

**ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2016
RELATING TO**

\$453,775,000

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE BONDS, SERIES 2009A**

\$634,940,000

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE REFUNDING BONDS, SERIES 2009B**

\$313,620,000

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE REFUNDING BONDS, SERIES 2015**

\$403,280,000

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SENIOR SEWER REVENUE REFUNDING BONDS, SERIES 2016A**

(CUSIP Number 79730A)

Introduction

The Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (“2009A Bonds”), Senior Sewer Revenue Refunding Bonds, Series 2009B (“2009B Bonds”), Senior Sewer Revenue Refunding Bonds, Series 2015 (“2015 Bonds”), and Senior Sewer Revenue Refunding Bonds, Series 2016A (“2016A Bonds”) are collectively referred to as the “Outstanding Sewer Bonds”.

This Annual Report is being provided by the City of San Diego (the “City”), on behalf of itself and the Public Facilities Financing Authority of the City of San Diego (the “Authority”), for the above stated issuances pursuant to Continuing Disclosure Certificates (entered into to allow the respective underwriters to comply with the Securities and Exchange Commission Rule 15c2-12) for the Fiscal Year ended June 30, 2016.

The City of San Diego’s Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016 (“CAFR”), which includes the City’s Fiscal Year 2016 audited financial statements, was filed on the Electronic Municipal Market Access (“EMMA”) System of the Municipal Securities Rulemaking Board (“MSRB”) on February 23, 2017.

This Annual Report, including any amendment or supplement hereto, is electronically transmitted by the City acting as the Dissemination Agent to the EMMA System of the MSRB.

This Annual Report is provided in accordance with the terms of the Continuing Disclosure Certificates and does not purport to provide full and complete information on the terms of the above stated issuances. The filing of this Annual Report does not constitute or imply any representation that no changes, circumstances or events have occurred since the end of the Fiscal Year to which this Annual Report relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the security for the above

stated issuances or an investor's decision to buy, sell or hold the above-stated issuances. Certain information and data provided herein was obtained from sources other than the City ("Outside Information"), as indicated by the source citations. Although the information contained in this Annual Report has been obtained from sources that are believed to be reliable, the City has not independently verified such Outside Information, and the City cannot guarantee its completion or accuracy. Certain of the information presented in this Annual Report may contain forward-looking statements. Forward-looking statements may be indicated by forward-looking words such as "may," "will," "should," "expects," "believes," "anticipates," "estimates," or others. Forward looking statements are subject to a variety of uncertainties that could cause actual results to materially differ from the projected results. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the City, the Authority, the Wastewater System or the Outstanding Sewer Bonds.

The City is acting as the Dissemination Agent for each of the above stated issuances. The City does not have any obligation to update this report other than as expressly provided in the Continuing Disclosure Certificate for each of the above stated issuances.

Any statements regarding the above referenced issuances, other than a statement made by the City in an official release that is filed with the MSRB's EMMA system or posted on the City's investor information webpage, are not intended to be the basis of, nor should be relied upon in making an investment decision. The City is not responsible for the accuracy, completeness or fairness of any statements other than those obtained in the aforementioned locations.

DATED: 3-24-17

CITY OF SAN DIEGO

By: Mary Lewis
Mary Lewis
Chief Financial Officer

Distribution: Municipal Securities Rulemaking Board, Electronic Municipal Market Access System
US Bank National Association (Trustee)

FINANCIAL AND OPERATING DATA

As required by the Continuing Disclosure Certificates of the Outstanding Sewer Bonds, below are updates for the Tables titled “Metropolitan Sub-System City and Participating Agencies Flow and Capacity Rights,” “Wastewater System Total Annual Flow,” “Wastewater System Historical Sources of Sewer Service Charge Revenues,” “Municipal Sub-System Ten Largest Customers,” “Wastewater System Approved Rate Increases for Single Family Residential, Multifamily and Commercial and Industrial Customers,” “Wastewater Customer Accounts Receivable and Shut-Offs,” “Wastewater System – Municipal Sub-System Historical Equivalent Dwelling Units and Capacity Charge Revenues,” “Rate History for Sewer Capacity Charges,” “Sewer Revenue Fund Statement of Revenues, Expenses and Changes in Fund Net Assets,” “Reserves and Total Cash and Cash Equivalents in Sewer Revenue Fund,” “Calculation of Historical Parity and Aggregate Debt Service Coverage,” “City of San Diego Pooled Investment Fund,” “The City of San Diego Employee Organizations,” “Liability Claims Budget and Expenditures,” “City of San Diego Schedule of Funding Progress,” “City and Wastewater System Pension Contribution,” “City of San Diego Schedule of Funding Progress (Defined Benefit OPEB Plan)” and “City of San Diego and Wastewater System Retiree Health Contribution”.

Updates of information under the heading “WASTEWATER SYSTEM FINANCIAL OPERATIONS” under the captions “Investment of Funds,” “Pool Liquidity and Other Characteristics,” “Labor Relations,” “Insurance and Liability Claims,” “Pension Plan,” “Wastewater System Share of Contribution to Pension System,” and “Other Postemployment Healthcare Benefits” for the Outstanding Sewer Bonds are also contained in this Annual Report.

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**METROPOLITAN SUB-SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 2016
(Unaudited)**

Participating Agencies	Estimated Population ¹	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd)	% of Total Average Flow
City of Chula Vista	258,430	20.864	8.18%	15.177	10.41%
City of Coronado	25,500	3.250	1.28	1.212	0.83
City of Del Mar	4,289	0.876	0.34	0.506	0.35
City of El Cajon	103,000	10.915	4.28	6.858	4.70
City of Imperial Beach	30,000	3.755	1.47	2.115	1.45
City of La Mesa	59,166	6.993	2.74	4.061	2.78
City of National City	60,239	7.487	2.94	3.813	2.61
City of Poway	43,930	5.894	2.31	2.432	1.67
County/Spring Valley Sanitation Districts ²	160,256	17.503	6.86	7.424	5.09
Lemon Grove Sanitation District	25,670	3.027	1.19	1.580	1.08
Otay Water District	5,300	1.287	0.51	0.139	0.10
Padre Dam Municipal Water District	56,200	6.225	2.44	2.129	1.46
SUBTOTAL	831,980	88.076	34.54%	47.446	32.53%
City of San Diego	1,391,676	166.924	65.46	98.415	67.47
TOTAL	2,223,656	255.000	100.00%	145.861³	100.00%

¹ Participating Agencies provided population figures for their respective agencies. Population for the City of San Diego is as of January 1, 2016 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).

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

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**WASTEWATER SYSTEM
TOTAL ANNUAL FLOW¹**
Fiscal Years Ended June 30, 2007 through June 30, 2016
(in million gallons)
(Unaudited)

Fiscal Year Ending June 30	City Flow Through Point Loma Plant	Participating Agency Flow Through Point Loma Plant	City Flow Through Escondido Plant²	City Flow Through San Elijo Plant²	Recycled Water Through North City Plant	City Flow Through South Bay Plant	Total System Flow	Average MGD For The Year
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
2016	32,073	16,759	969	33	1,865	2,688	54,387	149

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.

Source: Public Utilities Department, City of San Diego

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WASTEWATER SYSTEM
HISTORICAL SOURCES OF SEWER SERVICE CHARGE REVENUES¹
Fiscal Years Ended June 30, 2012 through June 30, 2016
(Dollars in Thousands)
(Unaudited)

<u>Sources</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Single Family Domestic	\$112,996	\$114,356	\$114,746	\$121,313	\$112,595
Multifamily (Other Domestic)	90,069	80,527	80,881	78,969	74,677
Commercial/Industrial	89,677	92,523	94,706	92,583	83,673
Treatment Plant Service for Others ²	<u>71,366</u>	<u>67,940</u>	<u>67,834</u>	<u>65,771</u>	<u>68,533</u>
TOTAL	<u>\$364,108</u>	<u>\$355,346</u>	<u>\$358,167</u>	<u>\$358,636</u>	<u>\$339,478</u>

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

Sources: Comptroller's Office, City of San Diego

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**MUNICIPAL SUB-SYSTEM
TEN LARGEST CUSTOMERS
Fiscal Year Ended June 30, 2016¹
(Unaudited)**

	Sewer Billings	Percent of Total Operating Revenue ²
U.S. Navy	\$7,960,307	2.29%
C.P. Kelco	3,704,132	1.07
University of California, San Diego	3,402,459	0.98
San Diego Family Housing, LLC	2,928,514	0.84
Federal Government ³	1,511,866	0.44
R.J. Donovan Correctional Facility	1,434,713	0.41
City of San Diego	1,278,660	0.37
San Diego Unified School District	901,471	0.26
East Mesa Detention Facility	875,501	0.25
San Diego State University	822,191	0.24
TOTAL⁴	\$24,819,814	7.15%

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

² Reflects percentage of total operating revenues of \$346,949,603 for the Wastewater System; includes revenues from Participating Agencies. See the line item entitled "Total Operating Revenues" in "Sewer Revenue Fund Statements of Revenues, Expenses and Changes in Fund Net Assets" herein.

³ Excludes the United States Navy.

⁴ May not add up due to rounding.

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

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

<u>Effective Date</u>	<u>Single Family Domestic¹</u>	<u>All Classes % Rate Increase/ (Decrease)</u>	<u>Uniform Base Fee</u>	<u>Single Family Residential Usage Fee \$/HCF⁴ water</u>	<u>Multifamily (Other Domestic) Usage Fee \$/HCF⁴ water</u>	<u>Commercial & Industrial Customers</u>		
						<u>Monthly Wastewater Flow \$/HCF⁴ water</u>	<u>Total Suspended Solids \$/LB⁵</u>	<u>Chemical Oxygen Demand \$/LB⁵</u>
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

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.

Source: Public Utilities Department, City of San Diego

WASTEWATER CUSTOMER ACCOUNTS RECEIVABLE AND SHUT-OFFS
For Fiscal Years Ended June 30, 2012 through June 30, 2016
(Dollars in Thousands)
(Unaudited)

	2012	2013	2014	2015	2016
Sewer Service Charge Revenue ¹	\$364,108	\$355,346	\$358,167	\$358,636	\$339,478
Accounts Receivable ²	\$43,056	\$44,228	\$45,798	\$41,929	\$36,904
Accounts Receivable Over 120 Days ²	\$4,607	\$3,680	\$4,065	\$4,247	\$3,961
Number of Shut-Offs ^{3,4}	23,156	19,815	18,066	17,373	16,642

¹ Audited

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 Number of shut-offs in Fiscal Years 2014-2016 based on new methodology and not comparable with prior years.

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

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**WASTEWATER SYSTEM - MUNICIPAL SUB-SYSTEM
 HISTORICAL EQUIVALENT DWELLING UNITS
 AND CAPACITY CHARGE REVENUES
 Fiscal Years Ended June 30, 2012 through June 30, 2016
 (Dollars in Thousands)
 (Unaudited)**

Fiscal Year	Equivalent Dwelling Units	Capacity Charge Revenues
2012	1,864	\$9,290
2013	3,781	\$14,041
2014	4,819	\$20,300
2015	4,992	\$21,813
2016	4,297	\$18,435

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

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RATE HISTORY FOR SEWER CAPACITY CHARGES

<u>Effective Date</u>	<u>(Per Unit)</u>	<u>% Change</u>
July 1, 1991	\$4,484	16%
July 1, 1992	\$5,201	16%
July 1, 1993	\$6,033	16%
July 1, 1994	\$6,998	16%
April 22, 1996 ¹	\$2,500	(64%)
July 1, 2004 ²	\$3,710	48%
May 1, 2007 ³	\$4,124	11%

¹ Capacity charge decreased to \$2,500 pursuant to City Council Resolution No. R-287543 to encourage building activity.

² Capacity charge increased to \$3,710 pursuant to City Council Resolution No. R-299321 based on results of the October 2003 Cost of Service Study.

³ Capacity charge increased to \$4,124 pursuant to City Council Resolution No. R-302378 dated February 26, 2007 based on results of the December 2006 Cost of Service Study.

Source: Public Utilities Department, City of San Diego

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SEWER REVENUE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS¹
Fiscal Years Ended June 30, 2012 through June 30, 2016
(Dollars in Thousands)
(Audited; except as otherwise noted)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
OPERATING REVENUES					
Sewer Service Charges					
Inside City:					
Domestic ²	\$203,065	\$194,883	\$195,627	\$200,282	\$187,271
Commercial and Industrial ²	89,677	92,523	94,706	92,583	83,673
Outside City:					
Treatment Plant Service for Others ²	71,366	67,940	67,834	65,771	68,533
Subtotal: Sewer Service Charges ²	<u>\$364,108</u>	<u>\$355,346</u>	<u>\$358,167</u>	<u>\$358,636</u>	<u>\$339,477</u>
Services provided to City departments ²	1,779	1,870	1,556	1,618	2,363
Total Charges for Services	<u>\$365,887</u>	<u>\$357,216</u>	<u>\$359,723</u>	<u>\$360,254</u>	<u>\$341,840</u>
Other Operating Revenues	4,412	4,421	4,824	4,213	5,110
TOTAL OPERATING REVENUES	<u>\$370,299</u>	<u>\$361,637</u>	<u>\$364,547</u>	<u>\$364,467</u>	<u>\$346,950</u>
OPERATING EXPENSES					
Maintenance and Operations	\$129,343	\$121,990	\$151,522	\$138,941	\$132,503
Administration	65,191	73,648	50,427	56,393	59,659
Depreciation	65,186	68,452	70,585	70,762	71,877
TOTAL OPERATING EXPENSES	<u>\$259,720</u>	<u>\$264,090</u>	<u>\$272,534</u>	<u>\$266,096</u>	<u>\$264,039</u>
OPERATING INCOME (LOSS)	<u>\$110,579</u>	<u>\$97,547</u>	<u>\$92,013</u>	<u>\$98,371</u>	<u>\$82,911</u>
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	\$6,266	\$647	\$4,177	\$4,162	\$5,763
Federal Grant Assistance	336	9	-	-	-
Other Agency Grant Assistance	-	-	-	-	-
Gain (Loss) on Sale / Retirement of Capital Assets	(1,387)	(1,647)	(1,556)	(1,942)	(2,405)
Debt Service Interest Expense	(49,586)	(53,580)	(51,652)	(49,621)	(31,246)
Other	5,116	8,260	6,829	17,396	1,071
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$(39,255)</u>	<u>\$(46,311)</u>	<u>\$(42,202)</u>	<u>\$(30,005)</u>	<u>\$(26,817)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>\$71,324</u>	<u>\$51,236</u>	<u>\$49,810</u>	<u>\$68,366</u>	<u>\$56,094</u>
Capital Contributions	17,883	23,228	33,081	27,807	25,705
Transfers In	130	92	77	3,743	10,227
Transfers from Governmental Funds	-	275	19	-	-
Transfers Out	(1,103)	(1,346)	(2,077)	-	-
Transfers to Governmental Funds	(6,495)	(8,232)	(6,955)	(24)	(24)
Extraordinary Gains	1,180 ³	(1,180) ⁴	-	-	-
CHANGE IN NET ASSETS	<u>\$82,919</u>	<u>\$64,073</u>	<u>\$73,955</u>	<u>\$99,892</u>	<u>\$92,002</u>
Net Assets at Beginning of Year	<u>\$2,143,926</u>	<u>\$2,226,845</u>	<u>\$2,275,423</u> ⁵	<u>\$2,218,826</u> ⁶	<u>2,318,718</u>
NET ASSETS AT END OF YEAR	<u>\$2,226,845</u>	<u>\$2,290,918</u>	<u>\$2,349,378</u>	<u>\$2,318,718</u>	<u>\$2,410,720</u>

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 the Official Statement that were not prepared in accordance with GAAP.

² Unaudited.

³ Extraordinary Gain resulting from the dissolution of the Former RDA.

⁴ Extraordinary Loss resulting from prior year unpaid loan receivable from the Former RDA that will not be repaid.

⁵ Beginning balance restated due to the net effects of Governmental Accounting Standards Board No. 65 implementation and reclassification of workers' compensation fund.

⁶ Beginning balance restated due to the net effects of Governmental Accounting Standards Board Nos. 68 and 71 implementation.

Source of Table: Fiscal Years 2012-2016 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego

Source of Footnotes: Public Utilities Department (Unaudited), City of San Diego

RESERVES AND TOTAL CASH AND CASH EQUIVALENTS IN SEWER REVENUE FUND
Fiscal Years Ended June 30, 2012 through June 30, 2016
(Dollars in Thousands)
(Unaudited; except as noted)

<u>Reserve Funds</u> ¹	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Operating Reserve ²	\$35,250	\$43,724	\$48,099	\$48,099	\$48,280
Rate Stabilization Fund	21,300	21,300	21,300	51,000	65,250
Capital Improvement Reserve ³	5,000	5,000	5,000	5,000	5,000
Appropriated Reserve ⁴	3,500	3,500	3,500	3,500	3,500
Dedicated Reserve for Efficiencies and Savings ⁵	28,681	27,044	-	-	-
<i>Total Reserve Funds</i>	<u>\$93,731</u>	<u>\$100,568</u>	<u>\$77,899</u>	<u>\$107,599</u>	<u>\$122,030</u>
<i>Total Cash and Cash Equivalents in Sewer Revenue Fund</i> ⁶	\$432,872	\$423,226	\$455,531	\$432,707	\$430,662

¹ Established in accordance with City Reserve Policy.

² Described as Emergency Operating Reserve in the City Reserve Policy

³ Described as Emergency Capital Reserve in the City Reserve Policy

⁴ Starting Fiscal Year 2015, the Appropriated Reserve is no longer a part of the Sewer Utility Fund Reserves per the 2014 update to the City Reserve Policy; it is, however, a budgeted reserve funded through the annual budget process

⁵ 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.

⁶ Audited.

Source: Reserve Funds from Public Utilities Department and Comptroller's Office, City of San Diego. Total Cash and Cash Equivalents in Sewer Revenue Fund from Fiscal Years 2012-2016 Comprehensive Annual Financial Reports

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CALCULATION OF HISTORICAL PARITY AND AGGREGATE DEBT SERVICE COVERAGE
Fiscal Years Ended June 30, 2012 through June 30, 2016
(Dollars in Thousands)
(Unaudited)

Fiscal Year Ended June 30	Total System Revenues ^{3,4}	Total Maintenance and Operations Costs ⁵	Net System Revenues	Parity Obligations ¹			All Obligations ²		
				Principal	Interest	Total	Parity Debt Service Coverage	Total Debt Service	Aggregate Debt Service Coverage
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
2016 ⁷	368,195	192,185	176,010	66,187	34,633	100,820	1.75	106,879	1.65

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. 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 2.08 and Aggregate Debt Service Coverage would have been 1.97.

⁷ In Fiscal Year 2016, \$14.25 million was transferred to the Rate Stabilization Fund. If the transfer to the Rate Stabilization Fund had not occurred, System Revenues in Fiscal Year 2016 would have been \$382.4 million, Parity Debt Service Coverage would have been 1.89 and Aggregate Debt Service Coverage would have been 1.78.

Source: Statistical Section (Unaudited) of the Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2016; Comptroller's Office, City of San Diego

Source of Footnotes: Public Utilities Department (Unaudited), City of San Diego

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Investment of Funds

Pool Liquidity and Other Characteristics

The City Pool (including both the “Liquidity” and the “Core” portfolios) is highly liquid. Based on unreconciled and unaudited month-end data as of June 30, 2016, approximately 23.8% of the City Pool’s investments mature within 62 days, 27.94% within 92 days, 33.70% within 184 days, 44.3% within 1 year, 76.7% within 2 years, 98.6% within 3 years, and 100% within 5 years (on a cumulative basis). As of June 30, 2016, the City Pool had a weighted average maturity of 1.2 years (440 days) and its weighted average yield was 0.83%. 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 0.22 years and the Core portfolio had a duration of 1.66 years as of June 30, 2016. 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 0.22% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.66% 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.

CITY OF SAN DIEGO POOLED INVESTMENT FUND
At June 30, 2016
(Dollars in Thousands)
(audited)

Investment Instrument	Book Value	Fair Value	Percent of Total⁽¹⁾
U.S. Treasury Notes	\$ 823,983	\$ 829,375	34.06%
Agency Discount Notes	304,011	304,583	12.57
Agency Notes & Bonds	434,318	435,620	17.95
Supranationals ⁽²⁾	134,690	135,713	5.57
Commercial Paper	49,805	50,000	2.06
Corporate Notes & Bonds	150,692	151,745	6.23
Local Agency Investment Fund	60,071	60,108	2.48
Repurchase Agreement	166,600	166,600	6.89
Negotiable Certificates of Deposit	225,001	225,030	9.30
Asset Back Securities	<u>70,319</u>	<u>70,438</u>	2.91
TOTAL INVESTMENTS⁽³⁾	2,419,489	2,429,211	100.00%

⁽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 17.7% of the City Pool is allocable to the Water Utility Fund.

Source: The City’s Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016.

Source of footnotes: Office of the City Treasurer and Office of the City Comptroller, City of San Diego.

In addition, see Note 3 “Cash and Investments” in the City’s Fiscal Year 2016 CAFR.

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 OF SAN DIEGO EMPLOYEE ORGANIZATIONS	
Organization⁽¹⁾	Represented Employees⁽²⁾
San Diego Municipal Employees’ Association (“MEA”)	5,070
American Federation of State, County, and Municipal Employees, Local 127 (“AFSCME Local 127”)	2,090
San Diego Police Officers Association (“POA”)	2,032
San Diego City Firefighters, International Association of Firefighters, Local 145 (“IAFF Local 145”)	939
California Teamsters Local 911 (“Teamsters Local 911”)	168
Deputy City Attorneys Association (“DCAA”) ⁽³⁾	150

⁽¹⁾ Represents classified employees, except where otherwise noted.

⁽²⁾ As of the City’s Fiscal Year 2017 Adopted Budget.

⁽³⁾ Represents unclassified deputy city attorneys.

Source: Financial Management, City of San Diego.

As of June 30, 2016, there were approximately 856 regular full time employees of the Department (Wastewater Branch), of which approximately 487 were represented by the MEA, and approximately 324 were represented by AFSCME Local 127. The remaining 45 employees were unrepresented.

Collective Bargaining Agreements

In 2015 - 2016, the City entered into successor collective bargaining agreements with all six of its recognized employee organizations - for a five-year term from July 1, 2015 through June 30, 2020 with POA; for a four-year term from July 1, 2016 through June 30, 2020 with MEA, AFSCME Local 127, IAFF Local 145, and Teamsters Local 911; and for a three-year term from July 1, 2016 through June 30, 2019 with DCAA. 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 City 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 City 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 previous collective bargaining agreements included 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. Additionally, the City Council approved three separate 5 percent pensionable pay increases for Peace Officers Standards

and Training (P.O.S.T.) Basic Dispatcher Course Certificates for MEA-represented 911 Operators in the Police Department staggered over Fiscal Years 2017 and 2018 (on July 1, 2016; January 1, 2017; and July 1, 2017).

MEA: In 2015, the City and MEA mutually agreed to reopen negotiations to meet and confer on terms for Fiscal Year 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 general salary increase in pensionable compensation in Fiscal Years 2019 and 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: In 2016, the City and AFSCME Local 127 mutually agreed to reopen negotiations to meet and confer on terms for Fiscal Year 2017 through 2020. The City and AFSCME Local 127 have negotiated a successor collective bargaining agreement for a new term from July 1, 2016 through June 30, 2020. AFSCME Local 127-represented employees will receive a 3.3 percent general salary increase in pensionable compensation in Fiscal Years 2019 and 2020. In addition, effective in Fiscal Year 2019 there will be special salary adjustments ranging from 5 percent to 10 percent for certain classifications experiencing recruitment and retention issues. The agreement also contains non-pensionable compensation increases in Fiscal Years 2017 through 2020.

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 general salary increase in pensionable compensation in Fiscal Years 2019 and 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: In 2016, the City and IAFF Local 145 mutually agreed to reopen negotiations to meet and confer on terms for Fiscal Years 2017 through 2020. The City and IAFF Local 145 have negotiated a successor collective bargaining agreement for a new term from July 1, 2016 through June 30, 2020. IAFF Local 145-represented employees will receive a 3.3 percent general salary increase in pensionable compensation in Fiscal Years 2019 and 2020. The agreement also contains non-pensionable compensation increases in Fiscal Years 2017 through 2020.

Teamsters Local 911: In 2016, the City and Teamsters Local 911 mutually agreed to reopen negotiations to meet and confer on terms for Fiscal Years 2017 through 2020. The City and Teamsters Local 911 have negotiated a successor collective bargaining agreement for a new term from July 1, 2016 through June 30, 2020. Teamsters Local 911-represented employees will receive a 3.3 percent general salary increase in pensionable compensation in Fiscal Years 2019 and 2020. In addition, beginning in Fiscal Year 2019, specialty pays will be provided for participation on specialty teams or special assignments. The agreement also contains non-pensionable compensation increases in Fiscal Years 2017 through 2020.

DCAA: In 2016, the City and DCAA mutually agreed to reopen negotiations to meet and confer on terms for Fiscal Years 2017 through 2019. The City and DCAA have negotiated a successor collective bargaining agreement for a new term from July 1, 2016 through June 30, 2019. DCAA-represented employees will receive a 3.3 percent general salary increase in pensionable compensation in Fiscal Year 2019. In addition, effective in Fiscal Year 2019 there will be special salary adjustments ranging from 2 percent to 3 percent for Deputy II, IV and V due to recruitment and retention issues. The agreement also contains non-pensionable compensation increases in Fiscal Years 2017 through 2019.

See also sections on “CITY BUDGET AND RELATED MATTERS” and “SAN DIEGO CITY EMPLOYEES’ RETIREMENT SYSTEM” for impacts of collective bargaining agreements on the City’s Fiscal Year 2017 Adopted Budget and pension contributions.

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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.

The table below sets forth the budget and expenditures for liability claims of the Wastewater System for Fiscal Years 2012 through 2016.

LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years Ended June 30, 2012 through June 30, 2016
(Unaudited)

<u>Fiscal Year</u>	<u>Budget</u>	<u>Expenditures</u> ¹
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
2016	\$1,506,709	\$466,844

¹ Over-budget expenditures are paid from Sewer Revenue Fund fund balance.

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

In addition, see Note 14 “Risk Management” in the City’s Fiscal Year 2016 CAFR.

Pension Plan

The table below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2007 through 2016. In addition, refer to Note 11, "Pension Plans," in the Fiscal Year 2016 CAFR.

**CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years 2007 through 2016
(Dollars in Thousands)
(Unaudited)**

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	Actuarial Accrued Liability (AAL) (C)	Funded Ratio (Actuarial)	Funded Ratio (Market)	Unfunded AAL (Actuarial) (C)-(A)	AAL less Market Value of Assets (C)-(B)	Covered Payroll⁽¹⁾	Unfunded AAL to Covered Payroll
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 ⁽⁴⁾	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
2015 ⁽⁵⁾	6,204,244	6,387,829	8,205,953	75.6	77.8	2,001,709	1,818,124	480,662	416.4
2016 ⁽⁶⁾	6,455,378	6,307,412	9,013,130	71.6	70.0	2,557,752	2,705,718	465,100	549.9

⁽¹⁾ 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.

⁽²⁾ Reflects revised actuarial assumptions, including the return to EAN actuarial funding method.

⁽³⁾ Reflects revised actuarial methodologies and assumptions.

⁽⁴⁾ Reflects revised actuarial assumptions.

⁽⁵⁾ Reflects revised actuarial methodologies and assumptions.

⁽⁶⁾ Reflects revised actuarial and economic assumptions.

Source: San Diego City Employees' Retirement System FY 2016 Comprehensive Annual Financial Report for Actuarial Value of Assets, AAL, Funded Ratio (Actuarial), Unfunded AAL (Actuarial), Covered Payroll and Unfunded AAL to Covered Payroll (2007-2015); Cheiron Actuarial Valuations for Market Value of Assets (2007-2016), Funded Ratio (Market) and AAL Less Market Value of Assets (2011-2016) and Actuarial Value of Assets, AAL, Funded Ratio (Actuarial), Unfunded AAL (Actuarial) and Covered Payroll (2016); City Comptroller for Funded Ratio (Market) (2007-2010), AAL Less Market Value of Assets (2007-2010), and Unfunded AAL to Covered Payroll (2016).

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Wastewater System Share of Contribution to Pension System

The Table below sets forth the City’s Actuarially Determined Contribution (“ADC”) and pension payments for Fiscal Years 2013 through 2017, 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. In addition, refer to Note 11, “Pension Plans,” to the Fiscal Year 2016 CAFR.

**CITY AND WASTEWATER SYSTEM
PENSION CONTRIBUTION
Fiscal Years Ended June 30, 2013 through June 30, 2017
(Dollars in Thousands)
(Unaudited)**

Fiscal Year Ended June 30	Pension Plan ADC/ARC¹	POB Plan ARC	Total Plan ADC/ARC²	Pension Plan Contribution	POB Plan Contribution	Total Pension Contribution³	Wastewater System Contribution	Wastewater System Contribution (% of O&M)
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	1,399	264,999	14,474	5.4
2016	254,900	777	255,677	254,900	1,595	256,495	13,349	5.1
2017 ⁴	261,100	NA	NA	261,100	1,500	262,602	16,143	6.6

¹ Actuarially Determined Contribution (“ADC”) has replaced the Annual Required Contribution (“ARC”) starting in Fiscal Year 2015.

² Includes core pension ARC/ADC and Preservation of Benefits (POB) Plan ARC. See required supplementary information section in the City’s Fiscal Year 2016 CAFR for more information on Pension Plan ARC/ADC and POB Plan ARC. Per IRS guidelines, the City may not pre-fund the POB Plan. Therefore, plan contributions may differ from the Total ARC/ADC in any given year.

³ Comprised of the pension plan contribution and the POB plan contribution; may not sum due to rounding.

⁴ Except for Pension Plan ARC/ADC, which is an actual amount, all other amounts are budgeted.

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 (2013-2016); Financial Management, City of San Diego for Wastewater System Contribution (2017)

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Other Postemployment Healthcare Benefits (OPEB)

The tables below set forth the (i) City’s defined benefit OPEB plan funding progress for Fiscal Years 2008 through 2016; and (ii) the City’s OPEB ARC and City’s contributions for Fiscal Years 2013 through 2017, with amounts related specifically to the Wastewater System. In addition, refer to Note 12, “Other Postemployment Benefits,” in the Fiscal Year 2016 CAFR.

The OPEB defined benefit plan (“DB OPEB Plan”) has been closed to new employees since July 1, 2005 and certain healthcare-eligible employees and retirees opted out of the defined benefit plan and into a defined contribution retiree healthcare plan (“DC Plan”) in April 2012. The City’s Total Retiree Healthcare Contribution covers the City’s cost for both the defined benefit plan and the defined contribution plan.

**CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS (DEFINED BENEFIT OPEB PLAN)
Fiscal Years 2008 through 2016
(Dollars in Thousands)
(Unaudited)**

Fiscal Year ending June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll⁽¹⁾	Unfunded AAL 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
2016	116,590	654,355	537,765	17.82	74,002	726.7

⁽¹⁾ Represents Defined Benefit Other Postemployment Benefits Plan participation only.

Source: Comprehensive Annual Financial Reports, Comptroller’s Office, City of San Diego

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**CITY OF SAN DIEGO AND WASTEWATER SYSTEM
RETIREE HEALTH CONTRIBUTION
Fiscal Years Ended June 30, 2013 through June 30, 2017
(Dollars in Thousands)
(Unaudited)**

Fiscal Year Ended June 30	DB OPEB ARC	City DB OPEB Contribution¹	City DC Plan Contribution	Total City Retiree Health Contribution	Sewer Fund Retiree Health Contribution	Sewer Fund Contribution % of O&M
2013	\$35,348	\$38,103	\$19,679	\$57,782	\$4,362	1.7%
2014	38,097	32,143	25,639	57,782	4,844	1.8
2015	41,740	31,515	26,267	57,782	4,285	1.6
2016	46,976	30,362	28,865	59,227	4,152	1.6
2017 ²	48,474	N/A	N/A	60,710	4,795	2.0

¹ Includes funding of administrative costs for DB OPEB Plan.

² Contributions reflect budgeted amounts. The DB OPEB and DC Plan Contributions will be available at the end of the Fiscal Year.

Source: Risk Management, Financial Management, Comptroller's Office, City of San Diego

Retiree Medical Trust

The City has 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 Total Retiree Health Contribution noted above, 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 2016 was \$272,514 (whole dollars) (the Sewer Fund portion of the contribution was \$23,271), and the budgeted contributions for Fiscal Year 2017 is \$901,989 of which \$357,289 is the general member contribution and \$544,700 is the Southern California Firefighters Benefit Trust (the Sewer Fund budgeted portion of the contribution is \$25,689).

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