525	1,646	1,720	1,871
Transportation	447	339	326	279	282	280	276	298	325	337
Sanitation and Health	144	129	150	164	156	153	132	121	135	139
Neighborhood Services	177	148	154	145	132	137	127	141	152	162
Airports	14	14	15	16	16	17	17	18	16	18
Development Services	482	426	392	329	258	259	268	293	332	367
Environmental Services	196	188	164	168	172	160	157	153	145	154
Golf Course	88	95	88	97	93	89	100	98	106	106
Recycling	121	108	98	100	97	87	94	97	104	93
Sewer Utility	976	906	863	817	781	762	731	721	775	693
Water Utility	878	839	829	776	742	734	703	720	695	829
Total Employees	10,990	10,685	10,789	10,799	10,499	10,051	9,841	10,026	10,411	10,968

Footnote:

[1] As of the last pay period of the fiscal year.

Source: City of San Diego, Office of the Comptroller - Payroll Division

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CITY OF SAN DIEGO
OPERATING INDICATORS BY FUNCTION (UNAUDITED)
Last Ten Fiscal Years

Function	Fiscal Year 2006	2007	2008	2009
Public Safety - Police				
Calls for Police Services Dispatched	626,067	623,940	631,371	668,989
Calls for 9-1-1 Emergencies	471,927	518,291	526,391	506,738
Public Safety - Fire and Life Safety and Homeland Security				
Fire Department:				
Emergency Calls - Fire	3,579	3,392	4,445	3,868
Emergency Calls - Medical/Rescue	84,882	87,789	91,932	94,422
Emergency Calls - Other	12,918	13,010	13,635	13,671
Lifeguard:				
Water Rescues	5,075	3,696	4,771	5,233
Other Rescues	4,490	3,388	4,334	4,813
Beach Attendance	21,277,945	21,253,050	20,275,495	21,166,884
Parks, Recreation, Culture and Leisure				
Parks and Recreation:				
Number of Aquatic Users	333,688	293,300	325,080	311,173
Number of Youth Served in After School Program Sites	80,837	57,111	88,032	84,140
Library:				
Circulation	7,003,040	7,167,104	7,374,378	7,651,619
Total Attendance - All Libraries	6,017,790	6,040,091	6,234,038	6,601,210
Sewer Utility				
Average Daily Sewage Flow (millions of gallons)	181	175	175	171
Average Daily Peak - Maximum Sewage Flow (millions of gallons)	224	216	242	268
System Daily Capacity (millions of gallons)	255	255	255	255
Water Utility				
Average Daily Production (millions of gallons)	205	220	204	194
Maximum Daily Production (millions of gallons)	279	291	298	283
Total Water Consumption (millions of gallons)	74,730	79,606	74,430	70,893
Total Water Production (millions of gallons)	79,486	83,202	80,100	77,014

Footnotes:
[1] Number of Calls 9-1-1 Emergencies is missing calls received during June 4th through June 30th, 2014.

Source: City Departments

Table 18

Fiscal Year					
2010	**2011**	**2012**	**2013**	**2014**	**2015**
653,086	633,328	583,629	570,628	583,556	562,360
501,094	542,010	572,808	605,015	583,391 [1]	626,694
2,740	2,559	2,557	3,659	3,184	5,591
97,049	100,460	104,086	112,864	113,858	124,189
14,295	15,245	16,478	12,698	12,838	12,748
5,066	4,187	6,011	5,482	5,299	6,673
5,002	5,574	6,094	6,714	5,486	6,281
25,774,465	22,186,170	24,558,435	23,403,527	23,414,313	24,928,079
303,200	299,145	304,900	308,025	296,000	311,788
89,790	92,035	78,500	81,889	109,670	107,515
7,706,431	7,129,443	6,973,727	6,956,000	6,877,913	6,923,853
6,143,281	5,771,767	5,602,380	5,818,941	6,170,931	6,654,351
166	170	164	160	155	149
288	410	226	207	196	187
255	255	255	255	255	255
179	171	172	181	188	171
243	239	247	249	267	243
59,567	56,760	60,944	62,501	65,552	60,474
65,644	62,511	63,240	66,167	68,457	62,289

CITY OF SAN DIEGO
CAPITAL ASSET STATISTICS BY FUNCTION (UNAUDITED)
Last Ten Fiscal Years

	Fiscal Year			
Function	**2006**	**2007**	**2008**	**2009**
Public Safety - Police				
Stations	10	10	10	10
Public Safety - Fire and Life Safety and Homeland Security				
Fire Stations	45	46	47	47
Parks, Recreation, Culture and Leisure				
Park and Recreation Sites	370	380	380	384
Transportation				
Miles of Streets - Concrete and Asphalt	2,685	2,700	2,721	2,721
Airports				
Municipal Airports	2	2	2	2
Golf Course				
Municipal Golf Courses [2]	10	10	10	10
Sewer Utility				
Miles of Sewers	2,993	3,018	3,076	3,023
Sewer Service Laterals	271,445	274,014	273,081	273,438
Water Utility				
Miles of Water Distribution Mains	3,336	3,381	3,263	3,281
Water Meters in Service	272,466	273,304	278,692	274,310
Fire Hydrants	24,661	24,905	25,003	25,023

Footnotes:

[1] Includes Headquarters and Traffic.

[2] Includes City operated as well as leased golf courses.

Sources: Comprehensive Annual Financial Reports and City Departments

Table 19

Fiscal Year					
2010	**2011**	**2012**	**2013**	**2014**	**2015**
10	10	10	10	11 [1]	11 [1]
47	47	47	47	47	47
385	385	387	387	387	387
2,774	2,774	2,774	2,777	2,777	2,778
2	2	2	2	2	2
10	10	10	10	10	10
2,991	3,146	3,017	3,021	3,020	3,026
273,587	274,464	274,788	275,404	261,632	261,837
3,294	3,190	3,277	3,294	3,376	3,384
276,217	274,310	276,478	276,998	278,241	279,625
25,044	25,060	25,098	25,157	25,195	25,364

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions and provisions set forth in the Indenture and the Installment Purchase Agreement. This summary does not purport to be comprehensive, and reference should be made to the Indenture and the Installment Purchase Agreement for a full and complete statement of the definitions and provisions contained in such documents. Copies of these documents are available from the Trustee. See "INTRODUCTION—Miscellaneous" in the forepart of this Official Statement.

INDENTURE

The Indenture sets forth certain terms of the Bonds, the nature and extent of the security for the Bonds, the rights of the Owners of the Bonds, rights, duties and immunities of the Trustee and the rights and obligations of the Authority with respect to the Bonds. Certain provisions of the Indenture are summarized below. Other provisions are summarized in the forepart of this Official Statement under the captions "DESCRIPTION OF THE SERIES 2016A BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS." Capitalized terms used in connection with the Indenture but not defined below have the meanings ascribed thereto in the forepart of this Official Statement; certain capitalized terms are defined herein following the description of the Indenture, in connection with the description of the Installment Purchase Agreement.

Selected Definitions

"*Additional Bonds*" means those Bonds authorized and issued under the Indenture on a parity with the Series 2016A Bonds, in accordance with Indenture.

"*Agreement*" means the Master Installment Purchase Agreement, dated as of September 1, 1993, as supplemented and amended (as applicable) by a 1993-1 Supplement dated as of September 1, 1993, a 1994-1 Supplement dated October 3, 1994, a 1995-1 Supplement dated as of December 1, 1995, a 1997-1 Supplement dated as of February 1, 1997, a 1998-1 Supplement dated as of September 1, 1998, a 1999-1 Supplement dated as of March 1, 1999, a First Amendatory Supplement dated as of August 15, 2003, a 2004 Supplement dated as of June 1, 2004 (as amended), a 2009-1 Supplement dated as of May 1, 2009, a 2009-2 Supplement, dated as of June 1, 2009, a 2010-1 Supplement, dated as of April 1, 2010, a 2015-1 Supplement, dated as of September 1, 2015, and the 2016-1 Supplement, each by and between the City and the Authority.

"*Amendment Effective Date*" means the date the amendments to the Indenture described under the caption "INTRODUCTION—Amendments to Indenture" in the forepart of this Official Statement and in Appendix E of this Official Statement become effective.

"*Federal Certificates*" means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Federal Securities; (ii) the owner of the Federal Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Federal Securities; and (iii) the underlying Federal Securities are held in trust in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

"*Authority*" means the Public Facilities Financing Authority of the City of San Diego, a California joint exercise of powers entity.

"*Authorized Denominations*" means, with respect to the Bonds, $5,000 and any integral multiple thereof and with respect to any Additional Bonds, the authorized denominations specified in a Supplemental Indenture related to such Additional Bonds.

"*Beneficial Owners*" means those individuals; partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Bonds.

"*Board*" means the Board of Commissioners of the Authority.

"*Bond*" or "*Bonds*" means the nonrefunded Series 2009A Bonds, the nonrefunded Series 2009B Bonds, the nonrefunded Series 2010A Bonds, the Series 2015 Bonds, the Series 2016A Bonds and any Additional Bonds authorized and issued under the Indenture on a parity with the nonrefunded Series 2009A Bonds, the nonrefunded Series 2009B Bonds, the nonrefunded Series 2010A Bonds, the Series 2015 Bonds and the Series 2016A Bonds in accordance with Indenture.

"*Bond Counsel*" means a firm of attorneys that are nationally recognized as experts in the laws governing and relating to municipal finance.

"*Bond Law*" means the Marks-Roos Local Bond Pooling Act of 1985, as amended, being Section 6584 et seq. of the Government Code of the State.

"*Book-Entry Bonds*" means Bonds executed and delivered under the book-entry system described in the Indenture.

"*Business Day*" means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California or New York are required or authorized to remain closed, or an which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture, is not a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture, and, unless otherwise specifically provided in the Indenture, no interest will accrue for the period from and after such nominal date.

"*Certificate of the Authority*" means an instrument in writing signed by the Chair, the Vice Chair or the Secretary of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose. If and to the extent required by the provisions of the Indenture, each Certificate of Authority will include the statements provided for in the Indenture.

"*Certificate of the City*" means an instrument in writing signed by the Chief Financial Officer, the Chief Operating Officer or any of their respective designees.

"*Charter*" means the Charter of the City as it now exists or may be amended and any new or successor Charter.

"*City*" means the City of San Diego, a municipal corporation and a charter city duly organized and existing under the Charter and the Constitution of the State.

"*Closing Date*" means any date upon which a Series of Bonds is purchased.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and any successor laws or regulations.

"*Components*" means components of the Project for which the City makes Installment Payments or Subordinated Installment Payments pursuant to any Supplement.

"*Comptroller*" means the Comptroller of the City.

"*Corporate Trust Office of the Trustee*" means the corporate trust office of the Trustee at the address set forth in the Indenture or such other or additional offices as may be specified to the Authority by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term will mean the office or agency of the Trustee at which, at any particular time its corporate trust agency business will be conducted.

"*Costs of Issuance*" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the issuance, sale and delivery of any Bonds under the Indenture, including but not limited to, costs of preparation and reproduction of documents; fees and expenses of the Feasibility Consultant; fees and expenses of the Authority (including its counsel); expenses of City and Authority staff; fees of the City's Financial Advisor; initial fees, expenses and charges of the Trustee (including its counsel); Rating Agency fees; Underwriters' discount; legal fees and charges of Bond Counsel, Disclosure Counsel, Underwriters' counsel, and the City Attorney; and any other cost, charge or fee in connection with the issuance and delivery of the Bonds.

"*Costs of Issuance Account*" means, with respect to the Series 2016A Bonds, the City of San Diego Wastewater System Improvement Project Costs of Issuance Account—Series 2016A Bonds established under the Indenture for the payment of Costs of Issuance related to the Series 2016A Bonds.

"*Depository*" means the securities depository acting as Depository pursuant to the Indenture.

"*DTC*" means The Depository Trust Company, New York, New York, and its successors.

"*Event of Default*" will have the meaning set forth in the Indenture, as described below under the heading "—Events of Default and Remedies of Holders".

"*Feasibility Consultant*" means the consultant who, or whose firm, provides services to the City respecting the future ability of Project components being acquired, installed or constructed with proceeds of sale of the Bonds to generate sufficient Net System Revenues to permit the City to incur Additional Obligations, as set forth in the Agreement.

"*Federal Securities*" means the following securities: direct 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, and United States Treasury Obligations, State and Local Government Series) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Trustee; obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; prerefunded municipal obligations rated, at the time of purchase, by Moody's and S&P in their highest Rating Category; provided that "structured securities" (including flip notes, range notes, inverse floaters and step-ups) will not be considered Federal Securities; provided further that floaters (based on single, interest rate based indices) and callable securities of the above-enumerated agencies may be treated as Federal Securities.

"*Fiscal Year*" means the fiscal year of the Authority which, as of the date of the Indenture, is the period from July 1 to and including the following June 30.

"*Fitch*" means Fitch Ratings and its successors, and if such company will for any reason no longer perform the functions of a securities rating agency, "Fitch" will be deemed to refer to any nationally recognized securities rating agency designated by the Authority and the City.

"*Fourth Supplemental Indenture*" means the Fourth Supplemental Indenture, dated as of March 1, 2016, by and between the Authority and the Trustee.

"*Indenture*" means the Indenture, dated as of May 1, 2009, as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, the Second Supplemental Indenture, dated as of April 1, 2010, the Third Supplemental Indenture, dated as of September 1, 2015, and the Fourth Supplemental Indenture, dated as of March 1, 2016, by and between the Authority and the Trustee.

"*Information Services*" means Financial Information, Inc.'s "Daily Called Bond Service," 10th Floor, 30 Montgomery Street, Jersey City, New Jersey 07302, Attention: Editor; Moody's "Municipal and Government," 8th Floor, 99 Church Street, New York, New York 10007, Attention: Municipal News Reports; and Xcitek's "Called Bond Service," 5 Hanover Square, New York, New York 10004, Attention: Bond Redemption Group; provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, Information Services means such other organizations providing information with respect to called bonds as the Authority may designate in writing to the Trustee.

"*Interest Account*" means the account by that name established under the Indenture.

"*Interest Payment Date*" means, with respect to the Series 2016A Bonds, each May 15 and November 15, commencing May 15, 2016, until the Series 2016A Bonds are paid or redeemed in full.

"*Letter of Representations*" means the letter of the Authority delivered to and accepted by the Depository on or prior to the delivery of any Book-Entry Bonds setting forth the basis on which the Depository serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors, and if such corporation will for any reason no longer perform the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

"*Nominee*" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

"*Original Indenture*" means the Indenture, dated as of May 1, 2009, as amended, by and between the Authority and the Trustee.

"*Outstanding*" means when used as of any particular time with reference to Bonds (subject to the provisions of the Indenture) all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the terms of the Indenture, except:

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of the Indenture;

(c) Bonds beneficially owned by the City or the Authority; and

(d) Bonds in lieu of or in substitution for which other Bonds will have been executed by the Authority and authenticated and delivered pursuant to the terms of the Indenture.

"*Outstanding Parity Bonds*" means the outstanding principal amount of the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (to the extent any of such securities are outstanding after the issuance of the Series 2016A Bonds and the refunding described in the 2016-1 Supplement), the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2009B (to the extent any of such securities are outstanding after the issuance of the Series 2016A Bonds and the refunding described in the 2016-1 Supplement), the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2010A (to the extent any of such securities are outstanding after the issuance of the Series 2016A Bonds and the refunding described in the 2016-1 Supplement), and the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2015.

"*Owner*" means any Person who will be the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee pursuant to the Indenture.

"*Parity Installment Payments*" means Installment Payments that are Parity Obligations (as defined in the Agreement), scheduled to be paid by the City under and pursuant to any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Senior Bonds or Notes.

"*Parity Obligations*" means any Obligations payable from Net System Revenues that are secured by a first priority lien on Net System Revenues and are senior in priority to payment of Subordinated Obligations, including Subordinated Installment Payments.

"*Participants*" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

"*Payment Fund*" means the fund by that name established under the Indenture.

"*Permitted Investments*" means any of the following to the extent then permitted by law and the Indenture:

(1) Federal Securities or Federal Certificates;

(2) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(A) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(B) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(C) Federal Home Loan Banks (FHL Banks) consolidated debt obligations;

(D) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(E) The senior debt obligations of Resolution Funding Corporation (RFCO), Financing Corporation (FICO) and Tennessee Valley Authority (TVA);

(3) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest Rating Category by two Rating Agencies;

(4) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision will be rated "AA" or better by a Rating Agency;

(5) Bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are rated, at the time of purchase, "A1/P1/F1" by two Rating Agencies or, if the term of such indebtedness is longer than one year, rated in the highest Rating Category by two Rating Agencies;

(6) Taxable commercial paper or tax-exempt commercial paper with a maturity of not more than 270 days, which are rated, at the time of purchase, "A1/P1/F1" by two Rating Agencies;

(7) Deposit accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association or a state-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts will be either (A) continuously insured by the Federal Deposit Insurance Corporation; or (B) have maturities of not more than 365 days (including certificates of deposit) and are issued by any state or national bank or a state or federal savings and loan association, the short-term obligations of which are rated, at the time of purchase, in the highest short term rating by two Rating Agencies;

(8) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category, and which bankers acceptances mature not later than 365 days from the date of purchase;

(9) Any repurchase agreement: (A) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars ($100,000,000) and having short-term debt which is rated, at the time of the purchase, by two Rating Agencies in one of the three highest short-term Rating Categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (B) which agreement is secured by any one or more of the securities and obligations described in clause (1) or (2) of this definition and having maturities equal to or less than 5 years from the date of delivery, which will have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and will be placed with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust

company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured will furnish the Trustee with an undertaking satisfactory to the Trustee that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Trustee will be entitled to rely on each such undertaking;

(10) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (1), (2), (3) and (4) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3) and (4) of this definition and which money market fund is rated, at the time or purchase, by at least one Rating Agency in the highest Rating Category;

(11) Any guaranteed investment contract, including forward delivery agreements ("FDAs") and forward purchase agreements ("FPAs"), with a financial institution or insurance company which has (or which is unconditionally guaranteed by a legal entity which has), at the date of execution thereof, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability which is rated, at the time of purchase, by two Rating Agencies in one of two highest long-term Rating Categories. Only Permitted Investments described in clause (1) and (2) of this definition and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

(12) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or of any political subdivision or public agency thereof which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category or within one of the three highest long-term Rating Categories, but 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;

(13) For amounts less than $250,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or a state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof;

(14) Investments in Constant Net Asset Value taxable money market funds or portfolios restricted to obligations with an average maturity of one year or less and which funds or portfolios are: (A) rated, at the time of purchase, by two Rating Agencies in one of the two highest Rating Categories; or (B) have or are portfolios guaranteed as to payment of principal and interest by the full faith and credit of the United States of America;

(15) Investments in the City's pooled investment fund;

(16) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (13) of this definition and which companies are: (A) rated, at the time of purchase, by two Rating Agencies in the highest Rating Category; or (B) have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars ($500,000,000);

(17) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which consists exclusively of investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended; and

(18) Any other investment, with confirmation (or other action, satisfactory to the City) from each rating agency that has a current rating on the Bonds at the time of initial purchase thereof, that its rating on the Bonds will not be lowered or withdrawn as a result of such investment.

"*Person*" means any legal entity or natural person, as the context may require.

"*Pre-Refunded Municipals*" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice.

"*Principal Account*" means the account of that name established under the Indenture.

"*Principal Payment Date*" means each May 15, commencing May 15, 20___, until the Series 2016A Bonds are paid or redeemed in full.

"*Project*" means the acquisition, construction, installation and improvements to the Wastewater System described in Exhibit A to the Agreement and as modified with respect to Components in conformance with the Agreement.

"*Project Costs*" means the costs of the Project disbursed from time to time by the Comptroller from the Acquisition Fund pursuant to the Indenture.

"*Purchase Price*" means the principal amount plus interest thereon owed by the City under the terms of the Agreement as provided in the Indenture thereof and as specified in a Supplement.

"*Rating Agency*" means Fitch, Moody's, S&P or any other nationally recognized statistical rating organization.

"*Rating Category*" means one of the generic categories of rating by a Rating Agency, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

"*Rebate Fund*" means the fund by that name created under the Indenture and any other accounts thereunder.

"*Record Date*" means the fifteenth day of the calendar month immediately preceding an Interest Payment Date, whether or not such day is a Business Day.

"*Redemption Account*" means the account by that name established under the Indenture.

"*Refunded Bonds*" means the Outstanding Parity Bonds to be refunded with a portion of the proceeds of the Series 2016A Bonds.

"*Representative*" means Wells Fargo Bank, National Association, as representative of the Underwriters.

"*Reserve Fund*" means the fund by that name established under the Indenture, in which the Reserve Requirement will be held and invested.

"*Reserve Fund Participating Bonds*" means the Series 2009A Bonds, the Series 2009B Bonds, the Series 2010A Bonds, the Series 2015 Bonds, any Additional Bonds issued prior to the Amendment Effective Date and any all of other series of Bonds participating in the Reserve Fund.

On and after the Amendment Effective Date, the City on behalf of the Authority may elect that one or more series of the Outstanding Additional Bonds issued prior to the Amendment Effective Date will no longer be included as Reserve Fund Participating Bonds. Under no circumstances will the Outstanding Series 2009A Bonds, the Outstanding Series 2009B Bonds or the Outstanding Series 2010A Bonds be released from the Reserve Fund Participating Bonds. Upon release of any Outstanding Additional Bonds from the Reserve Fund Participating Bonds, such Additional Bonds will no longer be secured by or have a lien on the Reserve Fund. Prior to releasing any Outstanding Additional Bonds from the Reserve Fund Participating Bonds, the City will provide:

(a) Written notice to the Authority, the Trustee, the Owners of the applicable Outstanding Additional Bonds being released from the Reserve Fund Participating Bonds, the Owners of the Bonds that will remain as Reserve Fund Participating Bonds after the release date, and the Rating Agencies then rating the Reserve Fund Participating Bonds that it has elected to release the applicable Outstanding Additional Bonds from the Reserve Fund Participating Bonds and that such Additional Bonds will no longer be secured by or have a lien on the Reserve Fund.

(b) Directions to the Trustee to (i) calculate the Reserve Requirement on the applicable release date, and (ii) if the amounts on deposit in the Reserve Fund are greater than the Reserve Requirement on the applicable release date, transfer such excess to the Payment Fund or such other fund or account as directed by the City; and

(c) An opinion of Bond Counsel to the Trustee to the effect that the release of the applicable Outstanding Additional Bonds from the Reserve Fund Participating Bonds and from the pledge and lien on the Reserve Fund will not, in and of itself, cause the interest on any of the Outstanding Reserve Fund Participating Bonds and any Outstanding Additional Bonds to be included in the gross income of the Owners of such Bonds for purposes of federal income taxes.

"*Reserve Requirement*" means, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Reserve Fund Participating Bonds; (ii) 125% of average annual debt service on the then-Outstanding Reserve Fund Participating Bonds, determined on a Fiscal Year basis; and (iii) Maximum Annual Debt Service with respect to the then-Outstanding Reserve Fund Participating Bonds for that and any subsequent Fiscal Year. Upon early redemption of any of the Reserve Fund Participating Bonds, the Authority, at the request of the City, may request the Trustee to recalculate and reduce the Reserve Requirement, whereupon any excess in the Reserve Fund over and above the Reserve Requirement will be transferred to the Payment Fund or such other fund or account as directed by the City. At the time of issuance of the Series 2016A Bonds, the Reserve Requirement will equal $_____.

"*Revenues*" means all Installment Payments received by or due to be paid to the Authority pursuant to all Supplements executed and delivered by the City and the Authority to secure the payment of principal of and interest on Bonds issued under the Indenture and the interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the provisions of the Indenture.

"*S&P*" means Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors, and if such corporation will for any reason no longer perform the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

"*Securities Depository*" means The Depository Trust Company, 50th Floor, 55 Water Street, New York, New York 10041-0099, Attention: Call Notification Department, Facsimile: (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the Authority may indicate in a Written Request of the Authority delivered to the Trustee.

"*Series 2009A Bonds*" means the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (payable Solely From Installment Payments Secured By Wastewater System Net Revenues) issued under the Indenture.

"*Series 2009B Bonds*" means the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009B (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) issued under the Indenture.

"*Series 2010A Bonds*" means the Public Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2010A (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) issued under the Indenture.

"*Series 2015 Bonds*" means the Public Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2015 (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) issued under the Indenture.

"*Series 2016A Bonds*" means the Public Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2016A (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) issued under the Indenture.

"*State*" means the State of California.

"*Subordinated Installment Payments*" means Installment Payments that are Subordinated Obligations (as defined in the Agreement), scheduled to be paid by the City under and pursuant to any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Subordinated Bonds or Notes.

"*Subordinated Obligations*" means any Obligations payable from Net System Revenues that are secured by a second priority lien on Net System Revenues and are subordinate in priority to payment of Parity Obligations, including the Parity Installment Payments.

"*Supplement*" means a supplement to the Agreement providing for the payment of specific Installment Payments as the Purchase Price for Components of the Project, executed and delivered by the City and the Authority.

"*Supplemental Indenture*" means any indenture supplemental to the Indenture or amendatory hereof duly executed and delivered by the Authority and the Trustee as authorized under the Indenture.

"*Surety Bond*" means a reserve surety bond, insurance policy, letter of credit or other similar instrument providing, by its terms, a stated amount as a credit towards or in satisfaction of all or part of the Reserve Requirement, which will be held by the Trustee in trust, pursuant to the Indenture.

"*Tax Certificate*" means the tax and nonarbitrage certificate delivered with respect to each series of Tax-Exempt Bonds on their respective Closing Date.

"*Tax Code*" means the Internal Revenue Code of 1986, as amended, and the Regulations promulgated by the Internal Revenue Service pursuant thereto.

"*Tax-Exempt Bonds*" means those Bonds which, by their terms, bear interest that is excluded from gross income for federal income tax purposes, pursuant to the Tax Code.

"*Treasurer*" means the Office of the City Treasurer of the City of San Diego.

"*Trustee*" means U.S. Bank National Association, a national banking association existing under and by virtue of the laws of the United States, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture.

"*2009-1 Installment Payments*" means those Installment Payments scheduled to be paid by the City under the 2009-1 Supplement.

"*2009-1 Supplement*" means the 2009-1 Supplement to the Agreement, by and between the City and the Authority, dated as of May 1, 2009, with respect to the Series 2009A Bonds.

"*2009-2 Installment Payments*" means those Installment Payments scheduled to be paid by the City under the 2009-2 Supplement.

"*2009-2 Supplement*" means the 2009-2 Supplement to the Agreement, by and between the City and the Authority, dated as of June 1, 2009, with respect to the Series 2009B Bonds.

"*2010-1 Installment Payments*" means those Installment Payments scheduled to be paid by the City under the 2010-1 Supplement.

"*2010-1 Supplement*" means the 2010-1 Supplement to the Agreement, by and between the City and the Authority, dated as of April 1, 2010, with respect to the Series 2010A Bonds.

"*2015-1 Installment Payments*" means those Installment Payments scheduled to be paid by the City under the 2015-1 Supplement.

"*2015-1 Supplement*" means the 2015-1 Supplement to the Agreement, by and between the City and the Authority, dated as of September 1, 2015, with respect to the Series 2015 Bonds.

"*2016A Closing Date*" means _____, 2016.

"*2016-1 Installment Payments*" means those Installment Payments scheduled to be paid by the City under the 2016-1 Supplement.

"*2016-1 Supplement*" means the 2016-1 Supplement to the Agreement, by and between the City and the Authority, dated as of March 1, 2016, with respect to the Series 2016A Bonds.

"*Underwriters*" means, collectively, the underwriters listed in the bond purchase agreement pursuant to which the Series 2016A Bonds are sold.

"*Wastewater System*" means any and all facilities, properties, and improvements at any time owned, controlled or operated by the City as part of the Sewer Revenue Fund (defined in the Agreement) for collection, treatment, distribution, administration, disposal or reclamation of waste.

"*Written Request of the Authority*" means an instrument in writing signed by the Chair, the Vice Chair, or the Secretary of the Authority, or by any other officer or Commissioner of the Board duly authorized by the Authority for that purpose.

"*Written Request of the City*" means an instrument in writing signed by the Chief Operating Officer, the Chief Financial Officer or any of their respective designees, or by any other official of the applicable administrative departments of the City duly authorized by the City for that purpose.

Establishment of Funds; Deposit and Application

Establishment of Funds and Accounts.

(a) The Trustee will establish and maintain the Costs of Issuance Account.

(b) The Trustee will maintain the Payment Fund, including the Interest Account, the Principal Account, and the Redemption Account.

(c) The Trustee will maintain the Reserve Fund.

Use of moneys in Costs of Issuance Account.

(a) The Trustee will make disbursements from the Costs of Issuance Account from time to time upon receipt of a written request of the City on behalf of the Authority signed by an authorized representative of the Debt Management Department and an authorized representative of the Comptroller.

(b) On the 181st day after the 2016A Closing Date, or such earlier date on which the City informs the Trustee in writing that all Costs of Issuance of the Series 2016A Bonds have been paid, the Trustee will transfer any remaining balance in the Costs of Issuance Account first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the then Reserve Requirement and thereafter to the account or accounts of the Payment Fund as directed by the City on behalf of the Authority.

Reserve Fund.

(a) The Reserve Fund is a separate fund held in trust by the Trustee. An amount equal to the Reserve Requirement will be maintained in or credited to the Reserve Fund at all times, subject to the provisions of paragraph (e) below, and any deficiency therein will be replenished from the first available Revenues pursuant to the Indenture.

(b) Moneys in or available from the Reserve Fund will be used solely for the purpose of paying the principal of and interest on the Reserve Fund Participating Bonds, including the redemption price of the Reserve Fund Participating Bonds coming due and payable by operation of mandatory sinking fund redemption, in the event that the moneys in the Payment Fund are insufficient therefor. The

City on behalf of the Authority reserves the right to provide that any future series of Additional Bonds may participate in the Reserve Fund on a parity basis with all of the other Reserve Fund Participating Bonds; provided that at the time of issuance of such Additional Bonds there is deposited to the Reserve Fund moneys and/or a Surety Bond in a sufficient amount such that the Reserve Requirement is met on the date of issuance of such Additional Bonds.

If and during such time as a Surety Bond is in effect, not less than two Business Days prior to each Interest Payment Date, the Trustee will ascertain the necessity for a draw upon the Surety Bond and, if a draw is necessary, will provide notice thereof to the provider of the Surety Bond in accordance with the terms of the Surety Bond at least two Business Days prior to each Interest Payment Date. In the event that the amount on deposit in the Payment Fund on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on the Reserve Fund Participating Bonds coming due and payable, including the redemption price of any Reserve Fund Participating Bonds coming due and payable by operation of mandatory sinking fund redemption, the Trustee will withdraw the amount of such insufficiency from the Reserve Fund or make a draw upon the Surety Bond in the amount of such insufficiency and transfer such amount to the Payment Fund.

(c) Investment earnings on amounts held in the Reserve Fund will remain therein, except as follows. In the event that the amount on deposit in the Reserve Fund exceeds the Reserve Requirement on the fifteenth calendar day of the month preceding any Interest Payment Date, the amount of such excess will be withdrawn therefrom by the Trustee and transferred to (i) the Rebate Fund, to the extent required under the Indenture, or (ii) the accounts of the Payment Fund as directed by the City on behalf of the Authority. The remaining balance in the Reserve Fund may be applied, at the direction of the Authority, or the City on behalf of the Authority, to the payment of the final maturing principal payments of the Reserve Fund Participating Bonds.

(d) Notwithstanding anything in the Indenture to the contrary, at the option of the City, amounts required to be held in the Reserve Fund may be withdrawn, in whole or in part, upon the deposit of a Surety Bond with the Trustee, in a stated amount equal to the amounts so withdrawn; provided, that at the time of such deposit each of the Rating Agencies then rating the Reserve Fund Participating Bonds will be notified of such proposed withdrawal and the deposit of such Surety Bond will not result in a withdrawal or downgrading of any rating of the Reserve Fund Participating Bonds then in effect by each of the Rating Agencies then rating the Reserve Fund Participating Bonds. Any such withdrawn moneys will be transferred, at the election of the City, to the Acquisition Fund, to the Redemption Account in the Payment Fund, to the Principal Account of the Payment Fund or to a special account to be established for the payment of any fees in connection with obtaining such Surety Bond.

To the extent that the Reserve Fund is comprised of both funds on deposit and a Surety Bond, withdrawals from the Reserve Fund will be made first from funds on deposit and then from the Surety Bond. To the extent that the Reserve Fund is replenished by the City, the amount so replenished will be credited first to any Surety Bond and then to funds on deposit in the Reserve Fund. To the extent that replenishment funds are credited to the Surety Bond, the Trustee will pay the same to the provider of the Surety Bond in lieu of retaining such funds in the Reserve Fund, conditioned upon reinstatement of the Surety Bond for the amount so paid.

In the event the provider of a Surety Bond makes payments to the Trustee as part of the Reserve Requirement, the provider will become subrogated to the rights of the recipients of such payments, but such right of subrogation will be subordinate to the rights of the provider of any policy of municipal bond insurance which has been drawn upon for payment of principal or interest on Reserve Fund Participating Bonds.

In no event will the City or the Authority be required to replace any Surety Bond initially delivered hereunder with a similar instrument or with cash.

(e) In the event that the amount on deposit in the Reserve Fund at any time falls below the Reserve Requirement or in the event of a draw on the Surety Bond deposited therein, the Trustee will promptly notify the City and the Authority of such fact. Upon receipt of written notice from the Trustee of a shortfall in the Reserve Fund, the City will transfer to the Trustee from Net System Revenues, in accordance with the Agreement, an amount sufficient to restore the balance on deposit in or credited to the Reserve Fund to the Reserve Requirement and to repay any amounts then due to the provider of the Surety Bond, if any. No deposit need be made in the Reserve Fund so long as the balance therein, taken together with amounts available under any Surety Bond, at least equals the Reserve Requirement.

Revenues

Pledge of Revenues.

(a) All Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal of the Bonds, but only as provided in the Indenture, and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding; provided, that out of the Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture.

(b) To secure the pledge of the Revenues contained in the Indenture, the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights under the 2009-1 Supplement, the 2009-2 Supplement, the 2010-1 Supplement, the 2015-1 Supplement, the 2016-1 Supplement and, in connection with any Additional Bonds issued under the Indenture, the Authority's rights under the Supplement(s) hereinafter executed by the City and the Authority to secure payment of principal of and interest on such Additional Bonds, including the right to receive Parity Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the Components and the right to exercise any remedies provided therein in the event of a default by the City thereunder. The Trustee accepts said assignment for the benefit of the Owners subject to the provisions of the Indenture.

(c) The Trustee will be entitled to and will receive all of the 2009-1 Installment Payments, the 2009-2 Installment Payments, the 2010-1 Installment Payments, the 2015-1 Installment Payments and the 2016-1 Installment Payments, and, in connection with any Additional Bonds issued under the Indenture, the Installment Payments made by the City pursuant to the Supplement(s) hereinafter executed by the City and the Authority to secure payment of principal of and interest on such Additional Bonds, and any such 2009-1 Installment Payments, 2009-2 Installment Payments, 2010-1 Installment Payments, the 2015-1 Installment Payments, 2016-1 Installment Payments, and additional Installment Payments collected or received by the Authority will he deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and will forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Payment Fund. To carry out and effectuate the pledge contained in the Indenture, the Authority agrees and covenants that all Revenues when and as received will be received in trust under the Indenture for the benefit of the Owners and will be deposited when and as received in the Payment Fund. All Revenues will be accounted for through and held in trust in the Payment Fund, and the Authority will have no beneficial right or interest in any of the Revenues except only as provided in the Indenture. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Indenture, will nevertheless be allocated, applied and disbursed solely

to the purposes and uses set forth in the Indenture, and will be accounted for separately and apart from all other accounts, funds, money or other assets of the Authority.

Maintenance of Accounts for Use of Money in the Payment Fund.

(a) Except as otherwise provided in the Indenture, all moneys in the Payment Fund will be deposited by the Trustee in the following respective special accounts within the Payment Fund in the following order of priority:

(i) Interest Account,

(ii) Principal Account; and

(iii) Redemption Account.

All moneys in each of such Accounts will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

(b) On or before each Interest Payment Date, the Trustee will transfer from the Payment Fund and deposit in the Interest Account that amount of money that, together with any money contained in the Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. No deposit need be made in the Interest Account if the amount contained in the Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it will become due and payable (including accrued interest on any Bonds redeemed prior to maturity).

(c) On or before each Principal Payment Date, the Trustee will transfer from the Payment Fund and deposit in the Principal Account that amount of money that, together with any money contained in the Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Bonds. No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of principal become due and payable on all Outstanding Bonds. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it will become due and payable.

(d) In addition to the above accounts, the Trustee will establish and maintain within the Payment Fund a special account designated the "Redemption Account." All money in the Redemption Account will be held in trust by the Trustee and will be applied, used, and withdrawn either to redeem the Bonds pursuant to the Indenture. Any moneys that, pursuant to the Agreement and the related provisions of any Supplements, are to be used to redeem Bonds will be deposited by the Trustee in the Redemption Account. The Trustee will, on the scheduled redemption date, withdraw from the Redemption Account and pay to the Owners entitled thereto an amount equal to the redemption price of the Bonds to be redeemed on such date.

(e) Any delinquent Installment Payments pledged to the Bonds will be applied first to the Interest Account for the immediate payment of interest payments past due and then to the Principal Account for immediate payment of principal payments past due on any Bond. Any remaining money representing delinquent Installment Payments pledged to Bonds will be deposited in the Payment Fund to be applied in the manner provided therein.

Investment of Moneys in Funds and Accounts. Moneys in the Acquisition Fund will be accounted for by the Comptroller and invested by the Treasurer in any legally permitted investment, including but not limited to the pooled investment fund of the City. In the absence of a Written Request of the City, the Trustee may invest moneys in the funds and accounts held by the Trustee in Permitted Investments, as set forth in the letter of authorization and direction executed by the City and delivered to the Trustee. The obligations in which moneys in the said funds and accounts are invested will mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. For purposes of determining the amount of deposit in any fund or account, all investments credited to such fund or account will be valued at the lesser of market value or the cost thereof. The Trustee will semiannually, on or before April 15 and October 15 of each year, and at such times as the Authority will deem appropriate, value the investments in the funds and accounts established under the Indenture on the basis of the lesser of market value or the cost thereof. Except as otherwise provided in the Indenture, Permitted Investments representing an investment of moneys attributable to any fund or account established under the Indenture and all investment profits or losses thereon will be deemed at all times to be a part of said fund or account. The Trustee will not be liable for any losses resulting from any investments made pursuant to the Indenture.

Additional Bonds

Execution and Delivery of Additional Bonds. In addition to the Series 2009A Bonds, the Series 2009B Bonds, the Series 2010A Bonds, the Series 2015 Bonds and the Series 2016A Bonds, the Trustee will, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of Bonds secured by the pledge made under the Indenture equally and ratably with any Bonds previously issued and delivered, in such principal amount as will be determined by the Authority, but only upon compliance with the provisions of the Indenture, the requirements of the Agreement applicable to the incurrence of Subordinated Obligations and any additional requirements set forth in the applicable Supplemental Indenture, which are made conditions precedent to the execution and delivery of Additional Bonds:

(a) no Event of Default will have occurred and be then continuing;

(b) the Supplemental Indenture providing for the execution and delivery of such Additional Bonds will specify the purposes for which such Additional Bonds are then proposed to be delivered, which will be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Wastewater System. Such Supplemental Indenture may, but will not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds;

(c) the Authority will deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement for all Bonds and Additional Bonds to be then Outstanding;

(d) the Additional Bonds will be payable as to principal on May 15 and as to interest on May 15 and November 15 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than 12 months;

(e) fixed serial maturities or mandatory sinking account payments, or any combination thereof, will be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates;

(f) the aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture will not exceed any limitation imposed by, law or by any Supplemental Indenture; and

(g) the Trustee will be the Trustee for the Additional Bonds.

Nothing in the Indenture will limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

Proceedings for Execution and Delivery of Additional Bonds. Whenever the Authority will determine to file its Written Request with the Trustee for the execution and delivery of Additional Bonds, the Authority will authorize the execution and delivery of a Supplemental Indenture, specifying the aggregate principal amount and describing the forms of Bonds and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining same), Interest Payments and payment dates, redemption provisions and place or places of payment of principal or redemption price, if any, and interest represented by such Additional Bonds not inconsistent with the terms of the Indenture.

Before any series of Additional Bonds may be executed and delivered by the Trustee, the Authority will file the following documents with the Trustee:

(a) an executed copy of the applicable Supplemental Indenture;

(b) a statement of the Authority to the effect that the requirements set forth in the Indenture have been met;

(c) in the case of a Series of Additional Bonds delivered for the purpose of defeasing and redeeming Bonds as described in the Indenture, irrevocable instructions to the Trustee to give notice as provided in the Indenture of redemption of all Bonds to be redeemed in connection therewith; and

(d) an opinion or opinions of Bond Counsel, to the effect that the execution and delivery of the Additional Bonds, the supplement to the Indenture and related supplements or amendments have been duly authorized by the Authority and meet the requirements of the Indenture; and that the execution and delivery of such Additional Bonds will not, in and of themselves, cause the interest on the Tax-Exempt Bonds to become included within the gross income for purposes of federal income taxation.

Covenants of Authority

Punctual Payment and Performance. The Authority will punctually pay the interest and the principal to become due on every Bond issued under the Indenture in strict conformity with the terms of

the Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained therein.

Rebate Fund.

(a) The Trustee will maintain such accounts within the Rebate Fund as it is instructed by the Authority as will be necessary in order to comply with the applicable Tax Certificate. The Trustee will deposit moneys in the Rebate Fund made available by the Authority and/or the City pursuant to a Written Request of the City. All money at any time deposited in the Rebate Fund will be governed by the Indenture and the Tax Certificate and will be held by the Trustee in trust, to the extent required to satisfy the amount required to be rebated to the United States under the Code, and none of the City, the Authority, the Trustee nor the Owners will have any rights in or claims to such money. The Trustee will make information regarding the investments available to the City, will invest the Rebate Fund in Permitted Investments pursuant to a Written Request of the City that is inconformity with the restrictions set forth in the Tax Certificate and will deposit income from such Permitted Investments immediately upon receipt thereof into the Rebate Fund. The Trustee agrees to comply with all Written Requests of the City given in accordance with the Tax Certificate.

(b) The City and the Authority will make or cause to be made the rebate computations respecting all Outstanding Bonds in accordance with the Tax Certificate, as required by the Code, and will provide to the Trustee written evidence that the computation of the rebate requirement has been made along with a letter from an independent certified public accountant or arbitrage consultant verifying the accuracy of such calculations. Upon a Written Request of the City, the Trustee will make deposits into the Rebate Fund from deposits by the City so that the balance of the amount on deposit will be equal to the rebate requirement. The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to the Indenture, other than from moneys held in the Rebate Fund or from other moneys provided to it by the City on behalf of itself or the Authority. Records of the actions required by the Indenture will be retained by the Trustee, the City and the Authority until the date which is six years after the date on which the Bonds are no longer Outstanding.

(c) Not later than 60 days after the end of the fifth Bond Year as defined in the Tax Certificate and every five years thereafter, the Trustee, upon receipt of a Written Request of the City, will pay to the United States part or all of the amounts in the Rebate Fund, as so directed. Each payment will be accompanied by a statement summarizing the determination of the amount to be paid to the United States, as provided by the City. In addition, if the City so directs, then the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Written Request of the City. Any amounts remaining in the Rebate Fund following the final payment of the rebate requirement will be paid to the City. Money, including investment earnings, will not be transferred from the Rebate Fund except as provided in the Indenture.

(d) The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created hereunder or from other moneys provided to it by the City on behalf of itself or the Authority.

(e) The Trustee will invest all amounts held in the Rebate Fund in Permitted Investments as directed by a Written Request of the City, which directions will be subject to the restrictions set forth in the Tax Certificate. Money, including investment- earnings, will not be transferred from the Rebate Fund except as provided in paragraphs (f) and (g) below.

(f) Upon receipt of a Written Request of the City, the Trustee will remit part or all of the amounts in the Rebate Fund to the United States of America, as so directed. In addition, if the City so

directs, then the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or to such accounts or fund as directed by the Written Request of the City.

(g) After payment and satisfaction of any rebate requirement applicable to the Bonds (or if provisions for payment and satisfaction have been made therefor that are acceptable to the Trustee), any funds remaining in the Rebate Fund will be withdrawn by the Trustee and remitted to the City.

(h) Notwithstanding any other provision of the Indenture, the obligation to remit the rebate requirement to the United States and to comply with all other requirements of this Section and the Tax Certificate will survive the defeasance or payment in full of the Tax-Exempt Bonds.

(i) The Authority will not use or permit any proceeds of the Tax-Exempt Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, that would cause any Tax-Exempt Bonds to be an "arbitrage bond" within the meaning of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and any applicable regulations promulgated from time to time thereunder and under Section 103(c) of the Code. The Authority will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority will comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the Tax-Exempt Bonds.

(j) The Authority specifically covenants in the Indenture to comply with the provisions and procedures of the Tax Certificate.

(k) The Authority will not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any Tax-Exempt Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(l) Notwithstanding any of the foregoing Rebate Fund provisions, if the Authority and the City provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the Rebate Fund provisions is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Tax-Exempt Bonds, the Trustee, the Authority and the City may conclusively rely on such opinion in complying with the requirements of the Indenture and the covenants under the Indenture will be deemed to be modified to that extent.

Eminent Domain. If the whole of the Components or so much thereof as to render the remainder unusable for the purposes for which it was used or intended to be used by the City will be taken under the power of eminent domain, the term of the Agreement will cease as of the day that possession will be so taken. In such case, the Authority will take or cause to be taken such action as is reasonably necessary to obtain compensation at least equal to the value of the Components or portion thereof taken by eminent domain. If less than the whole of the Components will be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Agreement will continue in full force and effect as to such remainder, and the parties thereto waive the benefits of any law to the contrary. So long as any of the Bonds are Outstanding, the net proceeds of any award made in eminent domain proceedings for taking the Components or any portion thereof will be transferred to the Payment Fund. Any such award made after all of the Bonds have been fully paid and retired and all fees and expenses of the Trustee have been fully paid will be paid to the City.

Accounting Records and Reports. The Authority, or the City on behalf of the Authority, will keep or cause to be kept proper books of record and accounts in which complete and correct entries will be made of all transactions relating to the receipts, disbursements, allocation and application of the

Revenues, and such books will be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than 270 days after the close of each Fiscal Year, the Authority, or the City on behalf of the Authority, will furnish or cause to be furnished to the Trustee financial statements that include the Sewer Revenue Fund for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereon. For purposes of the Indenture, "financial statement" will mean audited financial statements, if available, or unaudited financial statements, if audited financial statements are not available and Unaudited financial statements are available. The Authority, or the City on behalf of the Authority, will also keep or cause to be kept such other information as is required under the Tax Certificate.

The City's Budgets. The Authority, or the City on behalf of the Authority, will supply to the Trustee, as soon as practicable after the beginning of each Fiscal Year following the effectiveness of the applicable City ordinance but in no event later than six months from the date of effectiveness of such ordinance, a Certificate of the City certifying that the City has made adequate provision in its annual budget for such Fiscal Year for the payment of all Parity Installment Payments, Subordinated Installment Payments and all other Obligations due under the 2016-1 Supplement and the Agreement in such Fiscal Year. If the amounts so budgeted are not adequate for the payment of all Parity Installment Payments, Subordinated Installment Payments and all other Obligations due under the Agreement in such Fiscal Year, the Authority, or the City on behalf of the Authority, will take such action as may be necessary and within its power to request such annual budget to be amended, corrected or augmented by the City so as to include therein the amounts required to be paid by the City from Net System Revenues in such Fiscal Year, and will notify the Trustee of the proceedings then taken or proposed to be by the Authority.

Continuing Disclosure. The City has undertaken all responsibility for compliance with continuing disclosure requirements, and accordingly the Authority will have no liability to the Owners of the Bonds or any other person with respect to S.E.C. Rule 15c2-12, and the City will comply with and carry out all of the provisions of each continuing disclosure certificate, each dated the date of the execution and delivery of each Series of Bonds. See the caption "CONTINUING DISCLOSURE" in the forepart of this Official Statement. Notwithstanding any other provision the Indenture, failure of the City to comply with a Continuing Disclosure Certificate will not be considered an Event of Default under the Indenture or under the Agreement; provided, that the Trustee may and, at the request of any participating underwriter or the Owners of at least 25% in aggregate principal amount of the Outstanding Bonds of any series and upon receiving indemnification reasonably satisfactory to the Trustee, will, or any Owner or Beneficial Owner of any of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the related Continuing Disclosure Certificate.

Amendment of Indenture

Amendment of Indenture.

(a) The Indenture and the rights and obligations of the Authority and of the all Owners of the Bonds may be amended at any time by a Supplemental Indenture, which will become binding when the written consents of the Owners of 51% in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment will (i) permit the creation by the Authority of any pledge of the Revenues as provided herein superior to or on a parity with the pledge created pursuant to the Indenture for the benefit of any Bond without the written consent of the Owner thereof; (ii) modify any rights or obligations of the Trustee without its prior written assent thereto; or (iii) modify provisions respecting the time or amount of payments on any Bond, without the written consent of the Owner thereof.

(b) The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which will become binding without the consent of any Owners of Bonds for anyone or more of the following purposes:

(i) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein in regard to questions arising under the Indenture that the Authority may deem desirable or necessary and not inconsistent with the Indenture and that will not adversely affect the interests of the Owners; or

(ii) to make any other change or addition thereto that will not materially adversely affect the interests of the Owners, or to surrender any right or power reserved herein to or conferred herein on the Authority; provided, however, that the Owners will be given prompt notice of any such amendment and will receive a copy of the final executed Supplemental Indenture making such changes.

Disqualified Bonds. Bonds owned or held by or for the account of the Authority or the City will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and will not be entitled to consent to or take any other action provided therein. Upon request of the Trustee, the Authority and the City will specify in a certificate to the Trustee those Bonds disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as described in the Indenture, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of its Bond for such purpose at the Corporate Trust Office of the Trustee, a suitable notation as to such action will be made on such Bond. If the Authority will determine that a Bond will bear such a notation by endorsement pursuant to the Indenture, a new Bond so modified will be prepared and executed, and upon demand of the Owner of any Outstanding Bond, such new Bond will be exchanged at the Corporate Trust Office of the Trustee without cost to such Owner upon surrender of such Bond.

Amendment by Mutual Consent. The provisions of the Indenture will not prevent any Owner from accepting any amendment as to the particular Bonds owned by him; provided that due notation thereof is made on such Bonds.

Events of Default and Remedies of Holders

Events of Default and Acceleration of Maturities.

(a) The following events will constitute events of default under the Indenture:

(i) failure in the due and punctual payment of the interest on the Bonds when and as the same will become due and payable;

(ii) failure in the due and punctual payment of the principal of the Bonds when and as the same will become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(iii) failure by the Authority in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Authority, as set forth in the

Indenture, and such default will have continued for a period of 30 days after the Authority and the City will have been given notice in writing of such default by the Trustee or to the Authority, the City and the Trustee by Owners of 25% or more of the aggregate principal amount of the Bonds then Outstanding; or

(iv) if any event of default will have occurred and be continuing under the Agreement as described under the caption "INSTALLMENT PURCHASE AGREEMENT—Events of Default and Remedies of the Authority" in this Appendix B; or

(v) if the Authority will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Authority-or of the whole or any substantial part of its property.

(b) If one or more Events of Default occurs, then and in each and every such case during the continuance of such Event of Default, the Trustee may by notice in writing to the Authority and the City, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. Upon any such declaration, the same will become due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding. These provisions are subject to the condition that if at any time after the entire principal amount of the unpaid Bonds and the accrued interest thereon have been so declared due and payable and before any judgment or decree for the payment of the moneys due has been obtained or entered, there will be deposited with the Trustee a sum sufficient to pay the unpaid principal amount of the Bonds due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment the entire principal amount of the unpaid Bonds and the accrued interest thereon due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then and in every such case the Trustee, by written notice to the City and the Authority, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Proceedings by Trustee. Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and at the written request of Owners of 51% or more in aggregate principal amount of Bonds Outstanding will (but only to the extent indemnified to its satisfaction from fees and expenses, including attorneys' fees), do the following:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of the Bonds, including the right to require the Authority to receive and collect Revenues and to enforce its rights under the Agreement and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture;

(b) bring suit upon the Bonds;

(c) by action or suit in equity enjoin any acts or things that may be unlawful or in violation of the rights of the Owners; and

(d) as a matter of right, have receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer.

Effect of Discontinuance or Abandonment. In case any proceeding taken by the Trustee on account of any default or Event of Default is discontinued or abandoned for any reason, or is determined adversely to the Trustee, then and in every such case, the Authority, the Trustee and the Owners will be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee will continue as though no such proceeding had been taken.

Rights of Owners.

(a) Anything in the Indenture to the contrary notwithstanding and subject to the limitations and restrictions as to the rights of the Owners in the Indenture, upon the occurrence and continuance of any Event of Default or the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding will have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

(b) The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

Restrictions on Owners' Actions.

(a) In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless:

(i) such Owner has previously given to the Trustee written notice of an Event of Default as provided in the Indenture;

(ii) the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Indenture, or to institute such action, suit or proceeding in its or their name;

(iii) there will have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(iv) the Trustee will not have complied with such request within a reasonable time.

(b) Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture. It is understood and intended, subject to the Indenture, that no one or more Owners of the Bonds secured by the Indenture will have any right in any manner whatever by his or

their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner therein provided, and that all proceedings at law or in equity will be instituted, and maintained in the manner therein provided, and for the equal benefit of all Owners of Outstanding Bonds.

Power of Trustee To Enforce. All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto. Any such suit, action or proceedings instituted by the Trustee will be brought in its own name, as Trustee, for the equal and ratable benefit of the Owners of the Bonds, subject to the provisions of the Indenture.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy will be cumulative, and will be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver.

(a) The Trustee will waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration, upon the written request of the Owners of 67% or more of the Outstanding Bonds. If any Event of Default will have been waived as provided in the Indenture, the Trustee will promptly give written notice of such waiver to the Authority and will give notice thereof by first-class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default. No such waiver, rescission and annulment will extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

(b) No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or an acquiescence therein. Every power and remedy given by the Indenture to the Trustee or the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys.

(a) Any moneys received by the Trustee pursuant to the Indenture, together with any moneys that upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts established under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) will, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

(i) Unless the principal of all of the Outstanding Bonds will be due and payable:

FIRST, to the payment of the Owners of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Owners, without any discrimination or privilege;

SECOND, to the payment of the Owners of the unpaid principal of any of the Bonds that will have become due (other than Bonds matured or called for

redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available will not be sufficient to pay in full the principal of and premium, if any, on such Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the Owners without any discrimination; and

THIRD, to be held for the payment to the Owners as the same will become due of the principal of and interest on the Bonds, that may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available will not be sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment will be made in accordance with the Indenture.

(ii) If the principal of all of the Outstanding Bonds will be due and payable, to the payment of the principal and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal and interest, to the Owners without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

(b) Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee will give, by mailing by first-class mail as it may deem appropriate, such notice .of the deposit with it of any such moneys.

Defeasance

If the Authority will pay or cause to be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the premiums, if any, thereon at the times and in the manner stipulated therein and in the Indenture, then the Owners of such Bonds will cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds will cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the Authority all money or securities or other property held by it pursuant to the Indenture that are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds will have been paid and if, at the time of such payment, the Authority will have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all agreements, covenants, and other obligations of the Authority therein will cease, terminate and become void and be discharged and satisfied as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest

payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge thereof in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee will remain in effect and will be binding upon the Trustee and the Authority.

Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid for purposes of the Indenture if: (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority will have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture; (b) there will have been deposited with the Trustee either (i) money in an amount which will be sufficient; or (ii) Federal Securities of which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) and/or Pre-Refunded Municipals, the interest on and principal of which when due, and without any reinvestment thereof, will provide money that, together with the money, if any, deposited with the Trustee at the same time, will, as verified by an independent certified public accountant or other independent financial consultant acceptable to the Trustee, be sufficient, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and interest on such Bonds; and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority will have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds and to the Securities Depositories and the Information Services that the deposit required by clause (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and interest on such Bonds.

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INSTALLMENT PURCHASE AGREEMENT

The Installment Purchase Agreement sets forth certain terms and conditions of the purchase of the Project by the City. Certain definitions and provisions of the Installment Purchase Agreement are set forth or summarized below. Other provisions of the Installment Purchase Agreement are summarized in the forepart of this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS."

Selected Definitions

"*Accountant's Report*" means a report signed by an Independent Certified Public Accountant.

"*Acquisition Fund*" means the fund by that name established pursuant to any Issuing Instrument.

"*Authority*" means the Public Facilities Financing Authority of the City of San Diego, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

"*Authorized City Representative*" means the Mayor, the City Manager or the Treasurer of the City or such other officer or employee of the City or other person who has been designated as such representative by resolution of the City Council of the City.

"*Authorizing Ordinance*" means the ordinance pursuant to which the Installment Purchase Agreement was authorized and any additional Ordinance or official authorizing act of the Council of the City approving execution and delivery of any Supplement to the Installment Purchase Agreement or any Issuing Instrument.

"*Balloon Indebtedness*" means, with respect to any Series of Obligations 25% or more of the principal of which matures on the same date or within a 12-month period (with sinking fund payments on Term Obligations deemed to be payments of matured principal), that portion of such Series of Obligations which matures on such date, or within such 12-month period; provided, however, that to constitute Balloon Indebtedness the amount of indebtedness maturing on a single date or over a 12-month period must equal or exceed 150% of the amount of such Series Obligations which matures during any preceding 12-month period. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

"*Bond Counsel*" means a firm of attorneys which are nationally recognized as experts in the area of municipal finance.

"*Charter*" means the Charter of the City as it now exists or may hereafter be amended, and any new or successor Charter.

"*City*" means the City of San Diego, a municipal authority organized and existing under the Charter, and any successor to the City as a result of a transfer authorized under the Installment Purchase Agreement.

"*Code*" means the Internal Revenue Code of 1986, and the regulations thereunder, as amended, and any successor provisions of law.

"*Components*" means components of the Project specified in a Supplement.

"*Consultant*" means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in the Installment Purchase Agreement. Such consultant, consulting firm, engineer, architect, engineering firm or architectural firm will be nationally recognized within its profession for work of the character required. Such accountants or accounting firm will be independent certified public accountants licensed to practice in the State of California.

"*Contracts*" means any contract or lease of the City (including the Installment Purchase Agreement) authorized and executed by the City, the installment or lease payments of which are payable from the Net System Revenues and which are on a parity with Installment Payments.

"*Credit Provider*" means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support arrangements for some or all of the Parity Obligations.

"*Credit Provider Reimbursement Obligations*" means obligations of the City to repay, from Net System Revenues, amounts advanced by a Credit Provider as credit support or liquidity for Parity Obligations, which obligations will be Parity Obligations or Subordinated Obligations, as designated by the City.

"*Credit Support*" means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit or liquidity support with respect to the payment of interest, principal or the purchase price of any Parity Obligations.

"*Debt Service*" means, except as otherwise provided in the next sentence, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all outstanding Parity Obligations, assuming that all outstanding Serial Parity Obligations are retired as scheduled and that all outstanding Term Parity Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Parity Obligations); (b) that portion of the principal amount of all outstanding Serial Parity Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of Parity Obligations); (c) that portion of the principal amount of all outstanding Term Parity Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any, thereon); provided that, (i) as to any Balloon Indebtedness, Tender Indebtedness and Variable Rate Indebtedness, interest thereon will be calculated as provided in the definition of Maximum Annual Debt Service and principal will be deemed due at the nominal maturity dates thereof; (ii) the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the fma1 maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; (iii) the amount of any interest payable on any Parity Obligation for which there exists a Qualified Swap Agreement will be the net amount payable by the City as provided in (d) or clause (h), as applicable, of the definition of Maximum Annual Debt Service; and (iv) the amount of payments on account of Parity Obligations which are redeemed, retired or repaid on the basis of the accreted value due on the scheduled redemption, retirement or repayment date will be deemed principal payments, and interest that is compounded and paid as part of the accreted value will be deemed payable on the scheduled redemption, retirement or repayment date but not before.

"*Defaulted Obligations*" means Obligations in respect of which an Event of Default has occurred and is continuing.

"*District*" means the San Diego Wastewater Management District created under Chapter 803 of 1992 Session Laws.

"*Engineer's Report*" means a report signed by an Independent Engineer.

"*Event of Default*" means an event described under the caption "—Events of Default and Remedies of the Authority" below.

"*Fiscal Year*" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

"*Independent Certified Public Accountant*" means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No.1 of the American Institute of Certified Public Accountants.

"*Independent Engineer*" means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to wastewater systems, appointed and paid by the City.

"*Installment Payment Date*" means any date on which an Installment Payment is due as specified in or determined pursuant to a Supplement.

"*Installment Payments*" means the Installment Payments scheduled to be paid by the City under and pursuant to the Installment Purchase Agreement and any Supplement.

"*Installment Payment Obligations*" means Obligations consisting of or which are supported in whole by Installment Payments.

"*Installment Purchase Agreement*" means the Master Installment Purchase Agreement by and between the City and the Authority, dated as of September 1, 1993, as originally executed and as it is from time to time amended or supplemented in accordance with its terms.

"*Issuing Instrument*" means any indenture, trust agreement, loan agreement, lease, Installment Purchase Agreement or other instrument, including any Supplement, under which Obligations are issued or created.

"*Law*" means the Charter and all laws of the State supplemental thereto.

"*Maintenance and Operation Costs of the Metropolitan System*" means (a) a Qualified Take or Pay Obligation related to the Metropolitan System; and (b) reasonable and necessary costs spent or incurred by the City for maintaining and operating the Metropolitan System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Metropolitan System in good repair and working order, and including administrative costs of the City attributable to the Components which are part of the Metropolitan System, salaries and wages of employees, payments to employees retirement systems (to the extent paid from Metropolitan System Revenues), overhead, taxes, if any, fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations the proceeds of which are used to acquire Components which are part of the Metropolitan System, including any amounts required to be deposited in the Rebate Fund pursuant to the

Tax Certificate relating to the financing of Components which are part of the Metropolitan System, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and including expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor; (ii) amortization of intangibles or other bookkeeping entries of a similar nature; (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Metropolitan System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation; (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Metropolitan System purposes; and (v) charges for the payment of principal and interest on account of any Obligation.

"*Maintenance and Operation Costs of the Municipal System*" means (a) a Qualified Take or Pay Obligation related to the Municipal System; and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Municipal System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Municipal System in good repair and working order, and including administrative costs of the City attributable to the Components which are part of the Municipal System, salaries and wages of employees, payments to employees retirement systems (to the extent paid from Municipal System Revenues), overhead, taxes, if any, fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations the proceeds of which are used to acquire Components which are part of the Municipal System, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate relating to the financing of Components which are part of the Municipal System, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor; (ii) amortization of intangibles or other bookkeeping entries of a similar nature; (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Municipal System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation; (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Municipal System purposes; and (v) charges for the payment of principal and interest on account of any Obligation.

"*Maintenance and Operation Costs of the Wastewater System*" means (a) a Qualified Take or Pay Obligation and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Wastewater System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City attributable to the Project and the Installment Purchase Agreement, salaries and wages of employees, payments to employees retirement systems (to the extent paid from System Revenues), overhead, taxes, if any, fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to the Tax Certificate, fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and expenses incurred or accrued incident to the formation of an entity to which the City may transfer substantially all of the Metropolitan System pursuant to the Installment Purchase Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor; (ii) amortization of intangibles or other bookkeeping entries of a similar nature; (iii) costs of capital additions, replacements, betterments, extensions or improvements to

the Wastewater System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation; (iv) charges for the payment of principal and interest on any general obligation bond heretofore or hereafter issued for Wastewater System purposes; and (v) charges for the payment of principal and interest on any debt service on account of any obligation on a parity with or subordinate to the Installment Payments.

"*Maximum Annual Debt Service*" means, at any point in time, with respect to Parity Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Parity Obligations in the then current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant as provided in this definition and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions will be used to calculate the principal and interest becoming due in any Fiscal Year:

(a) in determining the principal amount due in each year, payments will (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Parity Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Parity Obligations, and including any scheduled mandatory redemption or prepayment of Parity Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment will be deemed a principal payment; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent clause (b) or (c) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(b) if all or any portion or portions of an Outstanding Series of Parity Obligations constitutes Balloon Indebtedness or if all or any portion or portions of a Series of Parity Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness will be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation will be determined as provided in clause (d) or (e) below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in clause (a) above;

(c) if any of the Outstanding Series of Parity Obligations constitutes Tender Indebtedness or if Parity Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness will be treated as if the principal amount of such Parity Obligations were to be amortized in accordance with the amortization schedule set forth in such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness will be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year in which such Series first subject to tender, the interest rate used for such computation will be determined as provided in clause (d) or clause (e) below, as appropriate;

(d) if any Outstanding Parity Obligations constitute Variable Rate Indebtedness (except to the extent clause (b) relating to Balloon Indebtedness or clause (c) relating to Tender Indebtedness applies), the interest rate on such Obligation will be assumed to be 110% of the

daily average interest rate on such Parity Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Parity Obligations will have been Outstanding; provided that in the event that such Variable Rate Indebtedness has been issued in connection with a Qualified Swap Agreement, the interest rate for purposes of computing Maximum Annual Debt Service will be determined by (x) calculating the annualized net amount paid by the City under such Variable Rate Indebtedness and Qualified Swap Agreement (after giving effect to payments made under the Variable Rate Indebtedness and made and received by the City under the Qualified Swap Agreement) during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Qualified Swap Agreement has been in effect, and (y) dividing the amount calculated in clause (x) by the average daily balance of the related Parity Obligations Outstanding during the 12-month period contemplated by clause (x);

(e) if Parity Obligations proposed to be issued will be Variable Rate Indebtedness (except to the extent clause (b) relating to Balloon Indebtedness or clause (c) relating to Tender Indebtedness applies), then such Parity Obligations will be assumed to bear interest at 110% of the average of the J.J. Kenny High Grade Index during the prior 12 months ending with the month preceding the date of sale of such additional Parity Obligations, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; provided that in the event that such Variable Rate Indebtedness will be issued in connection with a Qualified Swap Agreement, the interest rate for purposes of computing Maximum Annual Debt Service will be determined by (i) calculating the net amount to be paid by the City under such Variable Rate Indebtedness and Qualified Swap Agreement after giving effect to payments to be made under the Variable Rate Indebtedness and to be made and received by the City under the Qualified Swap Agreement) for the period during which the Qualified Swap Agreement is to be in effect and for this purpose any variable rate of interest agreed to be paid thereunder will be deemed to be the rate at which the related Parity Obligation will be assumed to bear interest; and (ii) dividing the amount calculated in clause (i) by the average principal amount of the related Parity Obligation to be Outstanding during the first year after the issuance of such Parity Obligation;

(f) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal and/or interest on specified Parity Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings thereon will be disregarded and not included in calculating Maximum Annual Debt Service;

(g) if Parity Obligations are Paired Obligations, the interest thereon will be the resulting linked rate or effective fixed rate to be paid with respect to such Paired Obligations; and

(h) in the event that an agreement or commitment which, at the time of calculation is a Qualified Swap Agreement is or is to be in effect with respect to a Parity Obligation which is not Variable Rate Indebtedness, the interest rate of such Parity Obligation for purposes of calculating Maximum Annual Debt Service will be calculated as follows:

(i) for such a Qualified Swap Agreement which is in effect on the date of calculation, the interest rate will be calculated in the same manner as is specified in

clause (d) for a Qualified Swap Agreement issued in connection with Variable Rate Indebtedness which is Outstanding on the date of calculation; and

(ii) for such a Qualified Swap Agreement which is not in effect on the date of calculation, the interest rate will be calculated in the same manner as is specified in clause (e) for a Qualified Swap Agreement to be issued in connection with Variable Rate Indebtedness to be Outstanding after the date of calculation, and for this purpose any variable rate of interest agreed to be paid thereunder will be assumed to be the rate assumed for Variable Rate Indebtedness described in clause (e).

"*Maximum Rate*" means, on any day, the maximum interest rate allowed by law.

"*Metropolitan System*" or "*Metropolitan Sub-System*" means any and all facilities, properties and improvements designated by the City in its sole discretion as part of the Metropolitan System, and used for the conveyance from the Municipal System and treatment of sewage collected by the City through its Municipal System or by any of the Participating Agencies.

"*Metropolitan System Revenues*" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Metropolitan System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Metropolitan System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Metropolitan System by or pursuant to law, earnings on any Reserve Fund for Obligations the proceeds of which were used to finance improvements which are part of the Metropolitan System, or to fund or refund any such Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (b) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Metropolitan System; (c) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Metropolitan System; (d) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for Components which are to be part of the Metropolitan System; and (e) grants received from the United States of America or from the State of California for Components which are to be part of the Metropolitan System; provided, however, that Metropolitan System Revenues will not include: (i) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (ii) the proceeds of borrowings. Notwithstanding the foregoing, there will be deducted from Metropolitan System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there will be added to Metropolitan System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Metropolitan System.

"*Moody's*" means Moody's Investors Service, Inc., a Delaware corporation, and its successors, and if such corporation will for any reason no longer perform the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the City.

"*Municipal System*" or "*Municipal Sub-System*" means any and all facilities, properties and improvements at any time owned, controlled or operated by the City, and designated by the City in its sole discretion as part of the Municipal System, for the collection of sewage from the points of origination thereof and the conveyance thereof to the Metropolitan System.

"*Municipal System Revenues*" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Municipal System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Municipal System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Municipal System by or pursuant to law, earnings on any Reserve Fund for Obligations the proceeds of which were used to finance improvements which are part of the Municipal System, or to fund or refund any such Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for debt service for such Obligations; (b) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Municipal System; (c) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Municipal System; (d) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for Components which are to be part of the Municipal System; and (e) grants received from the United States of America or from the State of California for Components which are to be part of the Municipal System; provided, however, that Municipal System Revenues will not include: (i) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (ii) the proceeds of borrowings. Notwithstanding the foregoing, there will be deducted from Municipal System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there will be added to Municipal System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Municipal System.

"*Net Proceeds*" means, when used with respect to any insurance, self-insurance or condemnation award, the proceeds from such award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

"*Net Metropolitan System Revenues*" means, for any Fiscal Year, the Metropolitan System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Metropolitan System for such Fiscal Year.

"*Net Municipal System Revenues*" means, for any Fiscal Year, the Municipal System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Municipal System for such Fiscal Year.

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

"*Obligations*" means (a) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal and interest on which are payable from Net System Revenues; (b) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (c) obligations secured by or payable from any of such obligations of the City; and (d) obligations of the City payable from Net System Revenues under (i) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices; (ii) any contract to exchange cash flows or a series of payments; or (iii) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate swap agreements and interest rate cap agreements.

"*Outstanding*" means, when used as of any particular time with respect to Obligations, all Obligations theretofore or thereupon executed, authenticated and delivered by the City or any trustee or other fiduciary, except (a) Obligations theretofore cancelled or surrendered for cancellation; (b) Obligations paid or deemed to be paid within the meaning of any defeasance provisions thereof; (c) Obligations owned by the City or the Authority; (d) Obligations in lieu of or in substitution for which other Obligations have been executed and delivered; and (e) Obligations assumed by the District or other successor in accordance with the Installment Purchase Agreement.

"*Owner*" means any person who will be the registered owner of any outstanding Obligation certificate or other evidence of a right to receive Installment Payments directly or as security for payment of the Obligation.

"*Paired Obligations*" means any Series (or portion thereof) of Parity Obligations designated as Paired Obligations in a Supplement or related Issuing Instrument or other document authorizing the issuance or incurrence thereof, which are simultaneously issued or incurred (a) the principal of which is of equal amount maturing and to be redeemed (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (b) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the City for the terms of such Paired Obligations.

"*Parity Installment Obligation*" means Obligations consisting of or payable from Installment Payments which are not subordinated in right of payment to other Installment Payments.

"*Parity Obligations*" means (a) Parity Installment Obligations, (b) Obligations the principal and interest of which are payable on a parity with Parity Installment Obligations, (c) Qualified Take or Pay Obligations, and (d) Qualified Swap Agreements. Notwithstanding the foregoing, any amounts payable with respect to a Qualified Swap Agreement which represent termination payments or unwinding payments will not be deemed to be Parity Obligations unless (i) such Qualified Swap Agreement expressly states that such termination payments or unwinding payments are to be considered Parity Obligations, and (ii) each Rating Agency which currently maintains a rating with respect to any Parity Obligation confirms in Writing to the City that the inclusion of such termination payments or unwinding payments as Parity Obligations will not result in a downgrading, withdrawal or suspension of such rating.

"*Participating Agencies*" will mean the cities and other agencies providing local sewage collection services within their respective areas and which (a) have entered into contracts with the City pursuant to which the City is providing sewage collection, transportation, treatment or disposal services; or (b) are having such services provided by the District or other successor to the City to which the Metropolitan System has been transferred pursuant to the Installment Purchase Agreement.

"*Paying Agent*" or "*Paying Agents*" means, with respect to an Installment Payment Obligation or Series of Installment Payment Obligations, the bank, trust company or other financial institution, if any, or other entities designated as the place or entity which will make payment on such Installment Payment Obligation or a Series of Installment Payment Obligations and/or the interest thereon instead of or in addition to the City Treasurer's office.

"*Payment Fund*" means the fund designated in the Issuing Instrument as the fund into which Installment Payments are to be deposited for the purposes of paying principal or interest on related Obligations.

"*Permitted Investments*" means investments which pursuant to an Issuing Instrument are permissible for the investment of funds received from the sale of Obligations pursuant to the Issuing Document or from other funds held pursuant to the Issuing Document.

"*Project*" means the construction, replacement and improvements to the Wastewater System described in Exhibit A to the Installment Purchase Agreement and as modified with respect to Components in conformance with the Installment Purchase Agreement.

"*Purchase Price*" means the principal amount plus interest thereon owed by the City to the Authority under the terms hereof as provided in the Installment Purchase Agreement and as specified in a Supplement.

"*Qualified Swap Agreement*" means a contract or agreement, payable from Net System Revenues on a parity with Parity Obligations, intended to place Obligations on the interest rate, currency, cash flow or other basis desired by the City, including, without limitation, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the City and the counterparty; provided, that not less than 30 days prior to the City's execution of such contract or agreement, each Rating Agency which maintains a rating with respect to any Parity Obligation receives notice in writing of the City's pending execution thereof; provided further that at the time of origination each Rating Agency which maintains a rating with respect to any Parity Obligation confirms in writing to the City that the City's execution and delivery of such contract will not result in a downgrading, withdrawal or suspension of such rating.

"*Qualified Take or Pay Obligation*" means the obligation of the City to make use of any facility, property or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties or services are ever made available to the City for use, and there is provided to the City a certificate of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the provisions of the Installment Purchase Agreement.

"*Rating Agencies*" means Moody's and S&P, or whichever of them is rating any Parity Obligations or any Subordinated Obligations, as applicable.

"*Rebate Fund*" means the fund by that name established pursuant to any Issuing Instrument.

"*Rebate Requirement*" has the meaning specified in any Tax Certificate.

"*Reserve Fund*" and "*Reserve Account*" have the meanings given to such terms in any Issuing Instrument or Supplement.

"*Reserve Fund Credit Facility*" means a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in a Reserve Fund or Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein.

"*Reserve Requirement*" has the meaning given to such term in any Issuing Instrument or Supplement.

"*S&P*" means Standard & Poor's Corporation, a New York corporation, and its successors, and if such corporation will for any reason no longer perform the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the City.

"*Serial Parity Obligations*" means Serial Obligations which are Installment Payments or are payable on a parity with Parity Installment Obligations.

"*Serial Obligations*" means Obligations for which no sinking fund payments are provided.

"*Series*" means Obligations issued at the same time or sharing some other, common term or characteristic and designated as a separate Series.

"*Sewer Revenue Fund*" has the meaning ascribed thereto in the Installment Purchase Agreement.

"*Subordinated Credit Provider*" means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Subordinated Credit Support arrangements for some or all of the Subordinated Obligations.

"*Subordinated Credit Provider Expenses*" means the fees and expenses payable to any Subordinated Credit Provider in connection with the provision of Subordinated Credit Support; provided, that "Subordinated Credit Provider Expenses" will not include any Subordinated Credit Provider Reimbursement Obligations.

"*Subordinated Credit Provider Reimbursement Obligations*" means obligations of the City to repay, from Net System Revenues, amounts advanced by a Subordinated Credit Provider as credit support or liquidity for Subordinated Obligations, which obligation will be a Subordinated Obligation.

"*Subordinated Credit Support*" means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Subordinated Credit Provider provides credit or liquidity support with respect to the payment of interest, principal or the purchase price of any Subordinated Obligations.

"*Subordinated Obligations*" means any Obligation (a) that is designated as a Subordinated Obligation in the Issuing Instrument creating such Obligation; (b) the payment of which is subordinated in right of payment to Parity Obligations; and (c) that in the Issuing Instrument creating such Obligation there is an express statement that no Owner of such Obligation will have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations.

"*Supplement*" means a Supplement, substantially in the form of Exhibit B to the Installment Purchase Agreement, providing for the payment of specific Installment Payments as the Purchase Price for Components of the Project, executed and delivered by the City and the Authority.

"*System Revenues*" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, but including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law, earnings on any Reserve Fund for Obligations but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (b) the proceeds derived by the City directly or indirectly from the lease of a part of the Wastewater System; (c) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Wastewater System; (d) amounts received under contracts or agreements

with governmental or private entities and designated for capital costs; and (e) grants received from the United States of America or from the State of California; provided, however, that System Revenues will not include: (i) in all cases, customers deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (ii) the proceeds of borrowings. Notwithstanding the foregoing, there will be deducted from System Revenues any amounts transferred, into a Rate Stabilization Fund as contemplated by the Installment Purchase Agreement, and there will be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Maintenance and Operation Costs of the Wastewater System.

"*Tax Certificate*" means any certificate delivered with respect to the maintenance of the tax-exempt status of Tax-Exempt Installment Payment Obligations.

"*Tax-Exempt Installment Payment Obligations*" means Installment Payment Obligations in respect of which it is intended that the interest component thereof will be excluded from gross income pursuant to Section 103 of the Code.

"*Tender Indebtedness*" means any Parity Obligations or portions of Parity Obligations, a feature of which is an option, on the part of the holders thereof, or an obligation, under the terms of such Parity Obligations, to tender all or a portion of such Parity Obligations to the City, a Paying Agent or other fiduciary or agent for payment or purchase and requiring that such Bonds or portions of Bonds or that such rights to payments or portions of payments be purchased if properly presented.

"*Term Parity Obligations*" means Term Obligations which are Parity Installment Obligations or are payable on a parity with Parity Installment Obligations.

"*Term Obligations*" means Obligations which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

"*Trustee*" means a financial institution acting in its capacity as Trustee under and pursuant to the any Issuing Instrument, and its successors and assigns.

"*Variable Rate Indebtedness*" means any portion of indebtedness evidenced by Parity Obligations the interest rate on which is not established at the time of incurrence of such indebtedness and has not, at some subsequent date, been established at a rate which is not subject to fluctuation or subsequent adjustment, excluding Paired Obligations.

"*Wastewater Service*" means the wastewater collection and treatment services made available or provided by the Wastewater System.

"*Wastewater System*" means any and all facilities, properties and improvements at any time owned, controlled or operated by the City as part of the Sewer Revenue Fund for the collection, treatment, distribution, administration, disposal or reclamation of waste, including the Municipal System and the Metropolitan System. After any transfer of the Metropolitan System permitted by the Installment Purchase Agreement, "Wastewater System" will mean the Municipal System with respect to the City and the Metropolitan System with respect to the transferee.

General

The Installment Purchase Agreement provides the terms and conditions of the purchase of the Project by the City. Certain provisions of the Installment Purchase Agreement are summarized below.

These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Installment Purchase Agreement.

Acquisition and Construction of the Project. The Authority has agreed to cause the Project to be constructed, acquired and installed by the City, as agent of the Authority. The City will enter into contracts and provide for, as agent of the Authority, the complete construction, acquisition and installment of the Project. The City has agreed that it will cause the construction, acquisition and installation of the Project to be diligently performed. Except to the extent of proceeds of the Obligations which are deposited in the Acquisition Fund, the Authority will be under no liability of any kind or character whatsoever for the payment of any cost of any Components. In the event the proceeds of the Obligations deposited in the Acquisition Fund are insufficient to complete the construction, acquisition and installation of Components, the City will cause to be deposited in the Acquisition Fund (or otherwise appropriate and encumber) from and to the extent of available amounts on deposit in the Sewer Revenue Fund (or other lawfully available moneys) an amount equal to that necessary to complete the construction, acquisition and installation of such Components.

The Authority will not undertake to cause any Component of the Project to be constructed, acquired or installed unless and until the City and the Authority have entered into a Supplement specifying the components of the Project to be installed, the date of completion, the Purchase Price to be paid by the City under the Installment Purchase Agreement for that Component of the Project, and the Installment Payments or the method of calculating Installment Payments.

Changes to the Project. From time to time and at any time, the City may modify or amend the description of the Project, to eliminate any part thereof and/or to substitute another Project or Projects, all without obtaining any consent, by filing such modification or amendment with the Authority and the Trustee; provided however, that no such amendment will substitute a Project or Projects which are not to be owned by the Sewer Revenue Fund or will in any way impair the obligations of the City contained in any Supplement executed prior to such amendment. The City may substitute other improvements for those listed as Components in any Supplement, but only if the City first files with the Authority and the Trustee a certificate of an Authorized City Representative: (a) identifying the Components to be substituted and the Components they replace; (b) stating that the substituted Components will be owned by the Sewer Revenue Fund; and (c) stating that with respect to Components financed with Tax-Exempt Installment Obligations, the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned.

Substituted Components may include or consist of an undivided interest in such Components, in which event the costs associated with the substituted Components over and above the undivided interest need not be deposited in the Acquisition Fund (or otherwise appropriated and encumbered); provided that the certificate of an Authorized City Representative specifies that the funds necessary to complete the substituted Components are on deposit in the Acquisition Fund or otherwise appropriated and encumbered.

Installment Payments

Purchase Price. The City will pay the Purchase Price for any Components being purchased as provided in a Supplement. The Purchase Price to be paid by the City to the Authority under any Supplement to the Installment Purchase Agreement, solely from Net System Revenues and from no other sources, is the sum of the principal amount of the City's obligations under any Supplement plus the interest to accrue on the unpaid balance of such principal amount from the effective date and over the term of the Supplement, subject to prepayment provisions as provided therein.

The principal amount of the Installment Payments to be made by the City under a Supplement will be paid at least five days prior to the date such Installment Payments are payable as specified in such Supplement or at such other earlier time or times and in the manner or manners as specified in such Supplement. In the event the principal amount of an Installment Payment is not paid by the date the same is due and payable as specified in such Supplement, the same will bear interest at the Default Rate, commencing on the day the same is due, to, but not including, the payment date.

The interest to accrue on the unpaid balance of such principal amount will be paid at least five days prior to the date such interest is payable as specified in a Supplement or at such other earlier time or times as specified in such Supplement, and will be paid by the City as and constitute interest paid on the principal amount of the City's obligations thereunder. Interest will be payable in an amount not exceeding the Maximum Rate, at such intervals and according to such interest rate formulas as will be specified in a Supplement or by reference to any Issuing Instrument to which such Supplement relates, and will be payable with such frequency as will be specified therein. In the event that interest is not paid by the date such interest is payable, to the extent permitted by applicable law, such interest will thereafter bear interest at the Default Rate, commencing on the day the same is due, to, but not including, the payment date.

Installment Payments; Reserve Fund Payments. The City may, subject to any rights of prepayment provided in a Supplement, pay to the Authority, solely from Net System Revenues and from no other sources, the Purchase Price in Installment Payments over a period not to exceed the maximum period permitted by law, as provided in a Supplement.

Subject to the allocation of Net System Revenues described in "—Allocation of System Revenues" below, in the event that a Trustee notifies the City that the amount on deposit in a Reserve Fund or Reserve Account is less than the Reserve Requirement, the City will deposit or cause to be deposited, solely from Net System Revenues, in such Reserve Fund or Reserve Account such amounts on a monthly basis as are necessary to increase the amount on deposit therein to the Reserve Requirement in the ensuing six months.

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

The City agrees and covenants under the Installment Purchase Agreement that all System Revenues will be received by the City in trust and will be deposited when and as received in the Sewer Revenue Fund. The City agrees and covenants to maintain the Sewer Revenue Fund so long as any Installment Payments or payments due by the City under any Qualified Swap Agreement remain unpaid, and all moneys in the Sewer Revenue Fund will be so held in trust and applied and used solely as provided in the Installment Purchase Agreement.

Commitment of Net System Revenues

All Parity Obligations, including Parity Installment Payment Obligations, will be secured by a first priority lien on and pledge of Net System Revenues. The City in the Installment Purchase Agreement has granted such first priority lien on and pledge of Net System Revenues to secure Parity

Obligations. Such lien and pledge will constitute a first priority lien on Net System Revenues. All Parity Obligations will be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations.

All Subordinated Obligations will be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues security Parity Obligations. The City in the Installment Purchase Agreement has granted such second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. Such lien and pledge will constitute a second priority lien on Net System Revenues. All Subordinated Obligations will be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations.

The City represents and states in the Installment Purchase Agreement that it has not previously granted any lien or charge on any of the Net System Revenues except as provided in the Installment Purchase Agreement; provided, however, that out of Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Agreement.

Nothing contained in the Installment Purchase Agreement limits the right and ability of the City to grant liens on and pledges of Net System Revenues that are subordinate to the liens on and pledges of Net System Revenues for the benefit of Parity Obligations or Subordinated Obligations contained in the Installment Purchase Agreement.

Allocation of System Revenues

Payment of Parity Obligations. In order to carry out and effectuate the commitment and pledge contained in the Installment Purchase Agreement, the City agrees and covenants that all System Revenues will be received by the City in trust and will be deposited when and as received in the City of San Diego Sewer Revenue Fund, which fund was established pursuant to the Ordinances of the City Council of the City (the "Sewer Revenue Fund") and which fund the City agrees and covenants to maintain so long as any Installment Payments or payments due by the City under any Qualified Swap Agreement related thereto remain unpaid, and all moneys in the Sewer Revenue Fund will be so held in trust and applied and used solely as provided herein. The City will pay: (a) directly or as otherwise required all Maintenance and Operation Costs of the Wastewater System; (b) to the Trustee of the Parity Installment Obligations for deposit in the Payment Fund for Parity Installment Obligations, the amounts specified in any Issuing Instrument, as payments due on account of Parity Installment Obligations; (c) to the obligee specified therein, any payment due as to any Parity Obligation that is not a Parity Installment Obligation (including any Credit Provider Reimbursement Obligations designated as Parity Obligations), other than (i) payments due on account of Qualified Take or Pay Obligations and (ii) payments due by the City under a Qualified Swap Agreement; (d) to the obligee specified therein, any payment due as to Qualified Take or Pay Obligations; and (e) to the counterparty specified in any Qualified Swap Agreement, the amounts or payments due under such Qualified Swap Agreement as Parity Obligations. In the event there are insufficient Net System Revenues to make all of the payments contemplated by the foregoing clauses (b), (c), (d) and (e), then said payments will be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of said Parity Obligations.

Funding of Reserve Funds and Reserve Accounts for Parity Obligations. After the payments contemplated by the foregoing paragraph have been made, and in any event not less frequently than May 15 and November 15 of each year or any date on which payments in respect of any Subordinated Obligations are due, any remaining Net System Revenues will be used to make up any deficiency in the Reserve Funds and Reserve Accounts for Parity Obligations. Notwithstanding the use of a Reserve Fund Credit Facility, in lieu of depositing funds in the Reserve Fund and Reserve Accounts for Parity

Obligations, in the event of any draw on the Reserve Fund Credit Facility, there will be deemed a deficiency in such Reserve Funds and Reserve Accounts until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount. In the event there are insufficient Net System Revenues to make up all deficiencies in all Reserve Funds and Reserve Accounts for Parity Obligations, such payments into Reserve Funds and Reserve Accounts will be made as nearly as practicable pro rata based on the respective unpaid principal amount of all Parity Obligations.

Payment of Subordinated Obligations.

(a) Notwithstanding anything in the Installment Purchase Agreement to the contrary, no payments from the Sewer Revenue Fund will be made in respect of any Subordinated Obligations unless the following conditions are met:

(i) all Maintenance and Operation Costs of the Wastewater System are being and have been paid and are then current; and

(ii) all deposits and payments contemplated by clause (b), (c), (d) and (e) under "Payment of Parity Obligations" above will have been made in full and no deficiency in any Reserve Fund or Reserve Account for Parity Obligations will exist, and there will have been paid, or segregated within the Sewer Revenue Fund, the amounts payable during the current month pursuant to clause (b), (c), (d) and (e) under "Payment of Parity Obligations" above; provided, however, that if the amounts payable during any month pursuant to clause (b), (c), (d) or (e) under "Payment of Parity Obligations" above are not able to be determined at the time of the payment of any Subordinated Obligation due to periods in which the actual interest rate accruing in respect of any Parity Obligations cannot yet be determined, then no payments from the Sewer Revenue Fund will be made in respect of any Subordinated Obligations unless there will have been segregated within the Sewer Revenue Fund the maximum amount that may be payable in that month under clause (b), (c), (d) and (e) under "Payment of Parity Obligations" above as specified in the Issuing Instruments of the Parity Obligations and in accordance with applicable law; and

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

Funding of Reserve Funds and Reserve Accounts for Subordinated Obligations. After the payments contemplated by the preceding paragraphs have been made, and in any event (subject to the payments required pursuant to the preceding paragraphs) not later than those times specified in the Issuing Instruments of any Subordinated Obligations or the dates on which any payments in respect of any Obligations that are neither Parity Obligations nor Subordinated Obligations are due, any remaining Net System Revenues in the Sewer Revenue Fund will be used (a) to fund or to contribute to any Reserve Funds and Reserve Accounts for Subordinated Obligations; and (b) to make up any deficiency in the Reserve Funds and Reserve Accounts for Subordinated Obligations, in such amounts as are specified in the Issuing Instruments of the Subordinated Obligations. Notwithstanding the use of a Reserve Fund Credit Facility in lieu of depositing funds in the Reserve Funds and Reserve Accounts for Subordinated Obligations, in the event of any draw on the Reserve Fund Credit Facility, there will be deemed a deficiency in such Reserve Funds and Reserve Accounts until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount. In the event there are insufficient Net System Revenues to

make up all deficiencies in all Reserve Funds and Reserve Accounts for Subordinated Obligations, such payments into Reserve Funds and Reserve Accounts for Subordinated Obligations will be made as nearly as practicable, pro rata, based on the respective unpaid principal amount of all Subordinated Obligations.

Remaining Funds. Any amounts thereafter remaining in the Sewer Revenue Fund after the payments made pursuant to the preceding paragraphs may from time to time be used to pay for capital expenditures for the Wastewater System or any other Wastewater System purpose, provided, all deposits and payments contemplated by clause (b) under the caption "Payment of Subordinated Obligations" above will have been made in full and no deficiency in any Reserve Fund or Reserve Account for Subordinated Obligations will exist, and there will have been paid, or segregated within the Sewer Revenue Fund, the amounts payable during the current month pursuant to said clause (b) under the caption "Payment of Subordinated Obligations" above; provided, further, that if the amounts payable during any month pursuant to said clause (b) under the caption "Payment of Subordinated Obligations" above are not able to be determined at the time of the payment of any Obligation that is neither a Parity Obligation nor a Subordinated Obligation due to periods in which the actual interest rate accruing in respect of any Subordinated Obligations cannot yet be determined, then no payments from the Sewer Revenue Fund will be made in respect of any such Obligations unless there will have been segregated within the Sewer Revenue Fund the maximum amount that may be payable in that month under said clause (b) under the caption "Payment of Subordinated Obligations" above as specified in the Issuing Instruments of the Subordinated Obligations and in accordance with applicable law.

The obligations of the City under the Installment Purchase Agreement to make deposits into Reserve Funds and Reserve Accounts will have the priorities as to Net System Revenues as described above.

Additional Obligations

The City may not create any Obligations the payments of which are senior or prior in right to the payment by the City of Parity Obligations.

Without regard to the provisions in the next paragraph, the City may at any time enter into or create an obligation or commitment which is a Credit Provider Reimbursement Obligation or a Qualified Swap provided the Obligation to which the Qualified Swap Agreement relates is a Parity Obligation.

The City may at any time and from time to time issue or create any other Parity Obligations, provided:

(a) there will not have occurred and be continuing (i) an Event of Default under the terms of the Installment Purchase Agreement or any Issuing Instrument, or (ii) Event of Default or Termination Event (as defined in any Qualified Swap Agreement) under any Qualified Swap Agreement; and

(b) the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(i) the Net System Revenues as shown by the books of the City for any 12 consecutive month period out of the 18 consecutive months ending immediately prior to the incurring of such additional other Parity Obligations will have amounted to at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations Outstanding during such period. For purposes of preparing the certificate or certificates described above, the Consultant or Consultants may rely upon financial statements prepared by the

City, which have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available; and

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

For purposes of the computations to be made as described in clause (ii) above, the determination of Net System Revenues:

(A) may take into account any increases in rates and charges which relate to the Wastewater System and will take into account any reduction in such rates and charges, which will, for purposes of the test described in clause (ii), be effective during the fiscal year ending within the 12-month period for which such estimate is made; and

(B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue producing additions or improvements to or extensions of the Wastewater System, to be made with the proceeds of such additional indebtedness or with the proceeds at Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by such certificate of the City or a Consultant, as applicable; and

(C) for the period contemplated by clause (ii) Maintenance and Operation Costs of the Wastewater System will be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Parity Obligations, but adjusted if deemed necessary, by the City or a Consultant, as applicable, for any increased Maintenance and Operations Costs of the Wastewater System which are, in the judgment of the City or a Consultant, as applicable, essential to maintaining and operating the Wastewater System and which will occur during the Fiscal Year ending within the period contemplated by clause (ii).

The certificate or certificates described above in clause (ii) will not be required if the Parity Obligations being issued are for the purpose of (a) issuing the Parity Obligations initially issued under this Agreement; or (b) refunding (x) then Outstanding Parity Obligations if at the time of the issuance of such Parity Obligations a certificate of an Authorized City Representative will be delivered showing that Debt Service in each Fiscal Year on all Parity Obligations Outstanding after the issuance of the refunding Parity Obligations will not exceed Debt Service in each corresponding Fiscal Year on all Parity Obligations Outstanding prior to the issuance of such Parity Obligations; or (y) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness.

Without regard to the preceding paragraphs, if (a) no Event of Default has occurred and is continuing; and (b) no Event of Default or Termination Event (as defined in any Qualified Swap Agreement) under any Qualified Swap Agreement has occurred and is continuing, the City may issue or

incur Subordinated Obligations, and such Subordinated Obligations may be paid only in accordance with the provisions described under the captions "—Allocation of System Revenues—Payment of Subordinated Obligations" and "—Allocation of System Revenues—Funding of Reserve Funds and Reserve Accounts for Subordinated Obligations" above.

Selected Covenants of the City

Compliance With Installment Purchase Agreement; Ancillary Agreements. The City will punctually pay Parity Obligations in strict conformity with the terms thereof and with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement, whether express or implied, or any duty, liability or obligation arising out of or connected therewith of the insolvency, or deemed insolvency, or bankruptcy, or liquidation of the Authority, or any force majeure, including, acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement, including Supplements, and any Issuing Instrument or Qualified Swap Agreement relating to Parity Obligations required to be observed and performed by it and, except as otherwise provided in the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for each Component by the City pursuant to, in accordance with, and as authorized under the Law.

The City will faithfully observe and perform all of the agreements and covenants of the City contained in each Authorizing Ordinance and will not permit the same to be amended or modified so as to adversely affect the Owners of Installment Payment Obligations or the counterparty to any Qualified Swap Agreement that is in effect.

The City will be unconditionally and irrevocably obligated, as long as any Installment Payment Obligations remain outstanding and unpaid, to take all lawful action necessary or required to continue to entitle the City to collect and deposit such System Revenues in the Sewer Revenue Fund for use as provided in this Installment Purchase Agreement; provided, however, such obligation does not, in any way, limit the City's ability to undertake any and all legal actions, including any appeals, in the defense of a federal court order dictating a wastewater system configuration other than that approved and adopted by the City.

Against Encumbrances, Sale or Competitive Facilities. The City will not make any pledge of or place any lien on the Net System Revenues except as otherwise provided in the Installment Purchase Agreement. The City will not sell, lease or otherwise dispose of the Wastewater System or any part thereof essential to the proper operation of the Wastewater System or to the maintenance of the System Revenues, except as provided in the Installment Purchase Agreement. Further, the City will not, excepts as otherwise provided in the Installment Purchase Agreement, enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Net System Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of

the Authority with respect to the System Revenues or which has become nonoperative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold if such sale will not materially reduce the Net System Revenues and if the proceeds of such sale are deposited in the Sewer Revenue Fund.

Except as permitted under the Installment Purchase Agreement, the City will not, to the extent permitted by existing law, construct, acquire, maintain or operate and will not, to the extent permitted by existing law and within the scope of its powers, permit any other public or private agency, authority, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any wastewater system competitive with the Wastewater System.

Transfer of Metropolitan System Components. Notwithstanding anything to the contrary in the Installment Purchase Agreement, the City may transfer ownership of substantially all of the Metropolitan System, including amounts in the Sewer Revenue Fund attributable to the Metropolitan System, and any amounts in the Rate Stabilization Fund agreed upon by the City and the transferee as being attributable to the Metropolitan System, to the District or any other governmental agency whose primary purpose is to provide wastewater treatment and disposal service; provided such entity agrees to assume all Obligations the proceeds of which were used to acquire Components which are part of the Metropolitan System and all other obligations relating to the Metropolitan System which are payable from Metropolitan System Revenues, Net Metropolitan System Revenues, System Revenues or Net System Revenues, including but not limited to salaries and benefits payable to employees who are to become employees of such entity, all accounts payable, Qualified Swap Agreements, Credit Provider Reimbursement Obligations and all other obligations with respect thereto such as capital improvement expenditure obligations and tort claims, and the obligation to pay fines, penalties or damages arising out of or relating to violation of federal, state or local laws or regulations which are applicable or purported to be applicable to the operation of the Metropolitan System, and provided that the following conditions are met:

(a) there will not have occurred and be continuing an Event of Default under the terms of the Installment Purchase Agreement, or any other Issuing Instrument or Qualified Swap Agreement or any Termination Event (as defined in a Qualified Swap Agreement) under any Qualified Swap Agreement;

(b) there will have been delivered to the Trustee an opinion of Bond Counsel to the effect that the proposed transfer will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest component of Tax-Exempt Installment Payment Obligations;

(c) the entity will have obtained all necessary licenses, permits and consents from all governmental agencies or authorities having or asserting jurisdiction over the activities of the Metropolitan System;

(d) there will be delivered to all trustees for any Obligations and to any Qualified Swap Provider an opinion of counsel, who may be the City Attorney of the City, to the effect that the Supplements referred to in clauses (h)(i) and (h)(ii) below are valid, binding and enforceable against the transferee in the case of a Supplement referred to in clause (h)(i) below and against the City in the case of a Supplement referred to in a clause (h)(ii) below;

(e) the City obtains or provides a certificate prepared by a Consultant showing that (i) the estimated Net Metropolitan System Revenues for the next 12 months following the date of transfer will be at least equal to 1.20 times the Maximum Annual Debt Service for all Outstanding Parity Obligations to be assumed by the transferee, assuming for this purpose that

the Outstanding Parity Obligations to be assumed by the transferee will include all such Obligations; and (ii) the estimated Net Municipal System Revenues for the next 12 months following the date of transfer will be at least equal to 1.20 times the Maximum Annual Debt Service for all Outstanding Parity Obligations not to be assumed by the transferee, assuming for this purpose that the Outstanding Parity Obligations not to be assumed by the transferee will include all such Obligations;

(f) there will be delivered to the Trustee a notice of each of the Rating Agencies then providing ratings on all Obligations to be outstanding immediately after the transfer, reconfirming the ratings on all such Obligations in effect immediately prior to such transfer, without giving effect to any bond insurance, letter of credit, guarantee or other credit support for such Obligations, or alternatively, all such Obligations will be defeased or paid in full prior to such transfer;

(g) there will be delivered to each Owner notice of the intended transfer of Metropolitan System Components not less than 30 nor more than 60 days prior to the expected transfer date; and

(h) incident to a transfer of the Metropolitan System permitted by the Installment Purchase Agreement:

(i) the transferee will execute and deliver to the Trustee a Supplement which will contain the following:

(A) the assumption and indemnification by the transferee of all obligations of the City under the Installment Purchase Agreement, but only as they relate to the Metropolitan System, including Obligations the proceeds of which were used to acquire Components for the Metropolitan System;

(B) a pledge by the transferee of Net Metropolitan System Revenues for the payment of assumed Parity Obligations which will be in substantially the same form as the pledge of the City under the Installment Purchase Agreement of Net System Revenues to secure the payment of all Parity Obligations;

(C) representations of the transferee substantially in the form provided by the City under the Installment Purchase Agreement, but only as to the Obligations assumed by the transferee and the covenants to be contained in such Supplement;

(D) covenants of the transferee relating to the acquisition, construction and changes to the Project, but only as to the Components which are or are to be part of the Metropolitan System;

(E) covenants of the transferee relating to Purchase Payments and Installment Payments, but only as they relate to Parity Obligations being assumed by the transferee and the Net Metropolitan System Revenues;

(F) covenants of the transferee relating to the allocation of System Revenues, but limited only to Parity Obligations assumed by the transferee and moneys deposited from Metropolitan System Revenues and Net Metropolitan System Revenues;

(G) covenants of the transferee relating to Additional Obligations, but only within respect to Parity Obligations payable from Net Metropolitan System Revenues (for this purpose the calculations and coverages contemplated thereby will relate only to Metropolitan System Revenues, Maintenance and Operations Costs of the Metropolitan System and Net Metropolitan System Revenues);

(H) covenants of the transferee substantially in the form provided by the City under the Installment Purchase Agreement, (exclusive of covenants relating to the transfer of the Metropolitan System and subcontracting), but only to the extent of the Metropolitan System and Installment Payment Obligations payable from Metropolitan System Revenues and Net Metropolitan System Revenues and Installment Payment Obligations assumed by or of the transferee;

(I) Events of Default and remedies substantially in the form set forth in the Installment Purchase Agreement, but only relating to Parity Obligations assumed by the transferee; and

(J) covenants of the transferee relating to benefits of the Installment Purchase Agreement, amendments of the Installment Purchase Agreement and the effective date, but only with respect to Parity Obligations assumed by the transferee; and

(ii) the City will execute and deliver a Supplement which will reaffirm all of the City's representations and warranties under the Installment Purchase Agreement and each Supplement, the pledge provided for therein, and each of the covenants of the City contained in the Installment Purchase Agreement or any Supplement, provided that such representations, warranties, pledges and covenants will be limited solely and exclusively to the Municipal System, Municipal System Revenues, Maintenance and Operations Costs of the Municipal System and Net Municipal System Revenues, as the case may be.

Upon execution and delivery of such Supplements and upon satisfaction of the conditions specified above, the City will be relieved and discharged from any and all Installment Payment Obligations payable from Net System Metropolitan Revenues and which have been assumed by a transferee.

Maintenance and Operation of the Wastewater System; Budgets. The City will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Wastewater System as they become due and payable. The City will adopt and file with the Authority, on or before the effective date of the Installment Purchase Agreement, a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Wastewater System for the period from such date until the close of the then current Fiscal Year. On or before August 1, of each Fiscal Year, the City will adopt, and on or before 120 days after the beginning of the Fiscal Year, file with the Authority a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Wastewater System for such Fiscal Year. Any budget may be amended at any time during any Fiscal Year and such amended budget will be filed by the City with the Authority.

Amount of Rates and Charges; Rate Stabilization Fund. The City will fix, prescribe and collect rates and charges for the Wastewater Service which will be at least sufficient (a) to pay during each Fiscal

Year all Obligations, (other than Parity Obligations) payable in such Fiscal Year; and (b) to yield during each Fiscal Year Net System Revenues equal to 120% of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement.

The City may establish, as a fund within the Sewer Revenue Fund, a fund denominated the Rate Stabilization Fund. From time to time the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City will determine and the amount of available current System Revenues will be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Wastewater System, and any amounts so transferred will be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues.

Insurance. The City will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers, or provide self-insurance reserves, in such amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with wastewater systems similar to the Wastewater System. In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance or self-insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City will begin such reconstruction, repair, or replacement promptly, after such reconstruction, repair or replacement as expeditiously as possible, and will payout of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Wastewater System will be free and clear of all claims and liens unless the City determines that such property or facility is not necessary to the efficient operation of the Wastewater System and therefore determines not to reconstruct, repair or replace such project or facility. If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds will be deposited in the Sewer Revenue Fund and be available for other proper uses of Funds deposited in the Sewer Revenue Fund.

The City will procure and maintain such other insurance which it will deem advisable or necessary to protect its interests and the interests of the Authority, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with wastewater systems similar to the Wastewater System; provided, that, any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with wastewater systems similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained in the Installment Purchase Agreement will, to the extent reasonably obtainable, provide that the Authority and the Trustee will be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby. The City will certify to the Authority and Trustee annually or on or before August 31 that it is in compliance with the insurance requirements provided in the Installment Purchase Agreement.

Accounting Records, Financial Statements and Other Reports. The City will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Wastewater System, which records will be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

The City will prepare and file with the Authority and the Trustee, annually after the close of each Fiscal Year, the following:

(a) within 270 days financial statements of the Sewer Revenue Fund for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon;

(b) within 45 days, a detailed report as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Wastewater System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby; and

(c) the City will furnish a copy of the financial statements referred to above to any Owner of the Bonds requesting a copy thereof.

Payment of Taxes and Compliance With Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Wastewater System or any part thereof or upon the System Revenues when the same will become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof, but the City will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith.

Collection of Rates and Charges; No Free Service. The City will have in effect at all times rules and regulations for the payment of bills for Wastewater Services, and that such regulations will provide that where the City furnishes water to the property receiving Wastewater Service, the Wastewater Service charges will be collected together with the water rates upon the same bill providing for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may disconnect such premises from the water service, and such premises will not thereafter be reconnected to the water service except in accordance with City operating rules and regulations governing such situations of delinquency. The City will not permit any part of the Wastewater System or any facility thereof to be used or taken advantage of free of charge by any authority, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public corporation or agency of any thereof).

Eminent Domain Proceeds. If all or any part of the Wastewater System will be taken by eminent domain proceedings, then subject to the provisions of any Authorizing Ordinance, the Net Proceeds thereof will be applied to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Wastewater System and therefore determines not to replace such property or facilities. Any Net Proceeds of such award not applied to replacement or remaining after such work has been completed will be deposited in the Sewer Revenue Fund and be available for other proper uses of funds deposited in the Sewer Revenue Fund.

Tax Covenants. There will be included in each Supplement relating to Tax-Exempt Installment Payment Obligations such covenants as are deemed necessary or appropriate by Bond Counsel for the purpose of assuring that interest on such Installment Payment Obligations will be excluded from gross income under Section 103 of the Code. The 2016-1 Supplement sets forth certain tax covenants as specified therein.

Operate Wastewater System. The City will operate the Wastewater System in an efficient and economical manner; provided, that, the City may remove from the service on a temporary or permanent basis such part or parts of the Wastewater System so long as (a) Net System Revenues are equal to 120% of the Debt Service for the then current Fiscal Year and for each Fiscal Year thereafter to and including the Fiscal Year during which the last Installment Payment is due as evidenced by an Engineer's Report on file with the City, and (b) the City will have filed with the Trustee an opinion of nationally recognized Bond Counsel to the effect that the removal of such part or parts of the Wastewater System will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on Tax-Exempt Installment Payment Obligations.

Additional Covenants. The City may provide additional covenants pursuant to any Supplement, including covenants relating to any Credit Support obtained for Installment Payment Obligations; provided, however, that such additional covenants do not materially and adversely affect the right of Owners of Outstanding Obligations issued prior to any such Supplement.

Prepayment of Installment Payments

Provisions may be made in any Supplement for the prepayment of Installment Payments, in whole or in part, in such multiples and in such order of maturity and from funds of any source, and with such prepayment premiums and other terms as are specified in the Supplement. Said Supplement will also provide for any notices to be given relating to such prepayment. The 2016-1 Supplement contains provisions for the prepayment, at the option of the City, of the Principal Portion of the Component Installment Payments, as specified therein.

Events of Default and Remedies of the Authority

The following will be "events of default" under the Installment Purchase Agreement:

(a) failure in the due and punctual payment of or on account of any Parity Obligation as the same will become due and payable;

(b) failure by the City in the performance of any of the agreements or covenants required to be performed by it under the Installment Purchase Agreement (other than as specified in clause (a) above), and such default will have continued for 60 days after the City has been given notice in writing of such default by the Authority;

(c) if any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument will have occurred and be continuing; or

(d) if the City files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the City or of the whole or any substantial part of its property;

then and in each case during the continuance of such event of default, the Authority will upon the written request of the Owners of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, voting collectively as a single class; by written notice to the City, declare the entire unpaid principal amount thereof and the accrued interest thereon to be due and payable

immediately, and upon any such declaration the same will become immediately due and payable; anything to the contrary contained in the Installment Purchase Agreement notwithstanding; provided, that, with respect to a Series of Parity Installment Obligations which is credit enhanced by Credit Support, acceleration will not be effective unless the declaration is consented to by the related Credit Provider and, provided further, that nothing in the Installment Purchase Agreement will affect the rights of the parties to a Qualified Swap Agreement to terminate such Qualified Swap Agreement. If at any time after the entire principal amount of all Series of Parity Installment Obligations and the accrued interest thereon have been so declared due and payable and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the City will deposit with the Authority a sum sufficient to pay the unpaid principal amount of all such Series of Parity Installment Obligations and the unpaid payments of any other Parity Obligations referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Parity Installment Obligations and the accrued interest thereon due and payable solely by reason of such declaration), will have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate will have been made therefor, then the Authority, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Subject to the Installment Purchase Agreement and, with respect to any Subordinated Obligation, the Issuing Instrument creating that Subordinated Obligation, the Owners of Subordinated Obligations may enforce the provisions of the Installment Purchase Agreement for their benefit by appropriate legal proceedings. Notwithstanding anything to the contrary in the Installment Purchase Agreement, no Owner of Subordinated Obligations will have any right to take any action or enforce any right that has, a materially adverse effect on the interests of the Owners of the Installment Payment Obligations and the Authority will not take any action to enforce, on behalf of any Owner of Subordinated Obligations, any such right.

The payment of Subordinated Obligations will be subordinated in right of payment to payments of the Parity Obligations (except for any payment in respect to the Subordinated Obligations from the Reserve Funds or Reserve Accounts securing such Subordinated Obligations). In any Event of Default, Owners of Parity Obligations will be entitled to receive payment thereof in full before the Owners of Subordinated Obligations are entitled to receive payment thereof (except for any payment in respect of the Subordinated Obligations from Reserve Funds or Reserve Accounts securing such Subordinated Obligations) and the Owners of the Subordinated Obligations will become subrogated to the rights of such Owners of Parity Obligations to receive payments with respect thereto.

Application of Net System Revenues Upon Acceleration

All Net System Revenues received after the date of the declaration of acceleration by the Authority as provided in the Installment Purchase Agreement will be applied in the following order:

FIRST, to the payment of the costs and expenses of the Authority if any, in carrying out the provisions of the Installment Purchase Agreement, including reasonable compensation to its accountants and counsel;

SECOND, to the payment of the entire principal amount of the unpaid Parity Installment Obligations and the unpaid principal amount of all other Parity Obligations and the unpaid principal thereon, with interest on the overdue installments at the rate or rates of interest

applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount and accrued interest on all Parity Obligations, then accrued interest (and payments due to the counterparty to a Qualified Swap Agreement) will first be paid and any remaining amount will be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment will be protected with a priority based upon the total amounts due in the priority; and

THIRD, to the payment of the entire principal amount of the unpaid Subordinated Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount and accrued interest on all Subordinated Obligations, then accrued interest will first be paid and any remaining amount will be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment will be prorated within a priority based upon the total amounts due in the priority.

Other Remedies of the Authority

The Authority will have the right, subject to receipt of consent from any Credit Provider with respect to a particular Series of Parity Installment Obligations: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any councilmember, officer or employee thereof, and to compel the City or any such councilmember or officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or (c) by suit in equity upon the happening of an Event of Default to require the City and its councilmembers, officers and employees to account as the trustee of an express trust.

Discharge of Obligations

If (a) the City pays or causes to be paid or there will otherwise be paid to the Owners all Outstanding Installment Payment Obligations of a Series the interest thereon and the principal thereof and the redemption premiums, if any, thereon or if all Outstanding Obligations will be deemed to have been paid at the times and in the manner stipulated in the applicable Issuing Instrument; or (b) the transfer of ownership of substantially all of the Metropolitan System, as contemplated by the Installment Purchase Agreement will have occurred, then all agreements, covenants and other obligations of the City under the Installment Purchase Agreement will thereupon cease, terminate and become void and be discharged and satisfied (but only as to such Series in the case of any event described in clause (a) and only as provided in the Installment Purchase Agreement in the case of a transfer of the Metropolitan System) except for the obligation of the City to pay or cause to be paid all sums due thereunder.

Amendments

The Installment Purchase Agreement may be amended with respect to a Series of Installment Payment Obligations in writing as may be mutually agreed by the City and the Authority, with the written consent of any Credit Provider which is providing insurance until the final maturity or payment in full of one or more maturities of such Installment Payment Obligations, or any other Credit Provider for such Installment Payment Obligations and the Owners of a majority in aggregate principal amount of such Installment Payment Obligations then Outstanding, provided that no such amendment will (a) extend the payment date of any Installment Payment, or reduce the amount of any Installment Payment without the

prior written consent of the Owner of each Obligation so affected; (b) reduce the percentage of Installment Payment Obligations the consent of the Owners of which is required for the execution of any amendment of the Installment Purchase Agreement; or (c) amend the provisions of transfer of the Metropolitan System Components without an unqualified opinion of nationally recognized Bond Counsel to the effect that such amendment does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners of Tax-Exempt Installment Payment Obligations from gross income under Section 103 of the Code. Notwithstanding the foregoing, so long as the City has any obligations under a Qualified Swap Agreement, it will not amend or modify, or consent to the amendment or modification of, the Installment Purchase Agreement that would in any way adversely affect (i) the rights of a counterparty to a Qualified Swap Agreement under the Installment Purchase Agreement, or (ii) the obligations of the City under the Installment Purchase Agreement to such a counterparty without the prior written consent of such Qualified Swap Provider.

With the written consent of any Credit Provider, the Installment Purchase Agreement and the rights and obligations of the City and the Authority thereunder may also be amended or supplemented at any time by an amendment or supplement to the Installment Purchase Agreement which will become binding upon the execution by the City and the Authority, without the written consent of any Owner of Installment Obligations, but only to the extent permitted by law and only upon receipt of an unqualified opinion of nationally recognized Bond Counsel selected by the City and approved by the Authority to the effect that such amendment or supplement is permitted by the provisions of the Installment Purchase Agreement and is not inconsistent therewith and does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners from gross income for federal tax purposes, and only (a) to add to the covenants and agreements of the Authority or the City or to surrender any right or power reserved to or conferred upon the Authority or the City, and which will not adversely affect the interests of the Owners of the Installment Payment Obligations; (b) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising thereunder, as the Authority or the City may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Installment Payment Obligations; and (c) to make such other amendments or modifications which will not materially adversely affect the interests of the Owners of the Installment Payment Obligations.

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2016-1 SUPPLEMENT

The term "2016-1 Supplement" means the 2016-1 Supplement to the Master Installment Purchase Agreement, dated as of March 1, 2016, by and between the City and the Authority, supplementing and amending the Agreement. The 2016-1 Supplement sets for the certain terms and conditions of the purchase of the Refunded Components of the Project by the City. Certain provisions of the 2016-1 Supplement are summarized below.

Installment Payments

Pursuant to the 2016-1 Supplement, the City agrees to purchase the Components identified therein from the Authority by making Installment Payments comprised of a principal portion and interest portion which equal the debt service payments payable on the Series 2016A Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A BONDS" in the forepart of this Official Statement.

Tax Exemption

The City covenants in the 2016-1 Supplement as follows:

(a) The City will not directly or indirectly use or permit the use of any proceeds of the Series 2016A Bonds or any other funds of the City or of the Project, or take or omit to take any action that would cause the Series 2016A Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code.

(b) The City covenants that it will not take any action, or fail to take any action, if such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by the Series 2016A Bonds under Section 103 of the Code. The City will not directly or indirectly use or permit the use of any proceeds of the Series 2016A Bonds or any other funds of the City, or take or omit to take any action, that would cause the Series 2016A Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Series 2016A Bonds. In the event that at any time the City is of the opinion that for purposes of the Agreement it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the City will so instruct the Trustee in writing, and will cause the Trustee to take such action as may be necessary in accordance with such instructions.

(c) Without limiting the generality of the foregoing, the City agrees that there will be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Series 2016A Bonds from time to time. This covenant will survive payment in full or defeasance of the Series 2016A Bonds. The City specifically covenants to cause to be paid to the United States of America at the times and in the amounts determined under the 2016-1 Supplement the Rebate Requirement, as described in the Tax Certificate, and to otherwise comply with the provisions of the Tax Certificate executed by the City in connection with the issuance of the Series 2016A Bonds.

(d) Notwithstanding any provision of the tax covenants of the 2016-1 Supplement, if the City provides to the Trustee an opinion of nationally recognized Bond Counsel to the effect that any action required under the tax covenants contained in the 2016-1 Supplement is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on

the Series 2016A Bonds pursuant to Section 103 of the Code, the City may rely conclusively on such opinion in complying with the provisions thereof, and the covenants under the 2016-1 Supplement will be deemed to be modified to that extent.

Continuing Disclosure

The City covenants and agrees in the 2016-1 Supplement that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the 2016-1 Supplement, failure of the City to comply with the Continuing Disclosure Certificate will not be considered a default of any kind under the 2016-1 Supplement or the Agreement; however, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% in aggregate principal amount of the Series 2016A Bonds, will) or any Owner or Beneficial Owner of the Series 2016A Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, the cause the City to comply with its obligations under the foregoing covenant and agreement in the 2016-1 Supplement. For purposes of the 2016-1 Supplement, "Beneficial Owner" means any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2016A Bonds (including persons holding Series 2016A Bonds through nominees, depositories or other intermediaries).

APPENDIX C

FORM OF BOND COUNSEL OPINION

[Closing Date]

Public Facilities Financing Authority
of the City of San Diego
San Diego, California

City of San Diego
San Diego, California

$_____
Public Facilities Financing Authority of the City of San Diego
Senior Sewer Revenue Refunding Bonds, Series 2016A
(Payable Solely From Installment Payments
Secured By Wastewater System Net Revenues)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of $_____ aggregate principal amount of its Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2016A (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) (the "Series 2016A Bonds"). The Series 2016A Bonds are being issued pursuant to the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), and pursuant to an Indenture, dated as of May 1, 2009 (the "Original Indenture"), by and between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of June 1, 2009 (the "First Supplemental Indenture"), by and between the Authority and the Trustee, as supplemented by a Second Supplemental Indenture, dated as of April 1, 2010 (the "Second Supplemental Indenture"), by and between the Authority and the Trustee, as amended and supplemented by a Third Supplemental Indenture, dated as of September 1, 2015 (the "Third Supplemental Indenture"), by and between the Authority and the Trustee, and as supplemented by a Fourth Supplemental Indenture, dated as of March 1, 2016 (the "Fourth Supplemental Indenture," and collectively, with the Original Indenture, the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, the "Indenture"), by and between the Authority and the Trustee. Issuance of the Series 2016A Bonds has been authorized by an Ordinance passed by the City Council of the City of San Diego on June 16, 2015 (the "Ordinance"), and a resolution adopted by the Board of Commissioners of the Authority on June 16, 2015 (the "Authority Resolution"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture and the hereinafter defined Installment Purchase Agreement.

In connection with the issuance of the Series 2016A Bonds, we have examined: (a) the Charter of the City of San Diego; (b) the Bond Law; (c) the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013, by and among the City of San Diego (the "City"), the City solely in its capacity as the designated successor agency to the former Redevelopment Agency of the City of San Diego, and the Housing Authority of the City of San Diego; (d) certified copies of the Ordinance, the

Authority Resolution and certain other resolutions adopted by the City Council of the City and the Board of Commissioners of the Authority; (e) an executed copy of the Indenture; (f) an executed copy of the Master Installment Purchase Agreement, dated as of September 1, 1993, by and between the Authority and the City, as amended and supplemented, including as supplemented by the 2016-1 Supplement to the Master Installment Purchase Agreement, dated as of March 1, 2016, by and between the Authority and the City (collectively, the "Installment Purchase Agreement"); (g) a executed copy of the Escrow Agreement, dated _____, 2016 (the "Escrow Agreement"), by and among the City, the Authority, the Trustee and U.S. Bank National Association, as escrow agent (the "Escrow Agent"); (h) a copy of the Verification Report provided by Causey Demgen & Moore P.C.; (i) an executed copy of the Tax Compliance Certificate, dated the date hereof, relating to the Series 2016A Bonds and other matters (the "Tax Certificate"); (j) certifications of the City, the Authority, the Trustee, the Escrow Agent, Wells Fargo Bank, National Association, as representative of the underwriters of the Series 2016A Bonds (the "Underwriters"), Montague DeRose and Associates, LLC, as municipal advisor to the City, the City Clerk of the City, the Secretary of the Authority, and others; (k) opinions of counsel to the City, the Authority, the Trustee, the Escrow Agent, the Underwriters, and others; and (l) such other documents as we deemed relevant and necessary in rendering the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and the validity against, any parties, other than the Authority, thereto. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in this paragraph. We advise you that we have not made or undertaken to make any investigation of the state of title to any of the real property or ownership of any personal property described in the Installment Purchase Agreement, or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the obligations of the Authority and the City, the security provided therefor, as contained in the Installment Purchase Agreement, the Series 2016A Bonds and the Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the limitations on legal remedies against charter cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Series 2016A Bonds, the Indenture or the Installment Purchase Agreement. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated _____, 2016, or any other offering material relating to the Series 2016A Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2016A Bonds have been duly authorized and all legal conditions precedent to the issuance and delivery of the Series 2016A Bonds have been fulfilled.

2. The Series 2016A Bonds constitute the valid and binding limited obligations of the Authority secured by a pledge of and lien upon and are a charge upon and are payable from the Revenues and certain funds and accounts held by the Trustee under the Indenture.

3. The Indenture has been duly authorized, executed and delivered by the Authority, and, assuming the due authorization, execution and delivery by the Trustee, constitutes the valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2016A Bonds, of the Revenues and certain funds and accounts held by the Trustee under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. The Installment Purchase Agreement has been duly authorized, executed and delivered by the Authority and the City, and constitutes the valid and binding obligation of the Authority and the City, enforceable in accordance with its terms. The pledge by the City of the Net System Revenues under the Installment Purchase Agreement creates a legally valid and enforceable lien on Net System Revenues in favor of the Authority.

5. Except as aforesaid, the Series 2016A Bonds do not constitute a debt or liability of the Authority, the City or the State of California (the "State"). Neither the faith nor credit of the Authority, the City or the State or the taxing powers of the City, the State or any other political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2016A Bonds. The Authority has no power of taxation.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2016A Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

7. Under existing laws, interest on the Series 2016A Bonds is exempt from present State of California personal income taxes.

The opinions set forth in numbered paragraph 6 above regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Authority and the City with covenants regarding federal tax law contained in the Indenture, the Installment Purchase Agreement and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2016A Bonds to be included in gross income retroactive to the date of issue of the Series 2016A Bonds. Although we are of the opinion that interest on the Series 2016A Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2016A Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

Our engagement with respect to the Series 2016A Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion letter.

Very truly yours,

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Certificate"), is executed and delivered by the City of San Diego (the "City"), as of _____, 2016 in connection with the issuance of $_____ Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2016A (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) (the "Series 2016A Bonds"). The Series 2016A Bonds are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California, and an Indenture, dated as of May 1, 2009, as amended and supplemented by a First Supplemental Indenture dated as of June 1, 2009, a Second Supplemental Indenture, dated as of April 1, 2010, a Third Supplemental Indenture, dated as of September 1, 2015, and a Fourth Supplemental Indenture, dated as of March 1, 2016 (collectively, the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The City hereby covenants and agrees as follows:

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Owners (as defined in the Indenture) and the Beneficial Owners (as defined below) of the Series 2016A Bonds and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below). The City is the only Obligated Person (as defined in the Rule) for the Series 2016A Bonds.

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

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 hereof.

"*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 Series 2016A Bonds (including persons holding Series 2016A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2016A Bonds for federal income tax purposes.

"*Commission*" means the Securities and Exchange Commission.

"*Dissemination Agent*" means the City and any Person designated by the City to serve as Dissemination Agent.

"*MSRB*" means the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access System.

"*Notice Event*" means any of the events listed in Sections 5(a), (b) and (c) hereof.

"*Official Statement*" means the Official Statement, dated _____, 2016, prepared and distributed in connection with the initial sale of the Series 2016A Bonds.

"*Participating Underwriters*" means any of the original purchasers of the Series 2016A Bonds required to comply with the Rule in connection with offering of the Series 2016A Bonds.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*Rule*" means paragraph (b)(5) of Rule 15c2-12 adopted by the Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretation thereof issued either before or after the effective date of this Certificate that are applicable to this Certificate.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent (if other than the City) to, not later than each April 10 after the end of the City's fiscal year (which currently ends June 30), commencing with the report for the fiscal year ending June 30, 2016 (the "Filing Date"), provide to the MSRB, in a format prescribed by the MSRB, copies of an Annual Report which is consistent with the requirements of Section 4 hereof. As of the date of this Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access ("EMMA") system. Information regarding requirement for submissions to EMMA is available at emma.msrb.org.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 hereof; 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 Notice Event under subsection 5(c) hereof.

(b) Not later than fifteen (15) Business Days prior to the Filing Date for providing the Annual Report to the MSRB, 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 MSRB an Annual Report by the Filing Date, the City shall, in a timely manner, send a notice to the MSRB in substantially the form of Exhibit A attached hereto, in an electronic format as prescribed by the MSRB.

(c) The Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the date for providing the Annual Report the format for filing with the MSRB; and

(ii) file a report with the City certifying that the Annual Report has been provided pursuant to this Certificate, stating the date it was provided to the MSRB.

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

(a) The audited financial statements of the City for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles as applicable to state and local governments in the United States of America. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial information and operating data with respect to the City, as such information and data relate to the City's Public Utilities Department and the Sewer Revenue Fund, for the most recently completed fiscal year of the type included in the Official Statement, if any, in the following categories (to the extent not included in the City's audited financial statements):

(i) An update of the information contained in the table of the Official Statement entitled "Metropolitan Sub-System City and Participating Agencies Flow and Capacity Rights" (exclusive of the information contained under the column heading "Estimated Population");

(ii) An update of the information contained in the table of the Official Statement entitled "Wastewater System Total Annual Flow;"

(iii) An update of the information contained in the table of the Official Statement entitled "Wastewater System Historical Sources of Sewer Service Charge Revenues;"

(iv) An update of the information contained in the table of the Official Statement entitled "Municipal Sub-System Ten Largest Customers;"

(v) An update of the information contained in the table of the Official Statement entitled "Wastewater System Approved Rate Increases for Single Family Residential, Multifamily and Commercial and Industrial Customers," including rate(s) approved by the City Council for the most recently completed fiscal year that will become effective in a future fiscal year;

(vi) An update of the information contained in the table of the Official Statement entitled "Wastewater Customer Accounts Receivable and Shut-Offs;"

(vii) An update of the information contained in the table of the Official Statement entitled "Wastewater System - Municipal Sub-System Historical Equivalent Dwelling Units and Capacity Charge Revenues;"

(viii) An update of the information contained in the table of the Official Statement entitled "Sewer Revenue Fund Statements of Revenues, Expenses and Changes in Fund Net Assets" (will be available in the City's comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular form comparable to the referenced table);

(ix) An update of the information contained in the table of the Official Statement entitled "Reserves and Total Cash and Cash Equivalents in Sewer Revenue Fund" for the most recently completed fiscal year;

(x) An update of the information contained in the table of the Official Statement entitled "Calculation of Historical Parity and Aggregate Debt Service Coverage" (will be available in the City's comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular format comparable to referenced table);

(xi) An update of the information contained in the Official Statement under the heading "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Labor Relations" for the most recently completed fiscal year;

(xii) An update of the information contained under the heading "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Insurance and Liability Claims" and the table of the Official Statement entitled "Liability Claims Budget and Expenditures;"

(xiii) An update of the information contained under the heading "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Investment of Funds" and information in the table of the Official Statement entitled "City of San Diego Pooled Investment Fund;"

(xiv) An update of the information contained in the table of the Official Statement entitled "City of San Diego Schedule of Funding Progress;"

(xv) An update of the information contained in the table of the Official Statement entitled "City and Wastewater System Pension Contribution"; and

(xvi) An update of the information contained under the heading "WASTEWATER SYSTEM FINANCIAL OPERATIONS—Postemployment Healthcare Benefits."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB or the Commission. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Bonds, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event to the MSRB through EMMA:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties*;

(iv) substitution of credit or liquidity providers, or their failure to perform*;

(v) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701-TEB);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes**; and

(ix) bankruptcy, insolvency, receivership or similar event of the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City).

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Bonds, if material, not in excess of ten (10) Business Days after the occurrence of such Notice Event to the MSRB through EMMA:

(i) non-payment related defaults;

(ii) Unless described in Section 5(a)(v) above, other notices or determinations with respect to the tax status of the Series 2016A Bonds, or other events affecting the tax status of the Series 2016A Bonds;

(iii) modifications to rights of the holders of the Series 2016A Bonds;

(iv) bond calls***;

(v) release, substitution or sale of property securing repayment of the Series 2016A Bonds;

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* The City has not obtained or provided, and does not expect to obtain or provide, any credit enhancement or credit or liquidity providers for the Series 2016A Bonds.

** The City's obligation to provide notice of any rating change shall be deemed to be satisfied if the applicable rating agency files such change with EMMA pursuant to the "automated data feeds" that have been established by the MSRB.

*** Any scheduled redemption of Series 2016A Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

(vi) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets thereof, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

(vii) appointment of a successor or additional trustee or the change of name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Notice Event under subsection (b) above would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the MSRB through EMMA. Notwithstanding the foregoing, notice of Notice Events described in subsections (a)(vii) and (b)(iv) above need not be given under this subsection (c) any earlier than the notice, if any, of the underlying event is given to Owners of affected Series 2016A Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligation under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2016A Bonds. If such termination occurs prior to the final maturity of the Series 2016A Bonds, the City shall give notice of such termination in the name manner as for a Notice Event under subsection 5(c) hereof.

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligation under this Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Certificate. The initial Dissemination Agent shall be the City.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Certificate, the City may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2016A Bonds, or the type of business conducted;

(b) The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the issuance of the Series 2016A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of a majority of outstanding principal amount of the Series 2016A Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2016A Bonds.

In the event of any amendment or waiver of a provision of this Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event under subsection 5(c) hereof, 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 Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Notice Event, in addition to that which is required by this Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by this Certificate, 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 Notice Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Certificate, any Owner or Beneficial Owner of the Series 2016A Bonds may commence an action in a court of competent jurisdiction in San Diego, California, seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Certificate; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at least thirty (30) days' prior written notice to the City of the City's failure, giving reasonable detail of such failure, following which notice the City shall have thirty (30) days to comply. A default under this Certificate shall not be deemed an Event of Default under the Indenture with respect to the Series 2016A Bonds, and the sole remedy under this Certificate in the event or any failure of the City to comply with this Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

Section 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Certificate.

Section 12. Beneficiaries. This Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Owners and the Beneficial Owners from time to time of the Series 2016A Bonds, and shall create no rights in any other person or entity.

Section 13. Governing Law. This Certificate shall be governed by the laws of the State of California and the federal securities laws.

IN WITNESS WHEREOF, the City of San Diego has executed this Continuing Disclosure Certificate as of the date first set forth above.

CITY OF SAN DIEGO

By: _____
Mary Lewis
Chief Financial Officer

EXHIBIT A

NOTICE TO THE MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of San Diego

Name of Issue: Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2016A (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) (the "Series 2016A Bonds").

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the Series 2016A Bonds as required by the Continuing Disclosure Certificate, dated _____, 2016, with respect to the Series 2016A Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SAN DIEGO

By: _____
Title: _____

APPENDIX E

PROPOSED AMENDMENTS TO INDENTURE

Pursuant to the Third Supplemental Indenture, certain amendments will be made to the Original Indenture (the "Proposed Amendments"). By the purchase and acceptance of the Series 2016A Bonds, the Owners and Beneficial Owners of the Series 2016A Bonds will be deemed to have consented to the Proposed Amendments. The Proposed Amendments will not become effective until such time as the Owners of 51% in aggregate principal amount of the Bonds then Outstanding have consented to such Proposed Amendments (the "Amendment Effective Date"). ***By the purchase and acceptance of the Series 2016A Bonds, the Owners and Beneficial Owners of the Series 2016A Bonds will be deemed to have consented to the Proposed Amendments.*** *Any Owners and Beneficial Owners of Bonds issued on and after the date of issuance of the Series 2016A Bonds (including the Series 2016A Bonds) will be deemed to have consented to and will be subject to the Proposed Amendments, but only after the Owners of 51% in aggregate principal amount of the Bonds then Outstanding have consented to the Proposed Amendments. On the date of issuance of the Series 2016A Bonds, the City expects that more than 51% of the Owners of the then-Outstanding Bonds will have consented to the Proposed Amendments and the Proposed Amendments will become effective.*

The Proposed Amendments are set forth in this Appendix E. Additions to the Master Indenture are shown in **bold and double underline** and deletions are shown in ~~strikethrough~~.

Section 1.02 – Definitions.

The following definitions are to be amended or added to read as follows:

(a) The definition of "Reserve Requirement":

The term "Reserve Requirement" means, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Reserve Fund Participating Bonds; (ii) 125% of average annual debt service on the then-Outstanding Reserve Fund Participating Bonds, determined on a Fiscal Year basis; and (iii) Maximum Annual Debt Service with respect to the Reserve Fund Participating Bonds for that and any subsequent Fiscal Year. Upon early redemption of any of the Reserve Fund Participating Bonds, the Authority, at the request of the City, may request the Trustee to recalculate and reduce the Reserve Requirement, whereupon any excess in the Reserve Fund over and above the Reserve Requirement shall be transferred to the Payment Fund or such other fund or account as directed by the City. **Notwithstanding anything to the contrary in this definition of Reserve Requirement, upon maturity or early defeasance of all of the Outstanding 2009A Bonds, 2009B Bonds and 2010A Bonds, the amount of the Reserve Requirement may be decreased at the direction of the City, including, but not limited, to an amount equal to $0. Any such reduction shall be subject to the provisions of Section 6.11 hereof. At the time of any such reduction, the Authority shall provide notice to the Owners of the Reserve Fund Participating Bonds and the Rating Agencies then rating the Reserve Fund Participating Bonds.**

(b) The definition of "Surety Bond":

The term "Surety Bond" means a reserve surety bond, insurance policy, letter of credit or other similar instrument providing, by its terms, a stated amount as a credit towards or in

satisfaction of all or a part of the Reserve Requirement **with respect to the Reserve Fund or the reserve requirement with respect to any other Debt Service Reserve Fund**, which shall be held **in trust** by the Trustee ~~in trust, pursuant to Section 4.04(d) hereof~~.

(c) The definition of "Debt Service Reserve Fund":

The term "Debt Service Reserve Fund" means any special trust fund created by the Authority pursuant to this Indenture or a Supplemental Indenture in connection with the issuance of any series of Bonds and that is required to be funded for the purpose of providing additional security for such series of Bonds and under certain circumstances to provide additional security for such other designated series of Bonds issued pursuant to the terms of this Indenture and as specified in any Supplemental Indenture. Each Debt Service Reserve Fund shall be a "Reserve Fund" as defined in the Agreement. The Reserve Fund established pursuant to Section 4.01 hereof shall be a Debt Service Reserve Fund.

Section 3.04

Clause (c) of Section 3.04 is to be amended to read as follows:

(c) The Authority shall deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount)**, if any, (i)** sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement for all **of the Reserve Fund Participating** Bonds ~~and Additional Bonds~~ to be then Outstanding, **or (ii) sufficient to increase the balance in any other Debt Service Reserve Fund established with respect to such Additional Bonds to the reserve fund requirement for all of the Bonds participating in such Debt Service Reserve Funds, as described in the Supplemental Indenture executed and delivered with respect to such Additional Bonds. Notwithstanding anything to the contrary in this Indenture, at the time of issuance of any Additional Bonds, the City may elect that such Additional Bonds shall not be secured by a Debt Service Reserve Fund and that no Debt Service Reserve Fund shall be established or held by the Trustee;**

Section 5.01

Paragraph (a) of Section 5.01 is to be amended to read as follows:

(a) All Revenues and amounts on deposit in the funds and accounts established hereunder (other than amounts on deposit in the Rebate Fund created pursuant to Section 6.02 **hereof, and except as otherwise provided in the last sentence of this subsection (a)**) are hereby irrevocably pledged to the payment of the principal of and interest on the Bonds but only as provided herein, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, that out of the Revenues there may be allocated such sums for such purposes as are expressly permitted by Section 5.03 **hereof. Notwithstanding anything to the contrary in this Indenture, any Debt Service Reserve Fund (including, but not limited to, the Reserve Fund), the amounts on deposit therein and any Surety Bond provided at any time in satisfaction of all or a portion of the applicable reserve requirement established, maintained and provided for one or more specific series of Bonds are hereby irrevocably pledged to the payment of the principal of and interest on only those specific series of Bonds and are not pledged to and shall not be included as security for any other Bonds under this Indenture, unless otherwise provided by a Supplemental Indenture.**

Section 10.09

The first paragraph of Section 5.01(a) is to be amended to read as follows:

(a) Any moneys received by the Trustee pursuant to this Article, together with any moneys that upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts hereunder (other than the Rebate Fund**, the Debt Service Reserve Fund(s) (which shall only be available for payment of the principal of and interest on the specific Bonds secured by such Debt Service Reserve Fund, as described in Section 5.01(a) hereof)**, and ~~other than~~ money~~s~~ held for Bonds not presented for payment) shall, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

Section 12.01

The first sentence of Section 12.01(b) is to be amended to read as follows:

(b) The Bonds shall be limited obligations of the Authority and shall be payable solely from the Revenues and amounts on deposit in the funds and accounts established hereunder (other than amounts on deposit in the Rebate Fund created pursuant to Section 6.02 **hereof, and except as otherwise provided in the last sentence of Section 5.01(a) hereof**).

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APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the caption "—General" below has been provided by DTC. Neither the Authority nor the City make any representations as to the accuracy or the completeness of such information. The Beneficial Owners of the Series 2016A Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF THE AUTHORITY, THE CITY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2016A BONDS UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2016A BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE TO THE OWNERS OF THE SERIES 2016A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2016A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

DTC will act as securities depository for the Series 2016A Bonds. The Series 2016A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2016A Bond certificate will be issued for each maturity of the Series 2016A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or

maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016A Bonds, except in the event that use of the book-entry system for the Series 2016A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2016A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016A Bonds, such as redemptions, tenders, defaults and proposed amendments to the Series 2016A Bond documents. For example, Beneficial Owners of Series 2016A Bonds may wish to ascertain that the nominee holding the Series 2016A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

While the Series 2016A Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2016A Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2016A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the

Authority, the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Authority or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest 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.

DTC may discontinue providing its services as depository with respect to the Series 2016A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2016A Bonds are required to be printed and delivered.

The Authority (at the direction of the City) may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2016A Bonds will be printed and delivered to DTC.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believe to be reliable, but none of the Authority, the City or the Underwriters take any responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF SERIES 2016A BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

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