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 AUGUST 20, 2015

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 2015 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 2015 Bonds is exempt from present State of California personal income taxes. For a more complete description, see "TAX MATTERS" herein.

$269,785,000*
PUBLIC FACILITIES 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)

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

The $269,785,000* Public Facilities 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) (the "Series 2015 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, and a Third Supplemental Indenture, to be dated as of September 1, 2015 (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 2015 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 2015 Bonds.

THE SERIES 2015 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 2015 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 2015 BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Series 2015 Bonds are limited obligations of the Authority primarily secured by Revenues of the Authority, which consist primarily of 2015-1 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 2015-1 Supplement to the Master Installment Purchase Agreement, to be dated as of September 1, 2015 (the "2015-1 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 2015-1 Installment Payments. The City's pledge and assignment of and lien on the Net System Revenues securing the 2015-1 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 2015 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 2015-1 Installment Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement. Upon the incurrence of the 2015-1 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 2015 BONDS—Outstanding Obligations" herein.

The Series 2015 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 November 15, 2015. The Series 2015 Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See "DESCRIPTION OF THE SERIES 2015 BONDS—General" herein and "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

The Series 2015 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 2015 Bonds. Ownership interests in the Series 2015 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2015 Bonds, principal of and interest on the Series 2015 Bonds will be made as described in "APPENDIX F—INFORMATION REGARDING THE BOOK-ENTRY-ONLY SYSTEM" attached hereto.

The Series 2015 Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2015 BONDS—Redemption" herein.

Purchasers of the Series 2015 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 2015 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 2015 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 2015 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about September 24, 2015.

BofA Merrill Lynch

Academy Securities, Inc. **Fidelity Capital Markets** **Jefferies** **Morgan Stanley**

Date of Official Statement: _____

* Preliminary; subject to change.

$269,785,000*

PUBLIC FACILITIES 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)

MATURITY SCHEDULE

Maturity Date (May 15)*	Principal Amount*	Interest Rate	Yield†	Price†	CUSIP‡
2016	$ 4,630,000				
2022	65,485,000				
2023	72,115,000				
2024	56,170,000				
2025	58,975,000				
2026	12,410,000				

$_____ ____% 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 2015, 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015 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 2015 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 2015 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
Mission Gorge Trunk Sewer
East Mission Beach Trunk Sewer
Digested Sludge Pipeline
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 Reclamation Sewers
South Bay Land Outfall
South Bay WRP
South Bay Ocean Outfall
SDGIS

OFFICIAL STATEMENT

$269,785,000*
PUBLIC FACILITIES 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)

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 $269,785,000* Public Facilities 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) (the "Series 2015 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, and a Third Supplemental Indenture, to be dated as of September 1, 2015 (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 thereunder (the "Trustee"). The proceeds of the Series 2015 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 2015 Bonds. As of June 30, 2015, the Series 2009A Bonds were Outstanding in the aggregate principal amount of $378,115,000, the Series 2009B Bonds were Outstanding in the aggregate principal amount of $435,490,000, and the Series 2010A Bonds were Outstanding in the aggregate principal amount of $161,930,000.

The Series 2015 Bonds

The Series 2015 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 November 15, 2015 (each, an "Interest Payment Date"). The Series 2015 Bonds will bear interest at the respective rates per annum set forth on the inside cover page hereof. See "DESCRIPTION OF THE SERIES 2015 BONDS—General."

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* Preliminary; subject to change.

The Series 2015 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 2015 Bonds. Ownership interests in the Series 2015 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2015 Bonds, the principal of and interest on the Series 2015 Bonds will be made as described in "APPENDIX F—INFORMATION REGARDING THE BOOK-ENTRY-ONLY SYSTEM."

Security and Sources of Payment for the Series 2015 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 2015 Bonds are limited obligations of the Authority secured by a pledge of Revenues (herein defined) of the Authority, consisting primarily of 2015-1 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 2015-1 Supplement to the Master Installment Purchase Agreement, to be dated as of September 1, 2015 (the "2015-1 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 2015-1 Installment Payments. The pledge and assignment of and lien on the Net System Revenues securing the payment of the 2015-1 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 2015 BONDS."

THE SERIES 2015 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 2015 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 2015 BONDS. THE AUTHORITY HAS NO TAXING POWER.

Redemption of the Series 2015 Bonds

The Series 2015 Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2015 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 2015 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."

Reserve Fund

The Indenture currently requires the Authority to establish and maintain a Reserve Fund to secure the payment of the principal of and interest on the Reserve Fund Participating Bonds (defined herein). The Authority must maintain in the Reserve Fund or have credited thereto an amount of money equal to the Reserve Requirement. "Reserve Requirement" is defined to be, as of any date of calculation, the least of (i) 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. On the date of issuance of the Series 2015 Bonds, the Reserve Fund Participating Bonds will include the nonrefunded Series 2009A Bonds, the nonrefunded 2009B Bonds, the nonrefunded 2010A Bonds and the Series 2015 Bonds. However, following the Amendment Effective Date (as defined under "—Amendments to Indenture" below), the City currently expects to elect that the Series 2015 Bonds will no longer be included as Reserve Fund Participating Bonds and will no longer be secured by the Reserve Fund or any other debt service reserve fund. See "—Amendments to Indenture" below and "APPENDIX E—PROPOSED AMENDMENTS TO INDENTURE." Also see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2015 BONDS—Reserve Fund."

Outstanding Obligations

As June 30, 2015, there was $1,066,720,039 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 and the Existing Parity SRF Loans (herein defined) (collectively, the "Outstanding Parity Obligations"), and $41,970,610 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 2015 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 2015-1 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 2015 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

Pursuant to the Third Supplemental Indenture, certain amendments will be 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 2015 Bonds, the Owners and Beneficial Owners of the Series 2015 Bonds are 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 2015 Bonds (including the Series 2015 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 2015 Bonds, ___%[*] of the Owners of the then-Outstanding Bonds (the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds, the unrefunded Series 2010A Bonds and the Series 2015 Bonds) will have consented to the Proposed Amendments. Only the Owners of the Series 2015 Bonds have consented to the Proposed Amendments. 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. At this time there can be no assurance that the Proposed Amendments will become effective within any definite time frame.

The Proposed Amendments include, among other amendments, changes to the requirement under the Original Indenture that the Series 2015 Bonds and any Additional Bonds issued after the date of issuance of the Series 2015 Bonds participate in and be secured by the Reserve Fund. The Proposed Amendments will allow the Series 2015 Bonds and any Additional Bonds issued after the date of issuance of the Series 2015 Bonds 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 currently expects that upon the Amendment Effective Date it will elect that 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 2015 Bonds are no longer

[*] The City does not expect that the Owners of more than 51% of the Bonds will have consented to the Proposed Amendments at the time of issuance of the Series 2015 Bonds.

secured by the Reserve Fund, 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. See "RISK FACTORS—After Amendment Effective Date Series 2015 Bonds May Not be Secured by Reserve Fund."

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 2015 Bonds is excluded from gross income for federal income tax purposes. Bond Counsel also is of the opinion that interest on the Series 2015 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 2015 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 2015 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, 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 "CHALLENGES TO OTHER AUTHORITY LEASE REVENUE BONDS."

Except as provided in the Indenture, the Authority has no liability to the owners or Beneficial Owners of any of the Series 2015 Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the Series 2015 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 2015 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, 2024* (the "Refunded Series 2010A Bonds"), and (b) pay the costs of issuance of the Series 2015 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 2015 Bonds and the refunding of the Refunded Bonds are subject to market conditions, and the Series 2015 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.

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* Preliminary; subject to change.

Refunded Series 2009A Bonds[*1]

Maturity Date (May 15)	Principal Amount	Interest Rate	CUSIP Number[2]	Maturity Date (May 15)	Principal Amount	Interest Rate	CUSIP Number[2]
2020	$ 9,835,000	4.000%	79730AFQ6	2026	$ 13,040,000	5.000%	79730AFT0
2021	10,230,000	5.000	79730AGC6	2027	13,695,000	5.000	79730AGF9
2022	2,430,000	4.500	79730AFR4	2028	14,380,000	5.000	79730AGG7
2022	8,315,000	5.000	79730AGJ1	2029	15,100,000	5.125	79730AFU7
2023	11,270,000	5.000	79730AGD4	2034	79,520,000	5.250	79730AGK8
2024	11,830,000	5.000	79730AFS2	2034	8,655,000	5.375	79730AFV5
2025	12,425,000	5.000	79730AGE2	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.

Refunded Series 2009B Bonds[*1]

Maturity Date (May 15)	Principal Amount	Interest Rate	CUSIP Number[2]	Maturity Date (May 15)	Principal Amount	Interest Rate	CUSIP Number[2]
2020	$ 1,535,000	4.000%	79730AHF8	2022	$ 58,795,000	5.000%	79730AHL5
2020	52,760,000	5.000	79730AHG6	2023	275,000	4.500	79730AHM3
2021	600,000	4.250	79730AHH4	2023	62,550,000	5.500	79730AHN1
2021	56,395,000	5.000	79730AHJ0	2024	13,270,000	5.000	79730AHP6
2022	1,050,000	4.375	79730AHK7	2025	13,930,000	5.250	79730AHQ4

[*] 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]
2024	$34,060,000	5.250%	79730AHR2
2025	35,845,000	5.250	79730AHS0
2026	29,170,000	5.250	79730AHT8
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.

If issued, a portion of the proceeds of the Series 2015 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 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 2015 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 2015 Bonds and their expected uses are set forth below:

SOURCES:	
Principal Amount of the Series 2015 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 2015 Bonds.

DESCRIPTION OF THE SERIES 2015 BONDS

General

The Series 2015 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 2015 Bonds. Ownership interests in the Series 2015 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2015 Bonds, principal of and interest on the Series 2015 Bonds will be made as described in "APPENDIX F—INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

The Series 2015 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 November 15, 2015. The Series 2015 Bonds will bear interest at the respective rates set forth on the inside cover page hereof.

Interest on the Series 2015 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 2015 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 2015 Bonds, interest is then in default on the Outstanding Series 2015 Bonds, such Series 2015 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 2015 Bonds. Payment of interest on the Series 2015 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 2015 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 2015 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 2015 Bonds maturing on and before May 15, 20__ are not subject to optional redemption prior to their stated maturities. The Series 2015 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 2015-1 Installment Payments paid pursuant to the Indenture, at a redemption price equal to the principal amount of Series 2015 Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2015 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 2015 Bonds maturing on May 15, 20__ (the "20__ Series 2015 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 2015 Term Bonds Maturing on May 15, 20__	
Sinking Fund Payment Dates (May 15)	Sinking Account Payments

* Final Maturity.

The Series 2015 Bonds maturing on May 15, 20__ (the "20__ Series 2015 Term Bonds," and together with the 20__ Series 2015 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 2015 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 2015 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 2015 Bonds thereof and in the case of a Series 2015 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 2015 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 2015 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the Series 2015 Bonds will become due and payable, and from and after the date so designated, interest on the Series 2015 Bonds so called for redemption will cease to accrue, and the Owners of such Series 2015 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 2015 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 2015 BONDS

Sources of Payment; Priority of Pledge of Net System Revenues

The Series 2015 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 2015-1 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 2015-1 Installment Payments (which, in turn, secure the Series 2015 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 2015-1 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 2015 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 2015-1 Installment Payments (which, in turn, secure the Series 2015 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, 2014 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 2015 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 2015-1 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 2015-1 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 2015-1 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.

Reserve Fund

General. The Indenture currently requires the Authority to establish and maintain a Reserve Fund to secure the payment of the principal of and interest on the Reserve Fund Participating Bonds. The Indenture requires the Authority to maintain in the Reserve Fund an amount of money which, together with the amount already on deposit therein, including the stated amount of a Surety Bond, if any, then on deposit, is equal to the Reserve Requirement. The "Reserve Requirement" is defined to be, as of any date of calculation, the least of (a) 10% of the proceeds (within the meaning of Section 148 of the Code) of the Reserve Fund Participating Bonds; (b) 125% of average annual debt service on the then-Outstanding Reserve Fund Participating Bonds, determined on a Fiscal Year basis; and (c) Maximum Annual Debt Service with respect to the then-Outstanding Reserve Fund Participating Bonds for that and any subsequent Fiscal Year. The Authority may fund the Reserve Requirement by depositing into the Reserve Fund cash from the proceeds of Reserve Fund Participating Bonds issued under the Indenture or a Surety Bond. At the time of issuance of the Series 2015 Bonds, sufficient amounts will be on deposit in the Reserve Fund to meet the Reserve Requirement ($_____) and no proceeds of the Series 2015 Bonds will be required to be deposited to the Reserve Fund. The Reserve Fund is currently and will be at the time of issuance of the Series 2015 Bonds funded with cash and securities. No portion of the Reserve Fund has been or will be at the time of issuance of the Series 2015 Bonds funded with a Surety Bond. See "APPENDIX E—PROPOSED AMENDMENTS TO INDENTURE" with respect to certain amendments being made to the Indenture that would allow the Series 2015 Bonds and Additional Bonds issued after the date of issuance of the Series 2015 Bonds to not be secured by the Reserve Fund or any other debt service reserve fund.

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 Series 2015 Bonds), including the redemption price of Reserve Fund Participating Bonds coming due and payable by operation of mandatory sinking fund redemption pursuant to the Indenture, in the event that the moneys in the Payment Fund are insufficient therefor. 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 the Reserve Fund Participating Bonds coming due and payable by operation of mandatory sinking fund redemption pursuant to the Indenture, the Trustee will withdraw the amount of such insufficiency from the Reserve Fund or make a draw upon any Surety Bond then on deposit in the Reserve Fund in the amount of such insufficiency and transfer such amount to the Payment Fund.

Reserve Fund Participating Bonds. At the time of issuance of the Series 2015 Bonds, "Reserve Fund Participating Bonds" will mean the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds, the unrefunded Series 2010A Bonds, the Series 2015 Bonds, any Additional Bonds issued prior to the Amendment Effective Date and any other series of Outstanding 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 (including the Series 2015 Bonds) will no longer be included as Reserve Fund Participating Bonds.

Under no circumstances will the Outstanding 2009A Bonds, the Outstanding 2009B Bonds or the Outstanding 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.

The City currently expects that upon the Amendment Effective Date it will elect that 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 2015 Bonds are no longer secured by the Reserve Fund, the City expects that the Reserve Requirement will be reduced and a portion of the moneys on deposit in the Reserve Fund will be transferred, at the election of the City, to the Acquisition Fund to pay costs of capital improvements to the Wastewater System, or to the accounts in the Payment Fund to be used to pay debt service on the Reserve Fund Participating Bonds or to redeem or purchase a portion of the Reserve Fund Participating Bonds.

Outstanding Obligations

As of June 30, 2015, there was $1,066,720,039 aggregate principal amount of Parity Obligations outstanding and $41,970,610 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 2015-1 Installment Payments and the defeasance described herein, the Outstanding Parity Obligations will consist of Installment Payments relating to the Series 2015 Bonds, the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds, the unrefunded Series 2010A 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 the outstanding Series 2009A Bonds, Series 2009B Bonds, Series 2010A Bonds and Existing Parity SRF Loans) and the Outstanding Subordinated Obligations (which includes the Existing Subordinated SRF Loans) as of June 30, 2015.

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TABLE 1
OUTSTANDING PARITY AND SUBORDINATED OBLIGATIONS
SECURED BY NET SYSTEM REVENUES OF THE WASTEWATER SYSTEM
(as of June 30, 2015)
(Unaudited)

Name of Issue	Original Issue Size	Principal Outstanding[5]	Scheduled Final Maturity Date
Parity Obligations			
Series 2009A Bonds	$ 453,775,000	$ 378,115,000	May 15, 2039
Series 2009B Bonds	634,940,000	435,490,000	May 15, 2025
Series 2010A Bonds	161,930,000	161,930,000	May 15, 2029
Existing Parity SRF Loans[1,2]	92,762,065	91,185,039	April 2038
Total Parity Obligations	$1,343,407,065	$1,066,720,039	
Subordinated Obligations			
Existing Subordinated SRF Loans[3]	$98,991,020	$41,970,610	March 30, 2026
Total Subordinated Obligations	$98,991,020	$41,970,610	
Total Parity and Subordinated Obligations[4]	$1,462,196,765	$1,108,690,649	

Source: Public Utilities Department

[1] See Note 6 "—BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES" contained in "APPENDIX A—BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014" 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—BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014" 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 2015-1 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 2015-1 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 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 2015-1 Installment Payments; provided that (a) all Parity Obligations (including the Parity Obligations proposed to be incurred) 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 2015 Bonds and the other Outstanding Parity Obligations (which include the outstanding Series 2009A Bonds, Series 2009B Bonds, Series 2010A 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 2015 BONDS."

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

	Outstanding Parity Obligations[1]			Series 2015 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	$ 54,431,831	$ 50,277,984	$ 104,709,815					$ 6,059,214	
2017	58,748,088	48,769,454	107,517,542					6,059,214	
2018	61,686,374	46,020,718	107,707,092					6,059,214	
2019	65,188,126	43,252,268	108,440,394					6,059,214	
2020	68,193,727	40,242,679	108,436,406					6,059,214	
2021	71,376,241	37,062,365	108,438,606					5,171,323	
2022	74,830,712	33,616,144	108,446,856					4,968,138	
2023	78,427,186	30,013,883	108,441,069					2,077,734	
2024	63,585,708	25,904,236	89,489,944					1,593,678	
2025	66,721,326	22,765,467	89,486,793					699,028	
2026	46,829,089	19,433,267	66,262,356					699,028	
2027	49,104,047	17,149,884	66,253,931					–	
2028	34,871,251	14,751,705	49,622,956					–	
2029	36,520,752	13,105,529	49,626,281					–	
2030	20,907,605	11,358,813	32,266,418					–	
2031	21,851,864	10,414,180	32,266,044					–	
2032	22,843,585	9,423,133	32,266,718					–	
2033	23,882,826	8,383,262	32,266,088					–	
2034	23,972,083	7,292,130	31,264,213					–	
2035	24,546,566	6,169,256	30,715,822					–	
2036	24,951,754	5,004,657	29,956,411					–	
2037	23,438,583	3,794,493	27,233,076					–	
2038	24,640,714	2,589,300	27,230,014					–	
2039	25,170,000	1,321,425	26,491,425					–	
Total[3]	$1,066,720,039	$508,116,230	$1,574,836,269					$45,504,999	

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, and (ii) 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, 2014, the Metropolitan Sub-System served a population of approximately 2.2 million. Additionally, as of June 30, 2014, the Wastewater System had approximately 273,000 customers, 12 Participating Agencies and approximately $358.2 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.

Robert Mulvey. Mr. Mulvey currently serves as the Assistant Director of the Water Quality Branch and 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. He holds a Bachelor of Science degree in Chemical Engineering from Arizona State University, and is a Registered Professional Engineer in Arizona and holds a Grade 4 Water and Wastewater Operator Certification in Arizona and New Mexico. Prior to joining the Department in September 2013, Mr. Mulvey managed Municipal Utility Departments in three western states where he led planning, design, construction start-up and the operation of several water and wastewater plant projects; as well as groundwater development and aquifer storage and recovery. His 30-year professional background also includes extensive experience with industrial pretreatment and Safe Drinking Water Act Compliance programs.

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 75 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 Enterprise 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 October 30, 2014, IROC issued its annual report on the Department for Fiscal Year 2014 (the "2014 IROC Report"). The 2014 IROC Report included a series of recommendations related to the planning for safe, reliable, and cost-effective alternatives to imported water, water conservation, wastewater reuse, recycled water, review of rates and fees, staff retention and recruitment, and review of assumptions related to the most recent cost of service study. Key recommendations included: (1) enhance public understanding of the costs and benefits of the water and wastewater system; (2) consider much greater investment in conservation incentives; (3) fully and timely fund system maintenance and replacement, based on ongoing condition assessment and other optimization tools; (4) continue to press forward on all levels with the Pure Water Program; and (5) explore alternative rate structures that are fair, consistent with long-range policy goals, and fiscally sound. While recommendations are advisory in nature, the Department incorporates many of IROC's recommendations 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 2010, 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 2015 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 2010 and 2014, 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 2014, total average daily sewage flow from the Participating Agencies was approximately 53 mgd, which was approximately 60% 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, 2014.

TABLE 3
METROPOLITAN SUB-SYSTEM
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS
Fiscal Year Ended June 30, 2014
(Unaudited)

Participating Agencies	Estimated Population[1]	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd)	% of Total Average Flow
City of Chula Vista	252,982	20.864	8.182%	16.006	10.310%
City of Coronado	25,500	3.250	1.275	1.603	1.033
City of Del Mar	4,321	0.876	0.344	0.556	0.358
City of El Cajon	102,000	10.915	4.280	7.545	4.860
City of Imperial Beach	29,500	3.755	1.473	2.237	1.441
City of La Mesa	58,490	6.993	2.742	4.714	3.037
City of National City	59,391	7.487	2.936	4.039	2.602
City of Poway	44,373	5.894	2.311	2.827	1.821
San Diego County – Spring Valley Sanitation Districts[2]	152,706	17.503	6.864	8.689	5.597
Lemon Grove Sanitation District	25,530	3.027	1.187	2.111	1.360
Otay Water District	5,250	1.287	0.505	0.093	0.060
Padre Dam Municipal Water District	52,100	6.225	2.441	2.638	1.699
Subtotal	812,143	88.076	34.540	53.058	34.178
City of San Diego	1,371,000	166.924	65.460	102.182	65.822
Total	2,183,143	255.000	100.000	155.240[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 served by the Metropolitan Sub-System is from the latest San Diego Association of Governments' information.

[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.

In November 2010, Padre Dam Municipal Water District ("Padre Dam Water District") submitted a letter to the City regarding possible overcharge. The City investigated the issue and in April 2011, confirmed that the Padre Dam Water District was overcharged. Additionally, in February 2013, the City discovered a billing issue associated with the North City Plant wherein the City may have omitted flow and under billed itself. The City actively investigated this issue to determine the financial impact to all parties involved, and in Fiscal Year 2015, reconciled all outstanding billing issues and submitted payments to the Participating Agencies.

The 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 2014, 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 13.9 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 2014, the Point Loma Plant had an average daily flow rate of 141 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 San Diego Regional Water Board ("San Diego 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 early 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 California Regional Water Quality Control Board (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 51 mgd with the implementation of the Pure Water Program. In Fiscal Year 2014, the plant operated at an average flow rate of approximately 15 mgd. The North City Plant is producing an average of 7 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 2014, approximately 8 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 January 31, 2015, the North City Plant produced recycled water that served 607 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 a portion of the recycled water to meet a contracted quality of 1,000 parts per million ("ppm") TDS. The Regional Water Board permit criteria for recycled water is 1,200 ppm TDS. The South Bay Plant has a permitted capacity of 15 mgd average daily flow. For Fiscal Year 2014 the plant operated at an average flow rate of approximately 8 mgd. The South Bay Plant produced an average of 4 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.

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.

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

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 83 pump stations, including 8 large and 75 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 75 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, 75 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 273,000 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 102 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

The Department does not connect the Rancho Bernardo sewer service area to pipelines within the Municipal Sub-System. 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 336 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) 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. 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 2005 through 2014.

TABLE 4
WASTEWATER SYSTEM
TOTAL ANNUAL FLOW[1]
Fiscal Years Ended June 30, 2005 through June 30, 2014
(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
2005	43,817	23,124	1,439	32	522	1,726	70,660	194
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

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 2014. During calendar year 2014, there were 28 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 and pollutant loads will be removed from the Point Loma Plant, 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 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 51 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 is capable of treating 44 mgd of wastewater and producing 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 early 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 San Diego 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 San Diego 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 2014, the City diverted 100% 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. The City also is actively pursuing alternative biosolids reuse methods to diversify the present disposal options to address any impacts from the passage of AB 1594. 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. The potential impact, starting in 2020, could result 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 applied.

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 2014, the City achieved beneficial reuse of 47% 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.

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 $92 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.

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	$63,620	$49,669	$47,068	$46,781	$262,478
Muni Pump Stations	2,716	2,185	1,073	667	2,469	9,110
Trunk Sewers	4,015	7,812	23,344	8,496	674	44,341
Other[2]	6,354	14,662	10,071	69	71	31,227
Subtotal Municipal Sub-System Projects	$68,425	$88,279	$84,157	$56,300	$49,995	$347,156
Metropolitan Sub-System Projects						
Treatment Plants	$14,725	$ 2,667	$ 335	$ 556	$ 0	$18,283
Treatment Plants – Pure Water Program[3]	8,765	21,315	27,955	9,128	25,175	92,338 [4]
Large Pump Stations	633	3,810	2,737	1,477	884	9,541
Trunk Sewers	750	492	685	4,630	747	7,304
Other	1,110	2,440	2,002	4,280	4,654	14,486
Subtotal Metropolitan Sub-System Projects	$25,983	$30,724	$33,714	$20,071	$31,460	$141,952
TOTAL	$94,408	$119,003	$117,871	$76,371	$81,455	$489,108

Source: Public Utilities Department, City of San Diego; Reflects Rate Case as of July 2015

[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 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, enterprise asset management, 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 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 $43.0 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 2017 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 and the AMI 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 2015 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]	–	–	–	–	$ 39,912	$ 39,912
SRF Loans[2]	$ 21,042	$ 29,283	$30,276	$30,659	11,917	123,177
Federal and State Grants	175	1,061	1,945	1,533	3,405	8,119
Capacity Fees	18,000	16,000	16,080	16,160	16,241	82,481
Cash Funding	55,191	72,659	69,570	28,019	9,980	235,419
Total Sources[3]	$94,408	$119,003	$117,871	$76,371	$81,455	$489,108
Use of Funds						
Municipal System Expenditures	$68,425	$88,279	$84,157	$56,300	$49,995	$347,156
Metropolitan System Expenditures	25,983	30,724	33,714	20,071	31,460	141,952
Total System[3]	$94,408	$119,003	$117,871	$76,371	$81,455	$489,108

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 2015 Bonds.

[2] Includes proceeds from the Existing Parity SRF Loans (approximately $19 million), proceeds expected to be received from the Additional Parity SRF Loan (approximately $43 million), and proceeds of other loans the City expects to apply for and receive from the State Water Resources Board (approximately $61 million).

[3] 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 2010 through 2014.

TABLE 7
WASTEWATER SYSTEM
HISTORICAL SOURCES OF SEWER SERVICE CHARGE REVENUES[1]
Fiscal Years Ended June 30, 2010 through June 30, 2014
($ in thousands)
(Unaudited)

Source	2010	2011	2012	2013	2014
Single Family Domestic	$125,924[4]	$119,482	$112,996	$114,356	$114,746
Multifamily (Other Domestic)	94,101	90,221	90,069	80,527	80,881
Commercial[2]	70,908	68,198	89,677	92,523	94,706
Industrial[2]	8,172	7,050	0	0	0
Treatment Plant Service for Others[3]	77,298	66,943	71,366	67,940	67,834
TOTAL[3]	$376,403	$351,894	$364,108	$355,346	$358,167

Source: Comptroller's Office, City of San Diego for all other line items

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.

4 Last year of a multi-year rate increase (see TABLE 9 "WASTEWATER SYSTEM APPROVED RATE INCREASES FOR SINGLE FAMILY RESIDENTIAL, MULTIFAMILY AND COMMERCIAL AND INDUSTRIAL CUSTOMERS"); no future approved rate increases in place.

Table 8 below sets forth the ten largest customers of the Municipal Sub-System for Fiscal Year 2014. In Fiscal Year 2014, the ten largest customers of the Municipal Sub-System, in terms of billings, accounted for approximately 7.49% of the Wastewater System's total operating revenues. The largest customer of the Municipal Sub-System is the United States Navy, which accounted for 3.25% of the Sewer Revenue Fund's total operating revenues in Fiscal Year 2014. C.P. Kelco, the second largest

customer of the Municipal Sub-System, contributed 1.15% of the Wastewater System's total operating revenues for Fiscal Year 2014. 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, 2014[1]
(Unaudited)

Customer	Sewer Billings	Percent of Total Operating Revenue[2]
U.S. Navy	$11,855,584	3.25%
C.P. Kelco	4,187,268	1.15
University of California, San Diego	2,510,811	0.69
Federal Government[3]	1,777,903	0.49
City of San Diego	1,513,863	0.42
R.J. Donovan Correctional Facility	1,464,489	0.40
San Diego Unified School District	1,076,530	0.30
San Diego State University	1,043,186	0.29
County of San Diego	1,031,178	0.28
SeaWorld	807,874	0.22
TOTAL[4]	$27,268,686	7.49%

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 $364,547,656 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 45-51 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 2010 through 2014, accounts receivable amounts outstanding for more than 120 days ranged from approximately $3.0 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, 2010 through June 30, 2014
($ in thousands)
(Unaudited)

	2010	2011	2012	2013	2014
Sewer Service Revenue	$376,403	$351,894	$364,108	$355,346	$358,167
Accounts Receivable[1,2]	$47,916	$41,595	$43,056	$44,258	$45,857
Accounts Receivable Over 120 Days[2]	$2,985	$3,115	$4,607	$3,680	$4,065
Number of Shut-Offs[3]	26,875	23,271	22,203	19,363	19,514

Sources: Comptroller's Office and Public Utilities Department, City of San Diego
[1] Restated.
[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.

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 2010 through 2014.

TABLE 11
WASTEWATER SYSTEM - MUNICIPAL SUB-SYSTEM
HISTORICAL EQUIVALENT DWELLING UNITS
AND CAPACITY CHARGE REVENUES
Fiscal Years Ended June 30, 2010 through June 30, 2014
($ in thousands)
(Unaudited)

Fiscal Year	Equivalent Dwelling Units	Capacity Charge Revenues
2010	1,230	$ 5,068
2011	2,474	9,256
2012	1,864	9,290
2013	3,781	14,041
2014	4,819	20,300

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 estimated service and capacity charges and revenues for Fiscal Year 2015 and 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
ESTIMATED AND PROJECTED SERVICE AND CAPACITY CHARGES
Fiscal Years Ending June 30, 2015 through June 30, 2020
(Unaudited)

		Projected				
	2015 (Estimated)	**2016**	**2017**	**2018**	**2019**	**2020**
Single Family Monthly Service Charge[1]	$47.71	$47.71	$47.71	$47.71	$47.71	$47.71
Single Family Residential Accounts	229,196	230,342	231,494	232,651	233,814	234,983
Total Service Charge Revenues[2,3]	$361,140	$350,965	$357,651	$359,426	$361,207	$368,016
Capacity Charge (per EDU)	$4,124	$4,124	$4,124	$4,124	$4,124	$4,124
Annual EDUs	5,284	4,365	3,880	3,899	3,919	3,938
Total Capacity Charge Revenue[2]	$21,793	$18,000	$16,000	$16,080	$16,160	$16,241

Source: Public Utilities Department, Rate Model as of July 2015
[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 2010 through 2014. See also "APPENDIX A—BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014." For purposes of calculating the Net System Revenues available to pay the City's Obligations under the Installment Purchase Agreement, including the 2015-1 Installment Payments securing the Series 2015 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 2010 through 2014, 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]
($ in thousands)
Fiscal Years Ended June 30, 2010 through 2014
(Audited; except as otherwise noted)

	2010	2011	2012	2013	2014
OPERATING REVENUES					
Sewer Service Charges:					
Inside City:					
Domestic[2]	$220,025	$209,703	$203,065	$194,883	$195,627
Commercial and Industrial[2]	79,080	75,248	89,677	92,523	94,706
Outside City:					
Treatment Plant Service for Others[2]	77,298	66,943	71,366	67,940	67,834
Subtotal: Sewer Service Charges[2]	$376,403	$351,894	$364,108	$355,346	$358,167
Services provided to City departments[2]	2,237	2,189	1,779	1,870	1,556
Total Charges for Services	$378,640	$354,083	$365,887	$357,216	$359,723
Other Operating Revenues, Net	3,485	3,648	4,412	4,421	4,824
TOTAL OPERATING REVENUES	$382,125	$357,731	$370,299	$361,637	$364,547
OPERATING EXPENSES					
Maintenance and Operations	$136,820	$134,696	$129,343	$121,990	$151,522
Administration	80,879	63,875	65,191	73,648	50,427
Depreciation	66,523	63,488	65,186	68,452	70,585
TOTAL OPERATING EXPENSES	$284,222	$262,059	$259,720	$264,090	$272,534
OPERATING INCOME (LOSS)	$97,903	$95,672	$110,579	$97,547	$92,013
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	$10,612	$7,454	$6,266	$647	$4,177
Federal Grant Assistance	175	380	336	9	–
Other Agency Grant Assistance	165	–	–	–	–
Gain (Loss) on Sale/Retirement of Capital Assets	(558)	(1,961)	(1,387)	(1,647)	(1,556)
Debt Service Interest Expense	(53,348)	(51,112)	(49,586)	(53,580)	(51,652)
Other	7,750	6,404	5,116	8,260	6,829
TOTAL NONOPERATING REVENUES (EXPENSES)	$(35,204)	$(38,835)	$(39,255)	$(46,311)	$(42,202)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	$62,699	$56,837	$71,324	$51,236	$49,810
Capital Contributions	21,346	12,345 [3]	17,883	23,228	33,081
Transfers In	316	147	130	92	77
Transfers from Governmental Funds	–	–	–	275	19
Transfers Out	(119)	(10)	(1,103)	(1,346)	(2,077)
Transfers to Governmental Funds	(883)	(192)	(6,495)	(8,232)	(6,955)
Extraordinary Gains	–	–	1,180 [4]	(1,180) [5]	–
CHANGE IN NET ASSETS	$83,359	$69,127	$82,919	$64,073	$73,955
Net Assets at Beginning of Year	$1,991,440	$2,074,799	$2,143,926	$2,226,845	$2,275,423 [6]
NET ASSETS AT END OF YEAR	$2,074,799	$2,143,926	$2,226,845	$2,290,918	$2,349,378

Source of Table: Fiscal Years 2010-2014 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.

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 2014, is unaudited and should be read in conjunction with certain information contained in "APPENDIX A—BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014," 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 2014 were $364.5 million, which represented an increase of $2.9 million from total operating revenues in Fiscal Year 2013. The increase was due primarily to an increase in sewer service charge collections attributable to an increase in usage for commercial customers, and a slight increase in the number of accounts for domestic customers.

Operating Expenses. Total operating expenses for Fiscal Year 2014 were $272.5 million, an increase of $8.4 million from Fiscal Year 2013. Such an increase was the combined result of a decrease in administrative expenses of $23.2 million, an increase in maintenance and operations of $29.5 million, and an increase in depreciation of $2.1 million. The reallocation between administrative and maintenance and operations expenses was done to reflect the true nature of the expenditures. Administrative expenses during Fiscal Year 2014 include long range strategic planning, policy, information systems, and general and administrative expenses. Such expenses represented 18.5% of total operating expenses.

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 55.6% of total operating expenses and totaled $151.5 million for Fiscal Year 2014. The increase of $29.5 million was 24.3% greater than the corresponding amount for Fiscal Year 2013 due to the implementation of a condition assessment program, costs associated with the waiver renewal at the Point Loma Plant, increased costs for chemicals, electricity, and waste disposal fees, and reallocation between administrative and maintenance and operations expenses to reflect the true nature of the expenditures.

Non-Operating Revenues. Non-operating revenues increased by $3.5 million in Fiscal Year 2014 due to an increase in interest earnings.

Non-Operating Expenses. Non-operating expenses decreased by $1.9 million primarily due to the implementation of Governmental Accounting Standards Board ("GASB") Statements No. 65 ("GASB 65") for adjustments to bond cost of issuance expenses.

Contributions and Transfers. Capital contributions increased in Fiscal Year 2014 from Fiscal Year 2013 by $9.9 million. This increase was due to an increase in capacity fee receipts in Fiscal Year 2014 of $6 million and an increase in developer contributions in Fiscal Year 2014 of $3.9 million.

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 $74.4 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 $21.3 million.

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 (estimated).

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	21,300
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	$74,399
Total Cash and Cash Equivalents in Sewer Revenue Fund[3]	$422,010	$432,872	$423,226	$455,531	$431,818

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 2011-2014 Comprehensive Annual Financial Reports; Fiscal Year 2015 Comptroller's Office, City of San Diego

[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] Fiscal Years 2011-2014: audited. Fiscal Year 2015: unaudited and estimated as of June 30, 2015.

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 (estimated).

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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]	397,958	217,844	180,114	51,576	52,461	104,037	1.73	110,096	1.64

Source: For Fiscal Years ended June 30, 2011 through 2014 - Statistical Section (Unaudited) of the Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2014, Comptroller's Office, City of San Diego; and for Fiscal Year ended June 30, 2015 – Public Utilities Department

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.

[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), the Rate Stabilization Fund, and other funds).

[6] Estimated. Fiscal Year 2015 results are based on the Fiscal Year 2015 Year-End Budget Monitoring Report which is developed using nine months of actual data (unaudited), combined with Department projections for the remaining three months of Fiscal Year 2015.

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 9.0% increase in Maintenance and Operation Costs of the Wastewater System from Fiscal Year 2015; (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 9% 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 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 includes projections of grant proceeds, the Additional Parity SRF Loan, which remains subject to final approval by the State Water Resources Board, and additional loans the City expects to receive from the State Water Resources Board.

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.

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	$364,151	$377,836	$380,513	$378,459	$387,165
Interest Income	7,934	12,379	13,831	15,513	18,083
Capacity Charge Revenue[1,2]	18,000	16,000	16,080	16,160	16,241
Total System Revenues	$390,085	$406,215	$410,424	$410,132	$421,489
Maintenance and Operation Costs	$237,377	$238,755	$240,532	$250,303	$253,005
Net System Revenues[3]	$152,708	$167,460	$169,892	$159,829	$168,484
Projected Parity Debt Service[4]	$104,710	$107,750	$108,442	$111,494	$111,665
Parity Debt Service Coverage	1.46x	1.55x	1.57x	1.43x	1.51x
Projected Parity Debt Service[4]	$104,710	$107,750	$108,442	$111,494	$111,665
Projected Subordinated Debt Service	6,059	6,059	6,059	6,059	6,059
Aggregate Parity and Subordinated Debt Service[5]	$110,769	$113,809	$114,501	$117,553	$117,724
Aggregate Parity and Subordinated Debt Service Coverage	1.38x	1.47x	1.48x	1.36x	1.43x

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, 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 2015 Bonds, the refunding of the Refunded Bonds or debt service on the Additional Parity SRF Loan.

[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 City has five recognized employee organizations which represent classified employees. They are the San Diego Municipal Employees' Association ("MEA"), the American Federation of State, County, and Municipal Employees, Local 127 ("AFSCME Local 127"), the San

Diego Police Officers Association ("POA"), the San Diego City Firefighters, International Association of Firefighters, Local 145 ("IAFF Local 145"), and the California Teamsters Local 911 ("Teamsters Local 911"), which represents lifeguards. A sixth recognized employee organization, the Deputy City Attorneys Association ("DCAA"), represents unclassified deputy city attorneys. Certain classified and unclassified City employees are unrepresented.

As of December 31, 2014, the City had approximately 5,004 MEA-represented employees; 1,763 AFSCME Local 127-represented employees; 1,851 POA-represented employees; 847 IAFF Local 145-represented employees; 331 Teamsters Local 911-represented employees; 142 DCAA-represented employees; and 807 unrepresented employees.

As of December 31, 2014, there were approximately 871 regular full time employees of the Department (Wastewater Branch), of which approximately 494 were represented by the MEA, and approximately 327 were represented by AFSCME Local 127. The remaining 50 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, and the City Council has approved, modifications to the POA's five-year agreement, which will result in an amended agreement for a term from July 1, 2015 through June 30, 2020.

<u>MEA</u>: MEA-represented employees will receive increased annual flexible benefit credits in Fiscal Year 2016. MEA will have the option to reopen negotiations solely for the purpose to meet and confer on non-pensionable compensation increases in Fiscal Years 2017 and 2018.

<u>AFSCME Local 127</u>: AFSCME Local 127-represented employees will receive increased annual flexible benefit credits in Fiscal Year 2016. AFSCME Local 127 will have the option to reopen negotiations solely for the purpose to meet and confer on non-pensionable compensation increases in Fiscal Years 2017 and 2018.

<u>POA</u>: 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 members 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 members with additional credits for members with eight or more years of service. Members with eight or more years of service will also receive increases to annual uniform and equipment allowances, as will new recruits. Members also will 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 will receive increased annual flexible benefit credits in Fiscal Year 2016. IAFF Local 145 will have the option to reopen negotiations solely for the purpose to meet and confer upon non-pensionable compensation increases in Fiscal Years 2017 and 2018.

Teamsters Local 911: Teamsters Local 911-represented employees will receive increased annual flexible benefit credits in Fiscal Year 2016. The employee organization will have the 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.

DCAA: DCAA-represented employees will receive an increase in their annual flexible benefit credit in Fiscal Year 2016. The employee organization will have the option to reopen negotiations solely for the purpose to meet and confer upon non-pensionable compensation increases in Fiscal Years 2017 and 2018.

Insurance and Liability Claims

The Department 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 $2.78 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 does not maintain any casualty insurance on the pipelines of the Wastewater System because such insurance is not commercially available.

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Table 17 below sets forth the accrued estimated liabilities and expenditures for liability claims of the Wastewater System for Fiscal Years 2010 through 2014.

TABLE 17
LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years Ended June 30, 2010 through June 30, 2014
(Unaudited)

Fiscal Year	Budget	Expenditures[1]
2010	$ 900,202	$1,339,687
2011	1,001,422	2,221,342
2012	851,702	2,562,934
2013	851,702	2,209,086
2014	1,511,709	1,256,302

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 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 Treasurer's Pooled Investment Fund (including both the "Liquidity" and the "Core" portfolios) is highly liquid. Based on unaudited month-end data as of June 30, 2015, approximately 20% of the pool investments mature within 62 days, 22% within 92 days, 29% within 184 days, 44% within 1 year, 76% within 2 years, 98% within 3 years, and 100% within 5 years (on a cumulative basis). As of June 30, 2015, the City Treasurer's Pooled Investment Fund had a weighted average maturity of 1.27 years (465 days) and its weighted average yield was 0.559%. 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 0.29 years and the Core portfolio had a duration of 1.63 years as of June 30, 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 0.29% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.63% for every 1% increase in market interest rates. The City Treasurer's Pooled Investment Fund 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 Treasurer's Pooled Investment Fund will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

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Table 18 below sets forth the investments in the City Pool as of June 30, 2015.

TABLE 18
CITY OF SAN DIEGO POOLED INVESTMENT FUND
at June 30, 2015
($ in thousands)
(Unaudited)

Investment Instrument	Book Value	Fair Value	Percent of Total[1]
U.S. Treasury Bills and Notes	$ 959,406	$ 961,736	40.51%
Agency Discount Notes	254,959	255,063	10.77
Agency Notes & Bonds	489,709	489,930	20.68
Commercial Paper	74,910	74,956	3.16
Corporate Notes & Bonds	129,668	129,853	5.47
Local Agency Investment Fund	49,882	49,882	2.11
Repurchase Agreements	129,000	129,000	5.45
Negotiable Certificates of Deposit	200,002	200,044	8.44
Asset Back Securities	80,771	80,782	3.41
TOTAL INVESTMENTS[2]	$2,368,307	$2,371,246	100.00%

Source: Office of the City Treasurer, City of San Diego
[1] Based on book value.
[2] 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, 2014, was approximately $2.03 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.

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—BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014." SDCERS also prepares its own Comprehensive Annual Financial Report, the most recent of which is for Fiscal Year 2014.

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 2015 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 2015 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 2015 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 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 Valuation"). The 2014 Valuation will serve 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 will be 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.

[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."

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 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 is $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 Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in November 2013 and were also used in the preparation of the Fiscal Year 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.

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 No. 68 ("GASB 68"), 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 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 will implement GASB 68 in Fiscal Year 2015, which will result in significant financial accounting and reporting changes to the City's financial statements. The most significant change results from the requirement that the City record, in its Statement of Net Position, obligations related to defined benefit retirement plans offered to the City employees. The City has elected to use Fiscal Year 2014 as a measurement date, which means that the Net Pension Liability ("NPL") that will be reported in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015 will be based on the fair value of assets as of June 30, 2014. As of June 30, 2015, the City will report an NPL of $1.535 billion, of which $111.9 million will be allocated to the Sewer Revenue Fund. The total impact to the City's Statement of Net Position at the end of Fiscal Year 2015, resulting from the implementation of GASB 68, will be $1.562 billion, of which $120.7 million will be allocated to the Sewer Revenue Fund. 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 Valuation, at June 30, 2014, the City had a UAAL of $2.030 billion and a funded ratio of 74.2%. The UAAL decreased by $207.6 million over the UAAL set forth in the Annual Actuarial Valuation at June 30, 2013, which was $2.237 billion, and the funded ratio increased by 3.8%. The primary cause for the decrease in the UAAL was 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.

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[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.

Table 19 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—BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014."

TABLE 19
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	1,554,831	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	2,069,116	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 20 "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 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 City has calculated the Sewer Revenue Fund's proportionate share of the City's $254.9 million ADC for Fiscal Year 2016 to be $15.7 million, or 6.2%.

The following Table 20 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 20
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 ADC/ARC	POB Plan ADC/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	$1,687	$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	17,201	6.3
2015 [2]	263,600	876	264,476	263,604	1,700	265,304	17,527	5.1
2016 [2]	254,900	842	255,742	254,902	1,500	256,402	15,699	4.4

Source: SDCERS Comprehensive Annual Financial Reports; Cheiron Actuarial Valuations for Pension Plan ARC/ADC; SDCERS for POB Plan ARC/ADC; Comptroller's Office, City of San Diego for Total Plan ARC/ADC, Pension Plan Contribution, POB Plan Contribution, Total Pension Contribution, Wastewater System Contribution (2012-2014); Financial Management, City of San Diego for Wastewater System Contribution (2015-16)

[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 projected.

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 21 uses the actuarial assumptions and methodologies discussed above and further assumes the validity of Proposition B, which is discussed below. It is important to note that the table also assumes investment returns will average 7.25% per year and the projections are calculated as if the returns were to be 7.25% each and every year, which is unlikely to occur given 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.

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TABLE 21
CITY OF SAN DIEGO
ACTUARIAL FUNDING PROJECTIONS
Fiscal Years Ending June 30, 2016 through June 30, 2025
(Unaudited)

Fiscal Year Ending June 30	Assumed Investment Return Rate	Actuarially Determined Contribution ($ millions)	UAAL ($ billion)
2016	7.25%	$254.9	$2.03
2017	7.25	248.1	1.83
2018	7.25	243.7	1.65
2019	7.25	236.9	1.48
2020	7.25	231.7	1.32
2021	7.25	227.6	1.17
2022	7.25	224.4	1.02
2023	7.25	221.8	0.87
2024	7.25	220.0	0.72
2025	7.25	218.0	0.57

Source: Cheiron Actuarial Valuation as of June 30, 2014

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. In Fiscal Year 2015, $2.1 million was budgeted Citywide ($181,604 in the Sewer Revenue Fund, according to the City calculations) to fund the Supplemental COLA benefit. The estimated Fiscal Year 2016 Supplemental COLA is $2.2 million, of which $191,562 is the Sewer Revenue Fund allocation. 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"). 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 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 litigation, the 2014 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.

Other Retirement Plans – Post Proposition B Supplemental Pension Savings Plan

Pursuant to Proposition B, new employees hired after July 20, 2012, except police officers, are not eligible to participate in SDCERS and are provided with a 401(a) plan that is administered along with the Supplemental Pension Savings Plan 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 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.

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 6,076 retirees, and 1,511 active employees as of June 30, 2014. 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—BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014" 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, 2014 ("2014 OPEB Valuation"), dated November 10, 2014, was performed by Buck Consultants ("Buck"). The following are the major actuarial assumptions and methods employed by Buck in performing the 2014 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: 23 years (commencing with Fiscal Year 2014), closed.

4. Actuarial Asset Valuation Method: Market Value.

5. Discount Rate: 6.81%.

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: 8.0% for Fiscal Year 2014, grading down 0.5% each year to 4.5%.

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

Funding Status. According to the 2014 OPEB Valuation, at June 30, 2014, the City had a DB OPEB Plan UAAL of $479.5 million and a funded ratio of 21.1%. The DB OPEB Plan UAAL increased by approximately $35.3 million over the OPEB UAAL in the 2013 valuation of the DB OPEB Plan, which was $444.1 million, and the funded ratio increased from 20.34%.

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The City began prefunding the DB OPEB Plan in 2008. The following Table 22 shows the DB OPEB Plan funding progress for Fiscal Years 2008 through 2014:

TABLE 22
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS (DB OPEB PLAN)
Fiscal Years Ended June 30, 2008 through 2014
($ 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

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 is not anticipated to be more than $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.

Table 23 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 23
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	57,872	4,362	1.7
2014	38,097	0	31,143	25,639	57,782	4,734	1.7
2015	41,740	0	31,515	26,267	57,782	4,285	1.2

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 Government-wide Statement of Net Position and in the Statement of Net Position of Proprietary Funds, including the Sewer Revenue Fund. The City has not fully evaluated the potential accounting and financial reporting impact to the Sewer Revenue Fund, or other City funds, resulting from the implementation of GASB 75. 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 2014 was $137,000, and the estimated contributions for Fiscal Years 2015 and 2016 are $125,600 and $286,659, respectively.

RISK FACTORS

The ability of the City to pay principal of and interest on the Series 2015 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 2015 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 2015 Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

Litigation

There is no litigation challenging the Series 2015 Bonds. California Code of Civil Procedure Section 863 (made applicable to the Series 2015 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 2015 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 2015 Bonds and the related documents was June 16, 2015.

There is, however, pending litigation 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 two separate cases the litigation 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 the 2015 CIP Bonds and the CIP Bond Approvals. See "CHALLENGES TO OTHER AUTHORITY LEASE REVENUE BONDS" for more details.

The San Diego Entities prevailed in both trial court actions and both cases are currently on appeal. 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) (the "2015 Ballpark Refunding Bonds"). The challenge to the 2015 Ballpark Refunding Bonds is essentially the same challenge the plaintiff made with respect to the 2015 CIP Bonds. The plaintiffs in the litigation with respect to the 2015 CIP Bonds and the 2015 Ballpark Refunding Bonds are the same. A trial with respect to the 2015 Ballpark Refunding Bonds has been scheduled for November 20, 2015. If issued, the 2015 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 2015 Bonds are not the subject of this or any other litigation and a decision adverse to the City and the Authority regarding the 2015 CIP Bonds and/or the 2015 Ballpark Refunding Bonds should not, in and of itself, have a material adverse effect on the obligation of the City to make the 2015-1 Installment Payments under the Installment Payment Agreement sufficient to make timely payments of principal of and interest on the Series 2015 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 2015 Bonds and could have a material adverse effect on the liquidity or market price of the Series 2015 Bonds.

Limited Obligations

The obligation of the City to pay the 2015-1 Installment Payments securing the Series 2015 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 2015-1 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 2015-1 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 2015-1 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 2015-1 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 2015-1 Installment Payments, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to pay the 2015-1 Installment Payments sufficient to provide for the payment of the Series 2015 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 2015-1 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 2015-1 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 2015 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 2015-1 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 2015-1 Installment Payments securing the Series 2015 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2015 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 2015-1 Installment Payments securing the payment of the Series 2015 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. 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 2015-1 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 2015-1 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 2015 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 2015 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 2015 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 2015 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.

After Amendment Effective Date Series 2015 Bonds May Not be Secured by Reserve Fund

At the time of issuance of the Series 2015 Bonds, the Series 2015 Bonds will be secured by the Reserve Fund. However, the City currently expects that upon the Amendment Effective Date it will elect that the Series 2015 Bonds will no longer participate in or be secured by the Reserve Fund or any other debt service reserve fund. See "INTRODUCTION—Amendments to Indenture," "SECURITY AND SOURCES OF PAYMENT OR THE SERIES 2015 BONDS—Reserve Fund" and APPENDIX E—PROPOSED AMENDMENTS TO INDENTURE."

Potential Limitation of Tax Exemption of Interest on Series 2015 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 2015 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 2015 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 2015 Bonds. Prospective purchasers of the Series 2015 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 2015 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 2015-1 Installment Payments securing the Series 2015 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 2015 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 2015 Bonds. Failure to comply with such requirements could cause interest on the Series 2015 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2015 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 2015 Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Series 2015 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 2015 Bonds is exempt from present State of California personal income taxes.

Special Considerations With Respect to the Series 2015 Bonds

The accrual or receipt of interest on the Series 2015 Bonds may otherwise affect the federal income tax liability of the owners of the Series 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 Bonds or in any way contesting or affecting the validity of the Series 2015 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 2015 Bonds or the use of the proceeds of the Series 2015 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 LEASE REVENUE BONDS."

Litigation Relating to the Wastewater System

From time to time, the City and the Department are parties to litigation 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 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.

CHALLENGES TO OTHER AUTHORITY LEASE REVENUE BONDS

No Litigation Challenging the Series 2015 Bonds

There is no litigation challenging the Series 2015 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 other lease revenue bonds issued by the Authority.

2015A CIP Bonds Litigation

On April 1, 2014, San Diegans for Open Government (the "CIP Bonds Plaintiff") 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., Case No. 37-2014-00009217-CU-MC-CTL*) (the "2015A CIP Bonds Litigation"). The CIP Bonds Plaintiff sought declaratory relief to invalidate the City ordinance and the Authority resolutions approving the 2015A CIP Bonds and related documents (the "2015A CIP Bond Approvals") and injunctive relief prohibiting the San Diego Entities from taking any of the actions contemplated by the 2015A CIP Bond Approvals. The CIP Bonds Plaintiff made three primary allegations against the validity of the 2015A CIP Bond Approvals: (1) the Authority lacks the power to issue the 2015A CIP Bonds because neither the Housing Authority nor the City as the Successor Agency to the Redevelopment Agency of the City of San Diego are proper members of the Authority and upon the dissolution of all redevelopment agencies in California pursuant to state statute, the Authority lost the legal authority to issue bonds; (2) the issuance of the 2015A CIP Bonds required voter approval under the California Constitution and the City's Charter; and (3) the City failed to satisfy a requirement of the City's municipal code in connection with the 2015A CIP Bond Approvals.

The San Diego Entities denied all the CIP Bonds Plaintiff's allegations and requested 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 were 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. The Superior Court rejected all the CIP Bonds Plaintiff's substantive arguments. On November 20, 2014, the Superior Court filed its judgment in the action. The CIP Bonds Plaintiff filed an appeal of the judgment to the California Court of Appeal on December 12, 2014 where the matter is now pending. 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 CIP Bonds Plaintiff 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 Litigation"). The CIP Bonds Plaintiff sought declaratory relief to invalidate the City ordinance and the Authority resolutions approving the 2015B CIP Bonds and related documents (the "2015B CIP Bond Approvals") and injunctive relief prohibiting the San Diego Entities from taking any of the actions contemplated by the 2015B CIP Bond Approvals. The CIP Bonds Plaintiff made three primary allegations against the validity of the 2015B CIP Bond Approvals that were substantially identical to the allegations made in the 2015A CIP Bonds Litigation: (1) the Authority lacked the power to issue the 2015B CIP Bonds because neither the Housing Authority nor the City as the Successor Agency to the Redevelopment Agency of the City of San Diego are proper

members of the Authority and upon the dissolution of all redevelopment agencies in California pursuant to state statute, the Authority lost the authority to issue bonds; (2) the issuance of the 2015B CIP Bonds required voter approval under the California Constitution and the City's Charter; and (3) the City failed to satisfy a requirement of the City's municipal code in connection with the 2015B CIP Bond Approvals.

The San Diego Entities denied all the CIP Bonds Plaintiff's allegations and requested the court render a summary judgment finding 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 were conclusively valid and binding pursuant to Code of Civil Procedure Section 870 and any other applicable law.

On January 12, 2015, the Superior Court entered an order of dismissal with prejudice in the case on the grounds that CIP Bonds Plaintiff 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 Litigation as required by Government Code Section 6599. The CIP Bonds Plaintiff then filed a motion requesting relief from the Superior Court for its failure to properly serve the complaint in a timely manner. On January 27, 2015, that motion was denied by the Superior Court. On March 3, 2015, the CIP Bonds Plaintiff filed an appeal of the January 27, 2015 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

The City and the Authority believe that they will prevail in the pending appeal of the Superior Court actions in the 2015A CIP Bonds Litigation and the 2015B CIP Bonds Litigation. However, no guarantee can be given as to the outcome of the appeal. In the event that the California Court of Appeal reverses either decision of the Superior Court, the City and the Authority intend to appeal to the California Supreme Court. If the California Supreme Court were to rule in the CIP Bonds Plaintiff's favor or refuse to hear an appeal by the San Diego Entities from a Court of Appeal ruling adverse to the San Diego Entities, the affected 2015 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 affected 2015 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 affected 2015 CIP Bonds. Even if the ruling on appeal did not preclude the Authority from making payment on the affected 2015 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 affected 2015 CIP Bonds.

2015 Ballpark Refunding Bonds Litigation

On May 18, 2015, San Diegans for Open Government (the "Ballpark Bonds Plaintiff") 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 "2015 Ballpark Refunding Bonds Litigation"). The Ballpark Bonds Plaintiff is seeking declaratory relief to invalidate the ordinance and resolution of the City and the resolution of the Authority adopted with respect to the 2015 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. The Ballpark Bonds Plaintiff made three primary allegations against the validity of the Ballpark Refunding Bond Approvals, that were substantially identical to the allegations made in the 2015A CIP

Bonds Litigation and the 2015B CIP Bonds Litigation: (1) the Authority lacked the power to issue the 2015 Ballpark Refunding Bonds because neither the Housing Authority nor the City as the Successor Agency to the Redevelopment Agency of the City of San Diego are proper members of the Authority and upon the dissolution of all redevelopment agencies in California pursuant to state statute, the Authority lost the authority to issue bonds; (2) the issuance of the 2015 Ballpark Refunding Bonds required voter approval under the California Constitution and the City's Charter; and (3) the City failed to satisfy a requirement of the City's municipal code in connection with the Ballpark Refunding Bond Approvals. A trial with respect to the 2015 Ballpark Refunding Bonds Litigation has been scheduled for November 20, 2015. If issued, the 2015 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 the some of the arguments made by the CIP Bond Plaintiff and the Ballpark Bonds Plaintiff has 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 on, use and occupancy of the Convention Center by the City. If the Convention Center were to be unavailable for use and occupancy by the City, the City's obligation to pay rent 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 notwithstanding that the rent was precisely equal to debt service on the CCEFA bonds.

The pertinent facts in the Rider case are similar to the facts underlying the 2015 CIP Bonds and the 2015 Ballpark Refunding Bonds. The City believes that the Rider case is controlling authority and that the City will prevail in the 2015A CIP Bonds Litigation, the 2015B CIP Bonds Litigation and the 2015 Ballpark Refunding Bonds Litigation. 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 litigation.

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 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 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 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 2015 Bonds

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

California Code of Civil Procedure Section 863 (made applicable to the Series 2015 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 2015 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 2015 Bonds and the related documents was June 16, 2015.

LEGAL OPINION

The validity of the Series 2015 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 2015 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 2015 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 2015 Bonds.

UNDERWRITING

The Series 2015 Bonds will be purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Academy Securities, Inc., Fidelity Capital Markets, Jefferies LLC, and Morgan Stanley & Co. LLC (collectively, the "Underwriters"), at a price of $_____ (which consists of the par amount of the Series 2015 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 Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the Underwriters, the Authority and the City. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2015 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 2015 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 2015 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.

Academy Securities, Inc., an underwriter of the Series 2015 Bonds, has entered into distribution agreements with UBS Financial Services Inc., E*Trade Securities LLC, 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., Bonwick Capital Partners LLC, 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., 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, NBC Securities, Inc., and Harvestons Securities, Inc. for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these distribution agreements (if applicable to the Series 2015 Bonds), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

Jefferies LLC ("Jefferies"), an underwriter of the Series 2015 Bonds, has entered into an agreement (the "Jefferies/E*TRADE Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Jefferies/E*TRADE Agreement, Jefferies will

sell Series 2015 Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Series 2015 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2015 Bonds.

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 2015 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 2015 Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the Series 2015 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 2014

The City's basic financial statements include the financial statements of the Sewer Revenue Fund. The City's 2014 basic financial statements have been audited by Macias Gini & O'Connell LLP (the "Independent Auditors"), independent certified public accountants, as stated in their report.

Those portions of the City's 2014 basic financial statements relating to the Sewer Revenue Fund, including all of the City's basic financial statements for Fiscal Year 2014 audited by Independent Auditors, are included in Appendix A. Appendix A also includes the unaudited management's discussion and analysis, unaudited required supplementary information with respect to the City's Pension Plans, the City's Other Postemployment Benefits and General Fund budgetary information. 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 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 2015 Bonds. The City's General Fund does not secure payment of debt service on the Series 2015 Bonds.

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2015 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 2015 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.

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 2014 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 2015 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 _____
Chairperson, Board of Commissioners

CITY OF SAN DIEGO

By _____
Chief Financial Officer

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APPENDIX A

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND CERTAIN EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF SAN DIEGO FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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INTRODUCTORY SECTION

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THE CITY OF SAN DIEGO

December 5, 2014

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 (the City) for the fiscal year (FY) ended June 30, 2014, in accordance with Section 111 of the City Charter.

The CAFR has been prepared in accordance with accounting principles generally accepted in the United States of America. The accuracy of the data, the completeness and fairness of the presentation and the adequacy of its disclosures, rests with the City's management. 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 FY 2014 financial statements of the City and has issued an unmodified opinion (previously referred to as unqualified) 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, 2014 and the respective changes in 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. In addition, the MD&A addresses issues related to the City's deferred maintenance and capital expenditures on the City's depreciable assets.

The financial statements included in this report present the balances and activity of the City of San Diego and its blended, discretely presented and fiduciary component units. Blended component units are presented as funds of the City and include Civic San Diego, San Diego Data Processing Corporation, which was dissolved in FY 2014, and several debt financing authorities and nonprofit benefit corporations. 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 former Redevelopment Agency of the City of San Diego.

Profile of the City of San Diego

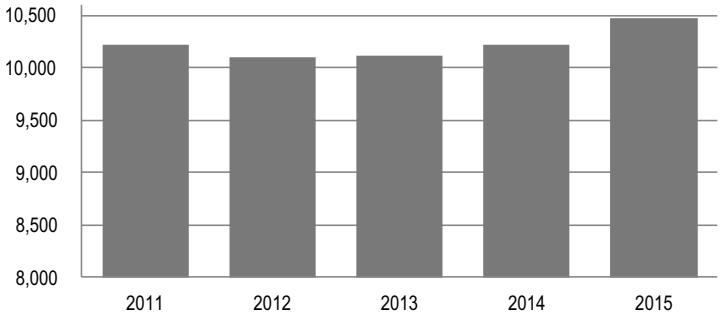
The City, incorporated in 1850, comprises 342 square miles. It is the eighth largest city in the nation and the second largest city in California. As of January 2014, the California Department of Finance estimated the population to be 1,345,895.

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 composed 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 10,478 budgeted employees, provides a full range of governmental services. The City has been able to restore City services during the last two fiscal years, increasing budgeted staff by 108 in FY 2014 and by 251 in the FY 2015 budget. The FY 2015 budget added four police academies and 59 positions in the Police Department. It also added 23 budgeted positions to restore library service hours and 15 budgeted positions for park and recreation services.



Safety services are provided by the San Diego Police Department and the Fire-Rescue Department. The Police Department ensures that San Diego is safe for all of its residents through the practice of community-based policing and problem-solving. The Fire-Rescue Department protects the life and property of San Diego residents and visitors by providing services such as fire suppression, emergency medical treatment, fire safety inspection, education programs, beach safety and swimmer rescue.

The City provides neighborhood services to its residents, making San Diego's neighborhoods a better place to live, work, and play. These include services provided by the San Diego Public Library system, which serves the educational, cultural, and recreational needs of San Diego's diverse communities. In addition, the City fosters economic growth by implementing economic development and business incentive programs in order to create and retain jobs and taxable investment in the City. Other neighborhood services include those provided by the Planning Department, charged with conducting long-range planning of San Diego's communities and neighborhoods. The City provides development services including review, permit, inspection, and code enforcement services for development projects throughout the City. The Park & Recreation Department operates a multitude of facilities and services for neighborhoods and plays a key role in the quality of life for San Diego residents. Through the Commission for Arts and Culture, the City also facilitates events that promote, encourage, and increase support for the region's artistic and cultural assets showcasing San Diego as an international tourist destination.

The City implements an infrastructure and public works program, including the operation and maintenance of facilities, streets, sidewalks, and storm drains. Through its engineering and capital project activities, the City implements its Capital Improvements Program, addressing capital needs including new construction projects and improvements of existing facilities. The City also operates and maintains the water and sewer utilities, two general aviation airports, Montgomery Field and Brown Field, as well as Qualcomm Stadium and Petco Park. Moreover, through its environmental services, the City delivers waste management services to provide a clean, safe, and ecologically sound environment to residents.

Budgeting Systems and Controls

The City of San Diego's budget is developed annually for each fiscal year. The budget is proposed by the Mayor with input from the City Council and the public. The budget may be revised by City Council and is adopted by Council subject to mayoral line-item veto. The City Council, by supermajority vote of at least six of the current nine members, may subsequently override the Mayor's veto to establish the annual budget.

The budget includes the General Fund, as well as special revenue, debt service, capital projects, enterprise and internal service funds. Any fund that includes personnel expenses is included in the budget. Budgetary control is established 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. The City's financial system incorporates automatic 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.

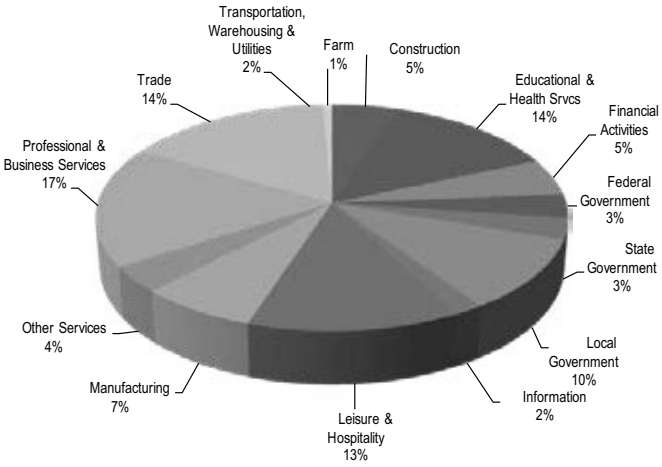
The Financial Management Department monitors the City's annual operating budget throughout the fiscal year. Quarterly reports are produced and presented to the Budget and Government Efficiency Committee and/or City Council to forecast year-end results and aid in adjusting the budget throughout the year to address changes in revenues and expenditures. Additionally, monthly financial reports are produced throughout the year by the City Comptroller and presented to the Budget and Government Efficiency Committee to show a summary statement of revenues and expenditures for the preceding accounting period and the status of appropriations in comparison to actual results.

Local Economy

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 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.

San Diego Metropolitan Statistical Area Jobs by Industry Sector



Source: State of California Employment Development Department for September 2014. Data not seasonally adjusted, reflects San Diego-Carlsbad-San Marcos Metropolitan Statistical Area.

The City's Economic Development Strategy for 2014 through 2016, adopted by the City Council in July 2014, identified four economic base industries for San Diego: (1) Manufacturing and Innovation, (2) International Trade & 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 San Diego and federal military and tourism spending bring outside resources into the local economy.

According to the National University System Institute for Policy Research, the manufacturing sector in the San Diego region, as measured by its contribution to the region's gross domestic product, has grown significantly faster than the rest of the economy, expanding 20% since 2007 while the rest of the economy grew 13%. San Diego's innovative economy, focusing on research and development, provides breakthroughs that can be translated into new manufacturing opportunities for the region. San Diego's manufacturing sector is diverse, including several

manufacturing clusters including biotech, cleantech, defense and security systems, electronics and telecommunications and food and beverage production.

In its proximity to Mexico and the Pacific Rim, San Diego is in a unique geographical position that creates opportunities for growth in its international trade sector. The quality of Mexican manufacturing and its proximity 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 pieces of equipment. According to the U.S. Department of Commerce, in 2013, the San Diego metropolitan area was the 19th largest export market in the United States, with merchandise shipments totaling $17.9 billion. This is up $702 million (4.1%) from the $17.2 billion in merchandise exported in 2012.

The military continues to play an important role in the San Diego economy. Seven major military bases in the area are operated between the Navy and the Marines. According to the San Diego Military Advisory Council, there are approximately 133,000 uniformed military personnel and Department of Defense civilians employed in the County including approximately 100,000 active duty military personnel, 8,600 reserves and 24,000 full-time civilian workers. The estimated direct defense-related spending by the military in the County for the fiscal year ending September 30, 2014 fell approximately 2% to $25.2 billion from $25.8 billion for the federal fiscal year ending September 30, 2013. Over the years, the presence of military installations has not only directly stimulated the region's economy but has also extended benefits in the area of manufacturing and research and development. The repair and maintenance of naval vessels provides thousands of jobs in the region at employers such as General Dynamics-NASSCO, BAE Systems, Northrop Grumman, and Pacific Ship Repair & Fabrication.

Tourism is a major economic driver for the City. According to the San Diego Tourism Authority, in 2013, the total economic impact of the visitor industry on the San Diego regional economy was $18.7 billion and travelers produced $410 million in total tax revenues. Recent surveys identify San Diego as the 5th-ranked leisure tourism destination and the 10th-ranked business destination in the United States. In 2013, San Diego attracted 33.1 million visitors spending approximately $8.4 billion in the local economy, up from $7.9 billion in 2012.

Financial and Economic Trends

In the FY 2015 budget, the City's four major operating revenue sources, property tax, sales tax, transient occupancy tax (TOT), and franchise fees, made up 73% of the General Fund budgeted revenue. Excluding onetime property tax revenue related to the dissolution of the former Redevelopment Agency, major revenues in FY 2015 are expected to increase by 4.5% over FY 2014 actual revenues. Development of the FY 2015 budget incorporated projections for an improved economic outlook based on the continuing trend of increases in median home prices, home sales, consumer spending, tourism, business travel, and employment levels. The table below shows historical trends for the City's major revenues of the General Fund for the past four fiscal years and the estimated revenue for FY 2015 (dollars in millions):

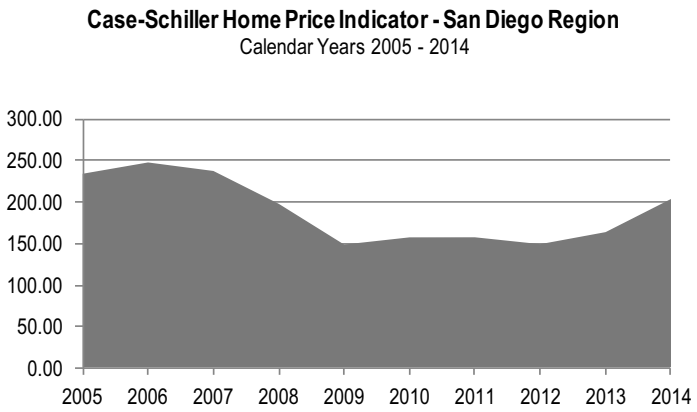
Fiscal Year	Property Tax[1]	Sales Tax	TOT[2]	Franchise Fees	Total	Change $	Change %
2011	$384.0	$215.9	$73.4	$65.5	$738.8		
2012	385.2	220.3	78.3	69.1	752.9	$14.1	1.9%
2013	400.1	232.9	83.9	67.7	784.6	31.7	4.2%
2014	408.8	245.9	89.7	72.0	816.4	31.8	4.1%
2015 Budget	428.3	257.1	92.3	72.0	849.7	33.3	4.1%

[1] Excludes onetime Property Tax revenue of $87.4 million, for fiscal years 2012 through 2014, related to the dissolution of the former Redevelopment Agency.

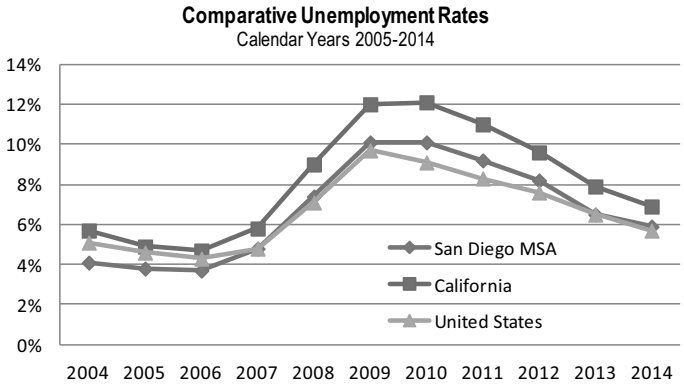
[2] Includes General Fund allocation only (excludes TOT allocated to Special Promotional Programs).

Property Tax revenue is affected by the California Consumer Price Index (CCPI), home sales, home prices, and foreclosures. The CCPI drives assessed valuation under Proposition 13. The California Department of Finance forecasts 2014 CCPI growth of 2.25%; therefore, the assessed valuation of properties not improved or sold is expected to increase by 2% for FY 2016. The County of San Diego has seen positive growth in home prices, with a calendar 2014 year-to-date increase of 6.3% in the median home price, while year-to-date home sales have decreased 13.7%. Based on property sales that have occurred as of September 2014 and a 2% increase in CCPI, it is estimated the City's Assessed Valuation (AV) would increase by 3.36% for FY 2016. In addition to positive home price growth, there are also year-to-date declines of 26.6% in notices of default, and 41.6% decline in foreclosures.

The Standard & Poor's Case-Shiller Home Price Index is useful in assessing trends for home prices. The graph on the right shows home prices decreasing during the housing market decline from 2007 through 2009 then improving through the current year. The Index for the San Diego metropolitan area, for August 2014, reported a level of 200.68, down -0.26% from the previous month and up 6.23% from one year ago. This trend suggests that, while housing prices have shown an increase compared to the same month last year, home prices may have stabilized in more recent months.



The City's second largest revenue source is Sales Tax. The total citywide Sales Tax rate in San Diego is 8.0%, of which the City receives approximately 1.0%. The major local economic drivers of the City's Sales Tax revenue include the unemployment rate and consumer confidence. As of September 2014, the San Diego unemployment rate was 5.9%, compared to 7.3% in September 2013, as reported by the California Employment Development Department. For comparison, the local unemployment rate in the years 2000 through 2008 in the region ranged between 4% and 5%. As the local unemployment rate continues to improve and become closer to historical averages, consumer confidence is projected to increase, leading to continued improvements in the City's Sales Tax receipts.



Major economic drivers for Transient Occupancy Tax (TOT) revenue include seasonal and non-seasonal tourism, business travel and conventions. Sustained positive tourism growth has occurred since the economic turnaround began in FY 2010 and this trend is expected to continue through FY 2015 and beyond, according to the August 2014 Quarterly Travel Forecast from the San Diego Tourism Authority (SDTA). Slow but steady growth in hotel room demand and occupancy is forecasted through FY 2017 and is then expected to level off as displayed in the following table:

Tourism Forecast	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Vistor Growth	2.4%	2.3%	2.5%	1.9%	1.6%
Overnight	3.6%	1.2%	1.8%	1.5%	1.4%
Room Demand	5.7%	2.0%	1.8%	1.5%	0.9%
Occupancy	74.6%	75.4%	75.7%	76.0%	76.0%
Average Daily Rate	$ 141.73	$ 150.29	$ 159.11	$ 166.64	$ 174.00

Source: Toursim Economics Inc.

The Franchise Fees revenue category includes payments from San Diego Gas and Electric (SDG&E) and cable television providers for the use of the City's rights-of-way. The City also collects refuse hauler fees based on the total amount of refuse hauled annually. The FY 2016 projection for the Franchise Fees category is $73.4 million, a $1.4 million increase over the FY 2015 budget estimate of $72.0 million.

Long Term Financial Planning and Relevant Financial Policies

Five year Outlook

Each year the City of San Diego 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 has been published since November 2006 and incorporates a range of information on items that influence projected revenues and anticipated appropriation needs over the next five fiscal years. The incorporation of more information in the Outlook, particularly those affecting appropriation needs, informs the City Council and the public on 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 of San Diego 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, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the City. The City updated its reserve policy in 2014, increasing the General Fund Reserve from 8% to 14%. The City's General Fund Reserves are comprised of two separate components: (1) the Emergency Reserve, maintained for the purpose of sustaining General Fund operations in the case of a public emergency, and (2) the Stability Reserve, maintained 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 majority of the City Council. In addition, the City maintains other reserves to manage risk, including reserves for public liabilities and for obligations related to workers' compensation and long-term disability of the City's employees. The City also maintains reserves for many of its enterprise funds including the Water and Sewer Utility Funds.

Reserve	Target[2]	Target Amount	Reserves as of June 30, 2014	Actual over Target
General Fund Emergency Reserve[1]	8% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	$85.6	$85.6	100%
General Fund Stability Reserve[1]	6% of the most recent three year average of annual audited General Fund operating revenues (budgetary basis)	$64.2	$64.2	100%
Public Liability Reserve	50% of outstanding public liability claims based on the annual actuarial liability valuations for the three most recent fiscal years	$32.2	$39.6	123%
Workers' Compensation Reserve	25% of outstanding workers' compensation claims based on the annual actuarial liability valuations for the three most recent fiscal years	$43.0	$47.2	110%
Long-Term Disability Reserve	100% of long-term disability claims based on the annual actuarial liability valuations for the three most recent fiscal years	$13.8	$14.8	107%

[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] References to three most recent years are for actuarial valuations and audited revenues available as of June, 30, 2014.

The table above identifies the target and actual amounts for the General Fund Emergency and Stability reserves and reserves related to risk management (dollars in millions). The General Fund's Emergency Reserve of $85.6 million is reported as restricted fund balance in the financial statements. The General Fund's assigned and unassigned fund balance, as of June 30, 2014, was $96.9 million of which $64.2 million represents the General Fund's Stability Reserve and the balance of $32.7 million is available for appropriation as of June 30, 2014 ($12.8 million of unassigned fund balance was budgeted in FY 2015 for public liability claim expenditures). The Public Liability and Workers' Compensation reserves are reported as part of the General Fund's committed fund balance. The Long-Term Disability reserve is reported as part of the Miscellaneous Internal Service Fund and represents Net Position of the fund less long-term disability liability claims. As of June 30, 2014, risk management reserves exceeded target amounts; however, liability claims paid after the end of fiscal year 2014 could reduce reserve balances.

Other Financial Policies

In addition to policies related to reserves, budget development, budget monitoring and the five year financial 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 www.sandiego.gov/fm/annual/pdf/fy15/vol1/v1fiscalpolicies.pdf.

Major Accomplishments and Initiatives

The City continues to develop initiatives to grow jobs and the local economy. In FY 2015, the City re-established the Economic Development Department, creating a single department to focus on business retention and expansion, economic development issues and partnerships with local, national, and international stakeholders. In addition, the current administration focused on strengthening its economic ties with Mexico. In March 2014, Mayor Faulconer met with Mexican officials to discuss ways to work together on the binational railroad, an enhanced driver's license program, funding for land ports of entry, comprehensive immigration reform and other important border projects including city border infrastructure, the San Ysidro port of entry expansion, pedestrian border access, road quality issues and lighting issues.

The City made public safety a priority in its FY 2015 budget by adding a $3.2 million police officer retention program, four police academies, 45 sworn police positions and 17 civilian positions to support the Police Department operations. In addition, the budget allocated resources for emergency first responders in Southeastern San Diego

where response times have historically been among the slowest. The budget allocated $1 million to build a temporary fire station in Skyline while a permanent facility is being planned.

The FY 2015 budget restored library hours to 48 hours per week and expanded library services on weekends. In addition, the budget funded the City's first comprehensive after-school program. The Do Your Homework @ the Library Program provides one-on-one assistance to children at targeted K-8 schools in San Diego for school-assigned homework. The program adds learning coordinators at 18 San Diego libraries where curriculum-aligned resources, technology and community partnerships work in tandem to support students.

In September 2014, the City released an updated Climate Action Plan for the City of San Diego, which calls for eliminating half of all greenhouse gas emissions in the City and aims for all electricity used in the City to be from renewable sources by 2035. The Climate Action Plan includes policies to benefit the environment, create new jobs in the renewable energy industry, increase local energy production and save taxpayer money.

Mayor Faulconer intends to dedicate at least 50 percent of the City's new major general fund revenue growth toward infrastructure and neighborhood repairs. The 2015 budget added 16 additional workers for pothole repair and projects to double the amount of asphalt repaired annually. The total Capital Improvement Program FY 2015 budget is $310.0 million in addition to $784.5 million in continuing appropriations.

Acknowledgments

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 and component units for their assistance in providing information for this report. We also want to thank the City's independent auditors, Macias Gini & O'Connell LLP for their efforts.

Respectfully submitted,

Scott Chadwick
Chief Operating Officer

Mary Lewis
Chief Financial Officer

Rolando Charvel
City Comptroller

City of San Diego Current Officials

Current Elected Officials

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

Mayor Kevin Faulconer

District 1
Councilmember Sherri Lightner

District 2
Councilmember Ed Harris

District 3
Council President Todd Gloria

District 4
Councilmember Myrtle Cole

District 5
Councilmember Mark Kersey

District 6
Councilmember Lorie Zapf

District 7
Councilmember Scott Sherman

District 8
Councilmember David Alvarez

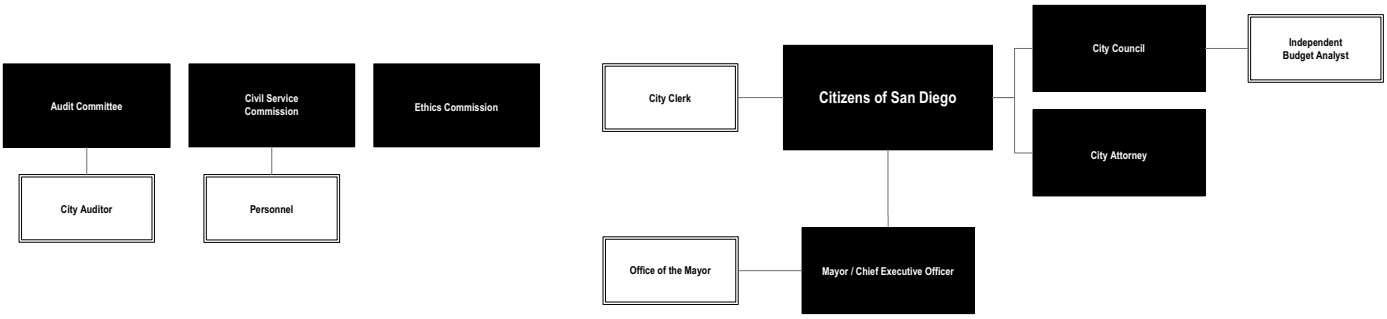
District 9
Councilmember Marti Emerald

City Attorney
Jan Goldsmith

Other City Officials

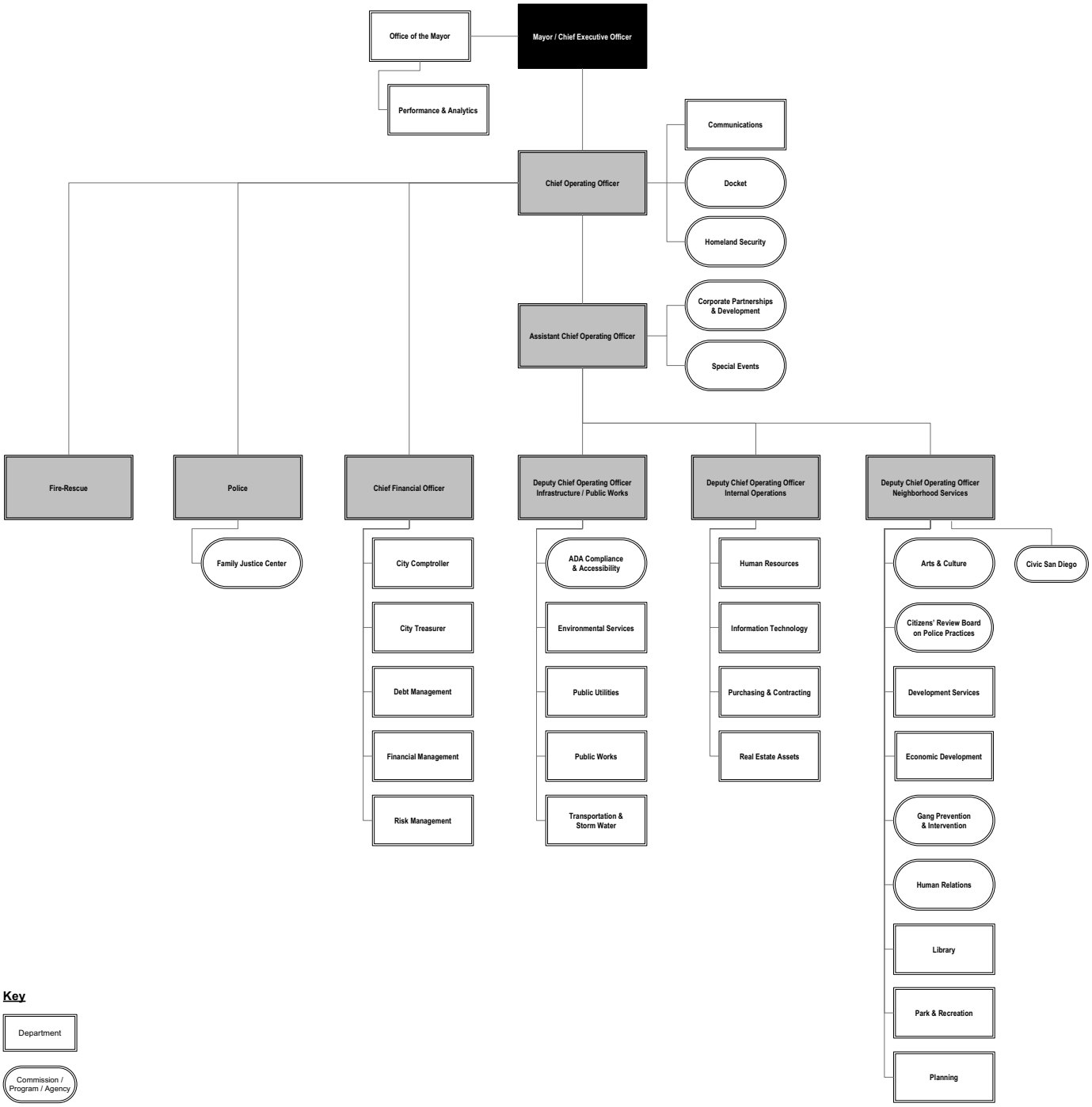
Scott Chadwick, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Rolando Charvel, City Comptroller
Gail R. Granewich, City Treasurer
Elizabeth Maland, City Clerk
Andrea Tevlin, Independent Budget Analyst
Eduardo Luna, City Auditor

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.

San Diego
225 Broadway, Suite 1750
San Diego, CA 92101
619.573.1112

Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

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, 2014, 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 93%, 96%, and 88%, 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, 2014, 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 Matters

Changes in Accounting Principles

As discussed in Notes 1v and 23 to the basic financial statements, effective July 1, 2013, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* and GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25.* Furthermore, as discussed in Note 23, the City reclassified the activities of certain special revenue and internal service funds to the general fund.

Defined Benefit Pension Plan - Unfunded Actuarial Accrued Liability

As discussed in Note 11 to the basic financial statements, based on the most recent actuarial valuation of the City's defined benefit pension plan, the San Diego City Employees' Retirement System's (SDCERS) third-party actuary determined that, as of June 30, 2013, the actuarial accrued liability exceeded the actuarial value of assets by $2.2 billion.

Postemployment Healthcare Plan - Unfunded Actuarial Accrued Liability

As discussed in Note 12 to the basic financial statements, based on the most recent actuarial valuation of the City's other postemployment benefit plan, the City's third-party actuary determined that, as of June 30, 2014, the actuarial accrued liability exceeded the actuarial value of assets by $479 million.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment benefit trust funds schedules of funding progress, other postemployment benefit trust fund schedule of employer contributions, and the general fund schedule of revenues, expenditures and changes in fund balance – budget and actual (budgetary basis) as listed in the table of contents 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 5, 2014 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 5, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2014
(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 year ended June 30, 2014. 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 financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The focus of the government-wide financial statements is on reporting on the operating results and financial position of the government as an economic entity. These statements are intended to report the 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 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 cost of issuance 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 former 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)
- City of San Diego/Metropolitan Transit Development Board Authority (City/MTDB Authority)
- Convention Center Expansion Financing Authority (CCEFA)

- Public Facilities Financing Authority (PFFA)
- San Diego Data Processing Corporation (SDDPC)
- 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 50 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 from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the 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 54 of this report.

PROPRIETARY FUNDS

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its various business-type activities, such as Sewer and Water Utilities. Internal service funds, such as Fleet Services, Central Stores, Publishing Services, and San Diego Data Processing Corporation 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 proprietary funds are combined into a single, aggregated presentation, and the internal service funds are combined into a single, aggregated presentation as well. Included in the Combining and Individual Fund Financial Statements and Schedules section of this report are individual fund data for the nonmajor proprietary funds and the internal service funds. The basic proprietary funds financial statements can be found beginning on page 58 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 62 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 64 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and postemployment healthcare benefits to its employees, employer contributions to the postemployment healthcare benefits plan and the General Fund's budgetary comparison schedule. Required supplementary information can be found beginning on page 183 of this report.

The individual fund data referred to earlier in connection with nonmajor governmental funds, nonmajor proprietary funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information beginning on page 217 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	
	2014	2013 [1]	2014	2013 [1]	2014	2013 [1]
Capital Assets	$ 4,530,528	$ 4,496,229	$ 5,270,890	$ 5,207,184	$ 9,801,418	$ 9,703,413
Other Assets	1,910,914	1,789,811	1,286,764	1,277,813	3,197,678	3,067,624
Total Assets	6,441,442	6,286,040	6,557,654	6,484,997	12,999,096	12,771,037
Deferred Outflows of Resources	10,164	13,649	15,660	17,104	25,824	30,753
Net Long-Term Liabilities	1,458,664	1,468,569	2,167,099	2,225,253	3,625,763	3,693,822
Other Liabilities	173,221	173,194	210,787	196,563	384,008	369,757
Total Liabilities	1,631,885	1,641,763	2,377,886	2,421,816	4,009,771	4,063,579
Deferred Inflows of Resources	-	-	3,276	3,458	3,276	3,458
Net Position						
Net Investment in Capital Assets	3,988,284	3,963,306	3,526,979	3,378,535	7,515,263	7,341,841
Restricted	1,106,353	975,025	27,284	32,715	1,133,637	1,007,740
Unrestricted	(274,916)	(280,405)	637,889	665,577	362,973	385,172
Total Net Position	$ 4,819,721	$ 4,657,926	$ 4,192,152	$ 4,076,827	$ 9,011,873	$ 8,734,753

[1] Fiscal Year 2013 amounts have been restated (See Note 23) and/or reclassified to conform with current year presentation.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $9,011,873 as of June 30, 2014, an increase of $277,120, or approximately 3%, over fiscal year 2013.

Of Total Net Position, $7,515,263, or approximately 83% 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 deferred outflows 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 $1,133,637, or approximately 13% of total Net Position, representing resources that are subject to external restrictions on how they may be used. The remaining balance of $362,973, or approximately 4%, represents Unrestricted Net Position which is available to fund ongoing services to the City's citizens and obligations to its creditors.

Total Net Position resulting from governmental activities increased by $161,795, or approximately 3%. Net Investment in Capital Assets increased by $24,978, resulting from a net increase in capital assets for governmental activities of $34,299 offset by an increase in debt used to acquire these assets of $9,321. Restricted Net Position increased by $131,328, or approximately 13%, primarily due to increases in the General Fund Emergency Reserve per the City's Reserve Policy, combined with increases in other restricted funds such as the Facilities Benefit Assessments Fund, Traffic Congestion Relief (Prop 42) Fund, Underground Surcharge Fund, and the Low-Moderate Income Housing Fund.

Total Net Position resulting from business-type activities remained stable, with an increase of $115,325, or approximately 3%. Net Investment in Capital Assets increased by $148,444, or approximately 4%, and Unrestricted Net Position decreased by $27,688, or approximately 4%.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013 [1]	2014	2013 [1]	2014	2013 [1]
Revenues:						
Program Revenues						
Charges for Services	$ 410,480	$ 409,156	$ 933,739	$ 892,087	$ 1,344,219	$ 1,301,243
Operating Grants and Contributions	60,591	82,760	1,531	1,761	62,122	84,521
Capital Grants and Contributions	120,538	152,193	70,739	91,878	191,277	244,071
General Revenues						
Property Taxes	470,905	421,894	-	-	470,905	421,894
Transient Occupancy Taxes	173,376	158,105	-	-	173,376	158,105
Sales Taxes - Shared State Revenue	282,345	269,504	-	-	282,345	269,504
Other Local Taxes	186,747	166,548	-	-	186,747	166,548
Grants and Contributions not Restricted to Specific Programs	674	705	-	-	674	705
Investment Income	13,627	9,220	8,489	2,429	22,116	11,649
Other	80,247	80,783	12,096	11,520	92,343	92,303
Total Revenues	1,799,530	1,750,868	1,026,594	999,675	2,826,124	2,750,543
Expenses:						
General Government and Support	286,798	316,455	-	-	286,798	316,455
Public Safety-Police	441,803	417,283	-	-	441,803	417,283
Public Safety-Fire, Life Safety, Homeland Security	253,741	234,752	-	-	253,741	234,752
Parks, Recreation, Culture and Leisure	267,523	268,415	-	-	267,523	268,415
Transportation	192,928	201,267	-	-	192,928	201,267
Sanitation and Health	89,448	67,271	-	-	89,448	67,271
Neighborhood Services	70,191	79,503	-	-	70,191	79,503
Debt Service:						
Interest	35,226	37,942	-	-	35,226	37,942
Cost of Issuance	518	-	-	-	518	-
Sewer Utility	-	-	326,437	337,926	326,437	337,926
Water Utility	-	-	443,453	434,702	443,453	434,702
Airports	-	-	4,663	4,948	4,663	4,948
Development Services	-	-	50,825	47,751	50,825	47,751
Environmental Services	-	-	33,724	34,192	33,724	34,192
Golf Course	-	-	16,423	16,619	16,423	16,619
Recycling	-	-	20,475	20,857	20,475	20,857
Total Expenses	1,638,176	1,622,888	896,000	896,995	2,534,176	2,519,883
Change in Net Position Before Transfers and Extraordinary Loss:	161,354	127,980	130,594	102,680	291,948	230,660
Transfers	15,269	20,012	(15,269)	(20,012)	-	-
Extraordinary Loss	(14,828)	(28,070)	-	(1,866)	(14,828)	(29,936)
Change in Net Position	161,795	119,922	115,325	80,802	277,120	200,724
Net Position - July 1, as Restated	4,657,926	4,538,004	4,076,827	3,996,025	8,734,753	8,534,029
Net Position - June 30	$ 4,819,721	$ 4,657,926	$ 4,192,152	$ 4,076,827	$ 9,011,873	$ 8,734,753

[1] Fiscal Year 2013 amounts have been restated (See Note 23)

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by $161,795 during fiscal year 2014. Variances from fiscal year 2013 of more than 10% are discussed below.

- Operating Grants and Contributions decreased by $22,169, or approximately 27%. This was partially caused by a decrease in contributions received from the Successor Agency. During fiscal year 2013, the Successor Agency made a payment to the Petco Park Fund for debt service, which did not recur in fiscal year 2014. In addition, there were year over year decreases in tobacco revenues related to a settlement disbursement received in the prior year and decreases in the recognition of Community Development Block Grant (CDBG) revenues.

- Capital Grants and Contributions decreased by $31,655, or approximately 21%, primarily due to the final donation for construction of the new main library being recognized in fiscal year 2013.

- Property Taxes increased by $49,011, or approximately 12%, primarily due to a onetime residual distribution of $34,900 from the Redevelopment Property Tax Trust Fund (RPTTF) related to the Due Diligence Review of the Successor Agency's Non-Housing Assets. Also contributing to the variance were increases in the 1.0 percent base property taxes and Motor Vehicle License Fees (MVLF).

- Transient Occupancy Taxes increased by $15,271, or approximately 10%, primarily due to increases in the average hotel occupancy rate and increases in the average daily hotel rate.

- Other Local Taxes increased by $20,199, or approximately 12%. This was primarily due to the Highway Users Tax Account (HUTA) look-back revenue adjustments made related to the California Streets and Highways Code Section 2103 excise tax swap, combined with increases in SDG&E franchise revenues received by the General Fund and the Underground Surcharge Fund.

- Investment income increased by $4,407, or approximately 48%, 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, combined with the net effect of unrealized gains and losses on the City's investment pool.

- Sanitation and Health expense increased by $22,177, or approximately 33%, primarily due to increases in public liability claim expenses for both the Environmental Services and Storm Water departments, as well as an accrued liability of $5,667 for pollution remediation (see Note 17).

- Neighborhood Services expense decreased by $9,312, or approximately 12%, primarily due to a onetime payment to the County of San Diego in fiscal year 2013 related to the Due Diligence Review of housing assets resulting from the Redevelopment Agency dissolution.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by $115,325 during fiscal year 2014. Variances from fiscal year 2013 of more than 10% are discussed below.

- Capital Grants and Contributions decreased by $21,139, or approximately 23%, primarily due to a onetime capital asset donation from the San Diego County Water Authority during fiscal year 2013, which was partially offset by increases in capacity charges contributed by developers for Sewer and Water Utilities.

- Investment income increased by $6,060, or approximately 249%, primarily due to the net effect of unrealized gains and losses on the City's investment pool.

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 2014, the City's governmental funds reported combined ending fund balances of $1,511,427, an increase of $134,874 from fiscal year 2013. Approximately $76,197 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it has been primarily restricted or committed (1) to liquidate contracts and purchase orders of the period, (2) to pay debt service, (3) to generate income to pay for the perpetual funding of various programs, or (4) for a variety of other purposes.

The General Fund is the principal operating fund of the City. Total Fund Balance for the General Fund was $350,114, an increase of $3,330 from fiscal year 2013, after restatements of $124,286 for the following items: A reclassification of the Workers' Compensation and Public Liability components of the Self Insurance fund as part of the General Fund; the consolidation of several Special Revenue funds with the General Fund as of the beginning of fiscal year 2014, including Environmental Growth and Special Gas Tax Street Improvement, as well as several funds from the Other Special Revenue-Budgeted and Other Special Revenue-Unbudgeted categories; and the correction of accrued neighborhood services expenditures for the downtown parking meter district (See Note 23 for additional information).

General Fund revenue totaled $1,260,618, which is an increase of $92,415, after restatements of $64,646. The increase was primarily due to a one-time distribution of property taxes from the Redevelopment Property Tax Trust Fund (RPTTF) and growth in Sales Tax revenue. General Fund expenditures totaled $1,267,040, which is an increase of $112,955, after restatements of $7,254. The increase was mainly due to expenditures associated with the Mayoral Special Elections, higher annual required contributions for pension in fiscal year 2014, and higher flexible benefit costs as a result of five-year labor agreements executed in June 2013.

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 2014, total Net Position for the Sewer Utility Fund was $2,349,378, an increase of $73,955, or approximately 3% over fiscal year 2013, after restatements of ($15,495) for the following items: GASB 65 adjustments for bond issuance costs; and the reclassification of liability claims for workers' compensation (See Note 23). The Net Investment in Capital Assets accounted for the majority of the variance, with an increase of $73,571. This is comprised of a net increase in capital assets of $17,541, mainly in the construction in progress and distribution and collection systems infrastructure categories, combined with a net decrease in long-term debt of $56,030. Unrestricted Net Position of the Sewer Utility Fund remained stable at $327,793, an increase of $5,212, or approximately 2% over fiscal year 2013. Total Operating Income for the Sewer Utility Fund also remained fairly stable at $92,012, an increase of approximately 6% over fiscal year 2013.

The Water Utility Fund had total Net Position of $1,683,916 at the end of fiscal year 2014, an increase of $45,499, or approximately 3%, after restatements of ($13,893) for the following items: GASB 65 adjustments for bond issuance costs; and the reclassification of liability claims for workers' compensation (See Note 23). The Net Investment in Capital Assets increased by $78,862. This is comprised of a net increase in capital assets of $50,154, mainly in the construction in progress and

distribution and collection systems infrastructure categories, combined with a net decrease in long-term debt of $28,708. The Unrestricted Net Position of the Water Utility Fund was $248,876, a decrease of $32,178, or approximately 11% from fiscal year 2013. This decrease was primarily caused by the use of Unrestricted Net Position to fund additions to capital assets. Total Operating Income for the Water Utility Fund was $43,069, an increase of approximately 35% over fiscal year 2013. Operating revenues increased by $33,057, or approximately 8%, primarily due to a 7.25% Council approved water rate increase that became effective in January 2014. Operating expenses increased by $21,920, or approximately 6% primarily due to an increase in the cost of purchased water from the City's wholesale water supplier, the San Diego County Water Authority.

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 $44,141 higher than the original budget due to increases (decreases) in appropriations primarily attributed to the following:

- $34,835 for General Government and Support. This increase was primarily due to increased Public Liability costs and two unanticipated mayoral special elections.

- $12,487 for Public Safety-Police. The increase was primarily due to higher task force related overtime and fringe benefit costs, increased usage rates due to the delayed implementation of the Fleet Services managed competition program and fiscal year 2014 costs related to urgent repairs made to the emergency generator located at Police headquarters.

Actual revenues received in the General Fund were $17,512 higher than budgeted. Property Tax revenues were over budget by $16,662, primarily due to a one time residual distribution from the Redevelopment Property Tax Trust Fund (RPTTF) related to the Due Diligence Review of the Successor Agency's Non-Housing Assets resulting from the Redevelopment Agency dissolution. Transient Occupancy Tax revenues were over budget by $1,815, primarily due to continued growth in the local tourism industry. Other Local Tax revenues were over budget by $4,804, due to increases from SDG&E franchise fees. Licenses and Permits were over budget by $3,115 due to several small increases spread across various Licenses and Permits categories. Revenue from Other Agencies was over budget by $2,247, due to Assembly Bill 109 Public Safety Realignment (AB 109) from the California Board of State and Community Corrections. Charges for Current Services revenues were under budget by $11,919 primarily as a result of the Park and Recreation and Transportation and Storm Water departments providing less reimbursable services than anticipated in the budget.

Actual expenditures for the General Fund were $20,869 under budget. General Government and Support had appropriation savings of $13,057 due to lower than anticipated consulting services and position vacancies. Sanitation and Health had appropriation savings of $1,335 due primarily to vacant positions. Neighborhood Services had appropriation savings of $1,772 primarily due to various delays in developing the Community Plan Updates.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land and Rights of Way	$ 1,764,927	$ 1,729,238	$ 97,013	$ 97,036	$ 1,861,940	$ 1,826,274
Easements	769	656	1,702	667	2,471	1,323
Construction in Progress	239,295	389,928	226,399	191,265	465,694	581,193
Structures and Improvements	830,048	667,773	1,156,089	1,181,453	1,986,137	1,849,226
Equipment	146,834	140,776	138,108	147,443	284,942	288,219
Intangible Equipment	12,371	23,546	18,342	15,939	30,713	39,485
Distribution and Collection Systems	-	-	3,633,237	3,573,381	3,633,237	3,573,381
Infrastructure	1,536,284	1,544,312	-	-	1,536,284	1,544,312
Totals	$ 4,530,528	$ 4,496,229	$ 5,270,890	$ 5,207,184	$ 9,801,418	$ 9,703,413

CAPITAL ASSETS

In accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 34 and 51, all major assets such as streets, signals, bridges, 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, 2014 was $9,801,418 (net of accumulated depreciation/amortization). There was an overall increase in the City's investment in capital assets over fiscal year 2013 of approximately $98,005. Readers interested in more detailed information on capital asset activity should refer to Note 4.

HIGHLIGHTS OF FISCAL YEAR 2014 CAPITAL IMPROVEMENT ACTIVITIES

Governmental Activities

- The New Main Library opened on September 30, 2013. This project provides a new multi-story, multi-use facility that includes a Charter High School, auditorium, art gallery and multiple public meeting spaces. The 500,000 square foot building meets current library needs and provides room for growth. The City's fiscal year 2014 capital expenditures for this project were $7,527. The project was funded by multiple sources including grant funds, private donations and former Redevelopment Agency (RDA) funds.

- The asphalt overlay of approximately 70 miles of roads citywide, and the installation of nearly 1,000 new curb ramps was completed during fiscal year 2014. These projects will result in improved surface street conditions and reduce our level of transportation related deferred capital costs. Funded primarily by the Deferred Capital Bonds and Gas Tax, the City's fiscal year 2014 expenditures for these projects were $24,520.

- Several projects that focus on removing barriers in the public right of way, as well as 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 2014 were $4,380.

- Construction began on Fire Station #45 – East Mission Valley during fiscal year 2014. 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 2014 capital expenditures for this project were $2,362.

- The installation phase of a new citywide in-station alerting system at all fire stations began in fiscal year 2014. Once complete, the new system will replace the twenty-one year old system. The updated system will help to reduce response times. Fiscal year 2014 expenditures for this project totaled $2,439. It is anticipated that the project will be completed during fiscal year 2015.

- Construction was completed on the Memorial Pool Improvements project during fiscal year 2014. This project involved the demolition of the existing 40 year old pool and the design and construction of a new pool. Also a child's water play area was installed as part of the improvement. Project expenditures for fiscal year 2014 were $2,607.

- Construction continued on the Pedestrian Bridge along Shoal Creek Drive over Ted Williams Parkway. This pedestrian bridge is located near Shoal Creek Elementary School and will increase pedestrian safety when crossing Ted Williams Parkway. Fiscal year 2014 expenditures totaled $2,700.

- The Avenida de la Playa Storm Drain Infrastructure project began construction during the 2014 fiscal year. This project will reduce flooding in the area by increasing pipe capacity. Also, the dry-weather run off will be reduced via the addition of a hydrodynamic separator, and the replacement of the low-flow diversion and outlet box. Project expenditures in fiscal year 2014 totaled $2,919.

Business-Type Activities

During fiscal year 2014, the Water Utility Fund incurred capital expenses of approximately $55,180 related to capital improvement projects (CIP). The following major projects continued during fiscal year 2014: Scripps Ranch Pump Station; Harbor Drive Pipeline Replacement; Water Group Jobs 926 and 949 (large-scale pipeline replacements); and Water Department Security Upgrades. Capital asset write-offs (net) for fiscal year 2014 were approximately $1,937 and were primarily related to losses on abandoned projects and retirements of distribution and collection system assets.

During fiscal year 2014, the Sewer Utility Fund incurred capital expenses of approximately $54,050 related to CIP, of which the Metropolitan system CIP increased approximately $16,930, and the Municipal system CIP increased approximately $37,120. The following major projects continued during fiscal year 2014: Point Loma Grit Processing Improvements; Pump Station 84 Upgrade and Pump Station 62 Abandonment; Ovation (monitoring and control software) Upgrade at North City Water Reclamation Plant; and the continued replacement of sewer mains and upgrades to the sewer infrastructure. Capital asset write-offs (net) for fiscal year 2014 were approximately $1,681 and were primarily related to losses on abandoned projects and retirements of distribution and collection system assets.

HIGHLIGHTS OF THE APPROVED FISCAL YEAR 2015 CAPITAL IMPROVEMENT PROJECTS (CIP) BUDGET

The Annual Adopted Capital Improvements Budget for fiscal year 2015 is $309,972. The largest funding allocation is for Water and Sewer projects, which makes up over 68% of the total CIP budget. The second largest allocation is for Transportation and Storm Water related projects, representing 15% 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; land sale proceeds; and deferred capital projects bonds. Highlights of the key budgets by department are as follows:

Governmental Activities

- Transportation and Storm Water: $46,980. In fiscal year 2015 approximately 80 miles of roads will be resurfaced; ten storm water pipeline replacement projects and three water quality improvement projects are scheduled to be completed. Additionally, there are plans to underground 15 miles of overhead utility lines. Additional efforts will focus on various traffic calming, signal modification, bridge rehabilitation, and pedestrian/biking improvements.

- Parks and Recreation: $30,444. Planned project types for fiscal year 2015 include play area upgrades, joint use fields, accessibility improvements, comfort stations, picnic shelters, sports field and security lighting, open space acquisition and improvements, as well as new park development and golf course improvements and upgrades.

- Public Works – General Services: $2,344. Projects during fiscal year 2015 will focus primarily on ADA improvements throughout the City. Fire Alarm replacements at buildings throughout the City and HVAC upgrades at Casa del Prado, the Municipal Gymnasium, and Spanish Village are also scheduled to be completed during the fiscal year.

- Library: $1,592. Key projects in fiscal year 2015 include initiating the construction of the Skyline Hills Branch Library, as well as completing the design for the future Mission Hills – Hillcrest Branch Library.

Business-Type Activities

- The fiscal year 2015 Public Utilities CIP budget is $211,420. Significant projects include: $41,173 for water main replacements; $22,500 for pipeline rehabilitation; $55,368 for sewer main replacements, $6,637 for standpipe and reservoir rehabilitation, $6,233 for the Otay second pipeline installation, and $5,470 for the Enterprise Asset Management system implementation.

COMMITMENTS AND RESTRICTIONS

The City has contractual commitments related to its CIP program which have been encumbered in the funds. The following table provides a breakdown of these commitments:

Nonmajor Governmental Funds	$ 66,592
Sewer Utility	70,451
Water Utility	49,848
Nonmajor Enterprise Funds	1,478
Internal Service Funds	18
Total Contractual Commitments	$ 188,387

In addition, there are restrictions on City financial resources externally imposed by creditors, grantors, contributors or 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. In addition, there are restrictions related to enterprise funds where revenues of the fund can only be used for costs related to the enterprise.

LONG-TERM DEBT

CITY OF SAN DIEGO'S OUTSTANDING DEBT
(Dollars in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013 [1]	2014	2013 [1]	2014	2013 [1]
Capital Lease Obligations	$ 58,094	$ 65,369	$ 2,590	$ -	$ 60,684	$ 65,369
QECB Lease Obligations	10,864	11,637	-	-	10,864	11,637
Contracts Payable	16,820	7,454	-	-	16,820	7,454
Loans Payable	13,552	21,638	161,360	145,330	174,912	166,968
Section 108 Loans Payable	4,081	5,630	-	-	4,081	5,630
Revenue Bonds/Lease Revenue Bonds	546,930	533,235	1,778,310	1,850,645	2,325,240	2,383,880
Tobacco Settlement Asset-Backed Bonds	77,785	81,635	-	-	77,785	81,635
Totals	$ 728,126	$ 726,598	$ 1,942,260	$ 1,995,975	$ 2,670,386	$ 2,722,573

[1] Fiscal year 2013 amounts have been restated (See Note 23)

At the end of fiscal year 2014, the City, including blended component units, had total debt outstanding of approximately $2,670,386. This amount represents lease revenue bonds, tobacco settlement asset-backed bonds, contracts payable, loans payable, Section 108 loans, state revolving fund (SRF) loans, qualified energy conservation bonds (QECBs) and capital lease obligations.

Governmental Activities

PFFA issued $43,245 of lease revenue and lease revenue refunding bonds, series 2013A (Capital Improvement Projects and Old Town Light Rail Extension refunding) and $6,285 of lease revenue refunding bonds, series 2013B (Balboa Park/Mission Bay Park Refunding). The series 2013B were issued to refund all of the outstanding City 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding). The Series 2013A and 2013B 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.

Total principal payments or reductions of long-term debt were $96,949. Of this amount, $39,685 was for outstanding bonds, including $16,025 of bonds refunded or redeemed in advance of the scheduled maturity date and $23,660 of scheduled bond principal payments. Also included were $1,549 of Section 108 loan principal payments of which $1,284 was paid in advance of the scheduled maturity and $265 of principal was paid as scheduled, $8,847 for loans payable, $7,585 for contracts payable and $39,283 for qualified energy conservation bonds and capital leases obligations.

Readers interested in more detailed information regarding governmental activities long-term liabilities should refer to Note 5.

Business-Type Activities

The City received the following State Revolving Fund Loan disbursements from the California State Water Resources Control Board:

- $9,640 for the Point Loma Grit Processing Improvement Project.
- $2,986 for Segments M-1, N-1, O-1 and P-1 of the Sewer Pipeline Replacement Project.
- $1,106 for Segment Q-1 of the Sewer Pipeline Replacement Project.
- $7,597 for Segment R-1 and S-1 of the Sewer Pipeline Replacement Project.

The City also received State Revolving Fund Loan disbursements from the State of California Department of Public Health of $3,293 to assist in financing the Harbor Drive Pipeline Replacement Project and $95 for the Lindbergh Field Pipeline Replacement Project, which supports City efforts to meet safe drinking water standards.

Total principal payments for long-term debt were $81,022. Of this amount, $72,335 was for scheduled bond principal payments and $8,687 for loans payable.

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	Stable	Stable
Water System Bonds (Senior/Subordinate)	AA/AA-	Aa2/Aa3	AA-/Not Rated
Outlook	Stable	Stable	Stable

The Government Code of the State of California sets legal debt limits based on a percentage of assessed valuation. Section 90 of the City Charter provides that the general obligation bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation, and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation. The current debt limitations for water and other purposes are $6,240,009 and $4,160,006, respectively (see Statistical Section, Table 12).

It has been the City's practice to issue revenue bonds for the purpose of constructing water and sewer facilities. Revenue bonds do not constitute an indebtedness of the City. They are special obligations payable from the revenues received by the utilities.

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 these assets, resulting in deteriorated structures and portions of the City's infrastructure. As of 2011, the City estimated a backlog of approximately $898,000 in deferred capital needs for the City's existing General Fund infrastructure, including $478,000 for streets; $185,000 for General Fund owned public buildings; and $235,000 for storm drain infrastructure. The total City deferred maintenance backlog is likely higher since the estimate is based on an outdated and partial condition assessment of the assets and because it excludes certain asset classes and infrastructure related to the City's water and sewer systems and other enterprises. Condition assessments are currently underway to evaluate approximately 1,200 City facilities and will continue through calendar year 2017. Condition assessments for sidewalks and certain parks are also underway and are anticipated to be completed by December 2014. Condition assessments for streets are expected to be completed by June, 2015. The Public Utilities Department has launched a condition assessment program that consists of five condition assessment contracts for water and wastewater infrastructure, including water mains. As these assessments are completed, the City will have a better understanding of funding needs related to maintenance and capital expenses of its depreciable assets.

On March 20, 2012, the City Council approved a deferred capital funding plan, known as Enhanced Option B, which included bond funding totaling $419,320 over a five-year period from fiscal years 2013 through 2017, and increasing annual cash funding for maintenance and repair and capital expenditures (not including annual debt service) from $50,000 in fiscal year 2014 to $79,040 by fiscal year 2017. Under the Enhanced Option B funding plan, the City has already completed a bond series in fiscal year 2013 and has authorization to conduct an additional financing up to $120,000. An aggregate total of $168,320 in additional lease revenue bonds are planned for fiscal years 2016 and 2017. The combined bond funding from fiscal year 2013 through 2017 is currently projected to be $323,320 compared to the $419,320 in the Enhanced Option B plan.

In addition to deferred capital, the City's infrastructure needs include annual maintenance and repair costs for existing assets as well as new assets needed to provide essential services. 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), fire stations, libraries, parks, and other needed public facilities in the community. The San Diego Convention Center, which was originally built in 1989 and expanded in 2001, is projected to necessitate approximately $41 million in capital and operations and maintenance funding between Fiscal Year 2015 and Fiscal Year 2019, of which approximately $31 million represents capital costs. Over the prior ten year period capturing Fiscal Year 2005 through Fiscal Year 2014, a total of approximately $29 million was funded in the form of ongoing capital maintenance.

Agreement Relative to Modified Permit for the Point Loma Wastewater Treatment

The Point Loma Wastewater Treatment Plant is the main treatment facility for the Metropolitan Sewerage System. The treatment plant operates with a modified National Pollutant Discharge Elimination System (NPDES) Permit that includes a variance from the Federal Clean Water Act (CWA) secondary requirements for the discharge of total suspended solids and biochemical oxygen demand. The permit, which expires on July 31, 2015, must be renewed every five years. If the City cannot operate under a 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, based on an estimate in 2014, not including financing costs. The City intends to submit the modified permit renewal application by the end of January 2015. See Notes 17 and 24 for additional information.

Qualcomm Stadium Site Lease

In fiscal year 2014, Management became aware of a situation where the General Fund was using property owned by the Water Utility without compensating the Water Utility for such use. Specifically, approximately half of the Qualcomm Stadium site is owned by the Water Utility. In 1966, the former San Diego Stadium Authority, the City, and the Water Utility entered into a lease agreement for the Water Utility's portion of the site to allow for the construction of the stadium. In exchange for that use, the San Diego Stadium Authority paid the City $15 annually to compensate the Water Utility. After the San Diego Stadium Authority was dissolved, the City continued to pay the Water Utility $15 per year through 2005. At that time, a new appraisal and lease agreement should have been entered into between the General Fund and the Water Utility but this did not occur. Management is currently examining options either to enter into a new, market value lease of the Water Utility parcel or to exchange the Water Utility parcel for a General Fund parcel of similar value. Management is not able to calculate the cost to the General Fund of either of these options at this time.

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.

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BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET POSITION
June 30, 2014
(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	$ 1,155,831	$ 875,297	$ 2,031,128	$ 8,329	$ 126,128
Receivables:					
Taxes - Net of Allowance for Uncollectibles	92,974	-	92,974	-	-
Accounts - Net of Allowance for Uncollectibles	80,360	130,952	211,312	5,303	8,264
Claims	221	100	321	-	-
Special Assessments	401	-	401	-	-
Notes	248,941	-	248,941	-	256,811
Loans	68,386	-	68,386	-	-
Accrued Interest	1,343	1,856	3,199	-	32,886
Grants	25,954	574	26,528	-	-
Advances to Other Agencies	21,411	-	21,411	-	-
Internal Balances	7,164	(7,164)	-	-	-
Inventories of Water in Storage	-	63,258	63,258	-	-
Inventories	2,412	681	3,093	-	-
Land Held for Resale	32,212	-	32,212	-	-
Prepaid Expenses	1,947	-	1,947	639	752
Restricted Cash and Investments	171,357	221,210	392,567	-	3,975
Other Assets	-	-	-	139	3,234
Capital Assets - Non-Depreciable	2,004,991	325,114	2,330,105	18,599	66,386
Capital Assets - Depreciable	2,525,537	4,945,776	7,471,313	11,354	112,706
TOTAL ASSETS	6,441,442	6,557,654	12,999,096	44,363	611,142
DEFERRED OUTFLOWS OF RESOURCES					
Loss on Refunding	10,164	15,660	25,824	-	-

STATEMENT OF NET POSITION
June 30, 2014
(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	$ 86,124	$ 88,209	$ 174,333	$ 572	$ 4,721
Accrued Wages and Benefits	50,757	11,619	62,376	-	1,294
Other Accrued Liabilities	1,070	7,590	8,660	2,419	731
Interest Accrued on Long-Term Debt	8,830	23,137	31,967	-	2,487
Long-Term Liabilities Due Within One Year	121,547	102,325	223,872	13,847	7,087
Due to Other Agencies	104	34,629	34,733	-	-
Unearned Revenue	26,336	22,224	48,560	8,489	10,689
Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	16,093	16,093	-	-
Deposits/Advances from Others	-	7,286	7,286	-	1,596
Long-Term Liabilities Due After One Year:					
Arbitrage Liability	-	90	90	-	-
Compensated Absences	40,556	7,251	47,807	27	-
Liability Claims	292,461	31,417	323,878	-	-
Capital Lease Obligations	43,659	2,250	45,909	-	-
QECB Lease Obligations	10,072	-	10,072	-	-
Contracts Payable	16,820	-	16,820	-	-
Notes Payable	-	-	-	17	123,994
Loans Payable	4,255	152,505	156,760	-	-
Section 108 Loans Payable	3,801	-	3,801	-	-
Net Bonds Payable	622,625	1,771,084	2,393,709	-	-
Estimated Landfill Closure and Postclosure Care	-	23,290	23,290	-	-
Net Other Postemployment Benefit Obligation	188,846	54,277	243,123	-	-
Net Pension Obligation	114,022	22,610	136,632	-	-
TOTAL LIABILITIES	1,631,885	2,377,886	4,009,771	25,371	152,599
DEFERRED INFLOWS OF RESOURCES					
Gain on Refunding	-	3,276	3,276	-	-
NET POSITION					
Net Investment in Capital Assets	3,988,284	3,526,979	7,515,263	17,306	54,862
Restricted for:					
Capital Projects	459,115	-	459,115	-	-
Debt Service	-	1,880	1,880	-	-
Low-Moderate Income Housing	277,139	-	277,139	-	-
Nonexpendable Permanent Endowments	24,307	-	24,307	-	-
Grants	68,206	-	68,206	-	-
Other	277,586	25,404	302,990	-	160,498
Unrestricted	(274,916)	637,889	362,973	1,686	243,183
TOTAL NET POSITION	$ 4,819,721	$ 4,192,152	$ 9,011,873	$ 18,992	$ 458,543

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

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014
(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	$ 286,798	$ 198,856	$ 11,353	$ 10,151
Public Safety - Police	441,803	42,976	4,188	437
Public Safety - Fire and Life Safety and Homeland Security	253,741	34,984	20,707	90
Parks, Recreation, Culture and Leisure	267,523	51,721	12,867	60,482
Transportation	192,928	30,262	58	43,474
Sanitation and Health	89,448	15,342	1,060	3,060
Neighborhood Services	70,191	36,339	10,358	2,844
Debt Service - Cost of Issuance	518	-	-	-
Debt Service - Interest	35,226	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	1,638,176	410,480	60,591	120,538
Business-Type Activities:				
Sewer Utility	326,437	364,548	-	33,081
Water Utility	443,453	447,565	684	37,250
Airports	4,663	4,371	461	408
Development Services	50,825	52,402	-	-
Environmental Services	33,724	26,043	14	-
Golf Course	16,423	19,764	-	-
Recycling	20,475	19,046	372	-
TOTAL BUSINESS-TYPE ACTIVITIES	896,000	933,739	1,531	70,739
TOTAL PRIMARY GOVERNMENT	$ 2,534,176	$ 1,344,219	$ 62,122	$ 191,277
Component Units:				
San Diego Convention Center Corporation	$ 31,832	$ 29,134	$ 3,405	$ 99
San Diego Housing Commission	219,343	35,310	186,987	457
TOTAL COMPONENT UNITS	$ 251,175	$ 64,444	$ 190,392	$ 556

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

Extraordinary Gain (Loss)

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
$ (66,438)	$ -	$ (66,438)	$ -	$ -
(394,202)	-	(394,202)	-	-
(197,960)	-	(197,960)	-	-
(142,453)	-	(142,453)	-	-
(119,134)	-	(119,134)	-	-
(69,986)	-	(69,986)	-	-
(20,650)	-	(20,650)	-	-
(518)	-	(518)		
(35,226)	-	(35,226)	-	-
(1,046,567)	-	(1,046,567)	-	-
-	71,192	71,192	-	-
-	42,046	42,046	-	-
-	577	577	-	-
-	1,577	1,577	-	-
-	(7,667)	(7,667)	-	-
-	3,341	3,341	-	-
-	(1,057)	(1,057)	-	-
-	110,009	110,009	-	-
(1,046,567)	110,009	(936,558)	-	-
-	-	-	806	-
-	-	-	-	3,411
-	-	-	806	3,411
470,905	-	470,905	-	-
173,376	-	173,376	-	-
282,345	-	282,345	-	-
186,747	-	186,747	-	-
47,765	-	47,765	-	-
674	-	674	-	-
13,627	8,489	22,116	3	9,122
32,482	12,096	44,578	356	-
15,269	(15,269)	-	-	-
1,223,190	5,316	1,228,506	359	9,122
(14,828)	-	(14,828)	3,000	-
161,795	115,325	277,120	4,165	12,533
4,657,926	4,076,827	8,734,753	14,827	446,010
$ 4,819,721	$ 4,192,152	$ 9,011,873	$ 18,992	$ 458,543

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

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	$ 322,758	$ 707,082	$ 1,029,840
Receivables:			
Taxes - Net of Allowance for Uncollectibles	72,755	20,219	92,974
Accounts - Net of Allowance for Uncollectibles	8,530	70,448	78,978
Claims	221	-	221
Special Assessments	-	401	401
Notes	-	248,941	248,941
Loans	-	68,386	68,386
Accrued Interest	535	766	1,301
Grants	1,186	24,055	25,241
From Other Funds	38,805	-	38,805
Advances to Other Funds	1,548	5,206	6,754
Advances to Other Agencies	3,730	17,681	21,411
Land Held for Resale	-	32,212	32,212
Prepaid Items	-	24	24
Restricted Cash and Investments	-	171,357	171,357
TOTAL ASSETS	$ 450,068	$ 1,366,778	$ 1,816,846
LIABILITIES			
Accounts Payable	$ 34,141	$ 47,360	$ 81,501
Accrued Wages and Benefits	48,594	503	49,097
Other Accrued Liabilities	-	353	353
Due to Other Funds	-	38,805	38,805
Due to Other Agencies	50	54	104
Unearned Revenue	-	26,317	26,317
Sundry Trust Liabilities	-	104	104
Advances from Other Funds	-	6,754	6,754
Contract Deposits	403	80	483
TOTAL LIABILITIES	83,188	120,330	203,518
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Taxes	11,978	53,819	65,797
Unavailable Revenue - Grants	-	13,699	13,699
Unavailable Revenue - Other	4,788	17,617	22,405
TOTAL DEFERRED INFLOWS OF RESOURCES	16,766	85,135	101,901

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES			
Nonspendable	1,248	24,326	25,574
Restricted	104,885	1,011,875	1,116,760
Committed	147,053	140,268	287,321
Assigned	5,575	-	5,575
Unassigned	91,353	(15,156)	76,197
TOTAL FUND BALANCES	350,114	1,161,313	1,511,427
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 450,068	$ 1,366,778	

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.	4,416,087
Certain assets and deferred outflows of resources are not financial resources (uses), and therefore, are not reported at the fund level.	12,087
Unavailable revenues are not financial resources, and therefore, are reported as deferred inflows of resources.	101,901
Internal service funds are used by management to charge the costs of activities such as Fleet Services, Central Stores, Publishing Services, Employee Benefit Programs, and Data Processing to individual funds. The assets and liabilities of internal service funds are included in governmental activities on the Statement of Net Position.	169,712
Certain liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(1,391,493)
Net Position of governmental activities (page 51)	$ 4,819,721

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, 2014
(Dollars in Thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	$ 460,592	$ 10,368	$ 470,960
Special Assessments	-	50,796	50,796
Sales Taxes	254,219	24,345	278,564
Transient Occupancy Taxes	89,673	80,802	170,475
Other Local Taxes	117,347	69,400	186,747
Licenses and Permits	34,952	18,377	53,329
Fines, Forfeitures and Penalties	30,327	1,036	31,363
Revenue from Use of Money and Property	58,637	28,575	87,212
Revenue from Federal Agencies	1,875	50,629	52,504
Revenue from Other Agencies	7,399	32,405	39,804
Revenue from Private Sources	2,647	76,228	78,875
Charges for Current Services	186,547	20,554	207,101
Other Revenue	16,403	17,487	33,890
TOTAL REVENUES	1,260,618	481,002	1,741,620
EXPENDITURES			
Current:			
General Government and Support	264,867	34,872	299,739
Public Safety - Police	426,513	5,018	431,531
Public Safety - Fire and Life Safety and Homeland Security	225,753	19,897	245,650
Parks, Recreation, Culture and Leisure	135,879	80,756	216,635
Transportation	65,178	43,658	108,836
Sanitation and Health	80,543	2,585	83,128
Neighborhood Services	28,295	35,551	63,846
Capital Outlay	5,554	112,633	118,187
Debt Service:			
Principal Retirement	32,478	34,056	66,534
Cost of Issuance	-	518	518
Interest	1,979	34,091	36,070
TOTAL EXPENDITURES	1,267,040	403,635	1,670,675
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,423)	77,367	70,944
OTHER FINANCING SOURCES (USES)			
Transfers from Proprietary Funds	27,109	883	27,992
Transfers from Other Funds	27,798	136,259	164,057
Transfers to Proprietary Funds	(9,134)	(58)	(9,192)
Transfers to Other Funds	(37,804)	(126,253)	(164,057)
Payment to Refunded Bond Escrow Agent	-	(16,025)	(16,025)
Proceeds from the Sale of Capital Assets	-	6,897	6,897
Capital Lease Proceeds	22,850	-	22,850
Loans Issued	-	761	761
Revenue Refunding Bonds Issued	-	49,530	49,530
Premium on Bonds Issued	-	2,183	2,183
TOTAL OTHER FINANCING SOURCES (USES)	30,819	54,177	84,996
Extraordinary Loss	(21,067)	-	(21,067)
NET CHANGE IN FUND BALANCES	3,330	131,544	134,874
Fund Balances at Beginning of Year, as Restated	346,784	1,029,769	1,376,553
FUND BALANCES AT END OF YEAR	$ 350,114	$ 1,161,313	$ 1,511,427

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, 2014
(Dollars in Thousands)

Net Change in Fund Balances of governmental funds (page 56)	$ 134,874
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.	54,005
The net effect of various miscellaneous transactions involving capital assets (i.e., retirements and transfers) is to decrease net position.	(13,739)
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 on the Statement of Activities in the prior year.	(19,508)
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.	52
Some expenses reported in the Statement of Activities do not require the use of current financial resources (i.e., compensated absences, net pension obligation), and therefore are not accrued as expenditures in governmental funds.	11,522
Internal service funds are used to charge the costs of activities such as Fleet Services, Central Stores, Publishing Services, Employee Benefit Programs, and Data Processing to individual funds. The net expense of certain internal service activities is reported with governmental activities.	(5,411)
Change in Net Position of Governmental Activities (page 53)	$ 161,795

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

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2014
(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	$ 451,235	$ 291,112	$ 132,950	$ 875,297	$ 125,991
Receivables:					
Accounts - Net of Allowance for Uncollectibles	50,849	77,111	2,992	130,952	1,382
Claims	34	66	-	100	-
Accrued Interest	965	651	240	1,856	42
Grants	-	227	347	574	713
Inventories of Water in Storage	-	63,258	-	63,258	-
Inventories	-	681	-	681	2,412
Total Current Assets	503,083	433,106	136,529	1,072,718	130,540
Non-Current Assets:					
Restricted Cash and Investments	83,008	80,403	57,799	221,210	-
Capital Assets - Non-Depreciable	157,726	150,181	17,207	325,114	5,043
Capital Assets - Depreciable	2,877,636	2,013,113	55,027	4,945,776	109,398
Total Non-Current Assets	3,118,370	2,243,697	130,033	5,492,100	114,441
TOTAL ASSETS	3,621,453	2,676,803	266,562	6,564,818	244,981
DEFERRED OUTFLOWS OF RESOURCES					
Loss on Refunding	11,482	4,178	-	15,660	-
LIABILITIES					
Current Liabilities:					
Accounts Payable	26,663	57,318	4,228	88,209	4,623
Accrued Wages and Benefits	4,383	3,568	3,668	11,619	1,660
Interest Accrued on Long-Term Debt	6,781	16,356	-	23,137	204
Long-Term Liabilities Due Within One Year	64,162	35,576	2,587	102,325	11,955
Due to Other Agencies	33,230	1,399	-	34,629	-
Unearned Revenue	1,252	3,097	17,875	22,224	19
Contract Deposits	3,225	4,365	-	7,590	130
Current Liabilities Payable from Restricted Assets:					
Customer Deposits Payable	-	6,906	9,187	16,093	-
Total Current Liabilities	139,696	128,585	37,545	305,826	18,591
Non-Current Liabilities:					
Deposits/Advances from Others	397	-	6,889	7,286	-
Arbitrage Liability	-	90	-	90	-
Compensated Absences	2,545	2,487	2,219	7,251	3,520
Liability Claims	11,541	13,482	6,394	31,417	21,617
Capital Lease Obligations	1,125	1,125	-	2,250	27,422
Loans Payable	89,560	62,945	-	152,505	-
Net Revenue Bonds Payable	1,010,886	760,198	-	1,771,084	-
Estimated Landfill Closure and Postclosure Care	-	-	23,290	23,290	-
Net Other Postemployment Benefit Obligation	19,464	18,612	16,201	54,277	9,133
Net Pension Obligation	8,343	6,265	8,002	22,610	2,150
Total Non-Current Liabilities	1,143,861	865,204	62,995	2,072,060	63,842
TOTAL LIABILITIES	1,283,557	993,789	100,540	2,377,886	82,433
DEFERRED INFLOWS OF RESOURCES					
Gain on Refunding	-	3,276	-	3,276	-
NET POSITION					
Net Investment in Capital Assets	2,021,186	1,433,559	72,234	3,526,979	80,703
Restricted for Debt Service	399	1,481	-	1,880	-
Restricted for Closure/Postclosure Maintenance	-	-	25,404	25,404	-
Unrestricted	327,793	248,876	68,384	645,053	81,845
TOTAL NET POSITION	$ 2,349,378	$ 1,683,916	$ 166,022	4,199,316	$ 162,548
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				(7,164)	
Net position of business-type activities (page 51)				$ 4,192,152	

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, 2014
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Sales of Water	$ -	$ 434,285	$ -	$ 434,285	$ -
Charges for Services	359,723	4,533	74,538	438,794	41,374
Revenue from Use of Property	584	7,007	-	7,591	-
Usage Fees	-	-	42,367	42,367	72,822
Other	4,241	1,740	4,721	10,702	450
TOTAL OPERATING REVENUES	364,548	447,565	121,626	933,739	114,646
OPERATING EXPENSES					
Benefit and Claim Payments	-	-	-	-	15,967
Maintenance and Operations	151,523	91,357	93,251	336,131	52,775
Cost of Materials Issued	-	-	-	-	8,873
Cost of Purchased Water Used	-	207,721	-	207,721	-
Taxes	-	1,963	-	1,963	-
Administration	50,428	54,498	27,000	131,926	14,204
Depreciation	70,585	48,957	5,760	125,302	22,731
TOTAL OPERATING EXPENSES	272,536	404,496	126,011	803,043	114,550
OPERATING INCOME (LOSS)	92,012	43,069	(4,385)	130,696	96
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	4,177	3,185	1,127	8,489	554
Federal Grant Assistance	-	109	461	570	(398)
Other Agency Grant Assistance	-	575	386	961	533
Loss on Sale/Retirement of Capital Assets	(1,556)	(1,630)	(385)	(3,571)	(2,987)
Debt Service Interest Expense	(51,652)	(37,100)	-	(88,752)	(608)
Other	6,829	3,839	1,428	12,096	214
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(42,202)	(31,022)	3,017	(70,207)	(2,692)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	49,810	12,047	(1,368)	60,489	(2,596)
Capital Contributions	33,081	37,250	408	70,739	82
Transfers from Other Funds	77	44	567	688	2,457
Transfers from Governmental Funds	19	3,608	6	3,633	5,559
Transfers to Other Funds	(2,077)	(356)	(559)	(2,992)	(153)
Transfers to Governmental Funds	(6,955)	(7,094)	(2,549)	(16,598)	(11,394)
TOTAL CONTRIBUTIONS AND TRANSFERS	24,145	33,452	(2,127)	55,470	(3,449)
CHANGE IN NET POSITION	73,955	45,499	(3,495)	115,959	(6,045)
Net Position at Beginning of Year, as Restated	2,275,423	1,638,417	169,517		168,593
NET POSITION AT END OF YEAR	$ 2,349,378	$ 1,683,916	$ 166,022		$ 162,548
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds				(634)	
Change in net position of business-type activities (page 53)				$ 115,325	

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014
(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	$ 369,115	$ 438,285	$ 119,744	$ 927,144	$ 26,611
Receipts from Interfund Services Provided	4,412	4,442	4,521	13,375	89,960
Payments to Suppliers	(115,995)	(283,935)	(44,005)	(443,935)	(42,964)
Payments to Employees	(77,605)	(67,370)	(68,339)	(213,314)	(43,911)
Payments for Interfund Services Used	(6,991)	(6,918)	(6,999)	(20,908)	(1,902)
NET CASH PROVIDED BY OPERATING ACTIVITIES	172,936	84,504	4,922	262,362	27,794
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from Other Funds	77	44	567	688	2,457
Transfers from Governmental Funds	19	3,608	6	3,633	5,559
Transfers to Other Funds	(2,077)	(356)	(559)	(2,992)	(153)
Transfers to Governmental Funds	(6,955)	(7,094)	(2,549)	(16,598)	(11,394)
Operating Grants Received	-	809	833	1,642	502
Proceeds from Advances and Deposits	-	1,032	2,559	3,591	-
Payments for Advances and Deposits	-	-	(100)	(100)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(8,936)	(1,957)	757	(10,136)	(3,029)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Loans	21,329	3,388	-	24,717	-
Proceeds from Capital Contributions	20,394	15,213	618	36,225	-
Acquisition of Capital Assets	(74,543)	(77,137)	(2,207)	(153,887)	(12,595)
Proceeds from the Sale of Capital Assets	125	306	-	431	1,334
Principal Payments on Capital Leases	-	-	-	-	(6,805)
Principal Payments on Loans	(5,632)	(3,055)	-	(8,687)	-
Principal Payments on Revenue Bonds	(48,285)	(24,050)	-	(72,335)	-
Interest Paid on Long-Term Debt	(55,435)	(39,587)	-	(95,022)	(611)
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(142,047)	(124,922)	(1,589)	(268,558)	(18,677)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales of Investments	103,935	119,658	-	223,593	-
Purchases of Investments	(98,076)	(119,784)	-	(217,860)	-
Interest Received on Investments	4,493	3,214	1,102	8,809	516
NET CASH PROVIDED BY INVESTING ACTIVITIES	10,352	3,088	1,102	14,542	516
Net Increase (Decrease) in Cash and Cash Equivalents	32,305	(39,287)	5,192	(1,790)	6,604
Cash and Cash Equivalents at Beginning of Year, as Restated	423,226	338,683	185,557	947,466	119,387
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 455,531	$ 299,396	$ 190,749	$ 945,676	$ 125,991
Reconciliation of Cash and Cash Equivalents at End of Year to the Statement of Net Position:					
Cash and Investments	$ 451,235	$ 291,112	$ 132,950	$ 875,297	$ 125,991
Restricted Cash and Investments	83,008	80,403	57,799	221,210	-
Less Investments Not Meeting the Definition of Cash Equivalents	(78,712)	(72,119)	-	(150,831)	-
Total Cash and Cash Equivalents at End of Year	$ 455,531	$ 299,396	$ 190,749	$ 945,676	$ 125,991

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014
(Dollars in Thousands)

	Business-Type Activities - Enterprise Funds				
	Sewer Utility	Water Utility	Other Enterprise Funds	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	$ 92,012	$ 43,069	$ (4,385)	$ 130,696	$ 96
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:					
Depreciation	70,585	48,957	5,760	125,302	22,731
Other Nonoperating Revenue	6,829	3,839	1,429	12,097	214
(Increase) Decrease in Assets:					
Accounts Receivable - Net	1,849	(9,252)	174	(7,229)	1,692
Claims Receivable - Net	-	159	-	159	-
Inventories	-	(10,680)	-	(10,680)	(16)
Prepaid Expenses	-	-	-	-	216
Increase (Decrease) in Liabilities:					
Accounts Payable	(2,176)	5,517	(752)	2,589	80
Accrued Wages and Benefits	428	433	553	1,414	(344)
Due to Other Agencies	5,961	(575)	-	5,386	(49)
Unearned Revenue	124	416	1,036	1,576	21
Contract Deposits	178	-	-	178	-
Arbitrage Liability	-	30	-	30	-
Compensated Absences	(265)	37	148	(80)	(520)
Liability Claims	(2,451)	2,664	344	557	3,722
Estimated Landfill Closure and Postclosure Care	-	-	725	725	-
Net OPEB Obligation	40	33	35	108	16
Net Pension Obligation	(178)	(143)	(145)	(466)	(65)
Total Adjustments	80,924	41,435	9,307	131,666	27,698
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 172,936	$ 84,504	$ 4,922	$ 262,362	$ 27,794
Noncash Investing, Capital, and Financing Activities:					
Capital Leases	$ 1,295	$ 1,295	$ -	$ 2,590	$ 8,385
Developer Contributed Assets	12,687	22,038	-	34,725	-
Capital Asset Acquisitions Related to Accounts Payable	71	57	(51)	77	-
Noncash Retirement of Capital Assets	(1,681)	(1,936)	(385)	(4,002)	(979)
Capitalized Interest and Related Amounts	1,210	521	-	1,731	-
Amortization of Bond Premiums, Discounts and Refundings	(3,282)	(3,191)	-	(6,473)	-
Change in Fair Value of Investments	355	7	-	362	-
Interest Fund Credits for Debt Service Payments	(7,653)	(1,286)	-	(8,939)	-
Transfers of Capital Assets	-	-	-	-	(3,259)

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

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014
(Dollars in Thousands)

	Trust Funds				
	Pension	Investment	Private-Purpose	Total	Agency
ASSETS					
Cash and Investments	$ 1,708	$ 6,386	$ 167,844	$ 175,938	$ 13,640
Cash with Custodian/Fiscal Agent	239,369	-	-	239,369	-
Investments at Fair Value:					
Domestic Fixed Income Securities	1,774,200	-	25,107	1,799,307	-
International Fixed Income Securities	451,069	-	-	451,069	-
Domestic Equity Securities (Stocks)	1,703,423	-	-	1,703,423	-
International Equity Securities (Stocks)	1,261,674	-	-	1,261,674	-
Global Equity Securities	364,418	-	-	364,418	-
Real Estate Equity	693,636	-	-	693,636	-
Equity Mutual Funds	545,696	-	-	545,696	-
Fixed Income Mutual Funds	394,851	-	-	394,851	-
Private Equity	380,975	-	-	380,975	-
Infrastructure	50,805	-	-	50,805	-
Receivables:					
Accounts - Net	-	-	-	-	925
Special Assessments	-	-	-	-	353
Contributions	7,276	-	-	7,276	-
Accrued Interest	10,000	8	480	10,488	5
Notes and Contracts	-	-	6,138	6,138	-
Loans	36,706	-	-	36,706	-
Securities Sold	46,339	-	-	46,339	-
Due from Other Agency	-	-	38	38	
Advances to Other Agencies	-	-	11	11	-
Land Held for Resale	-	-	9,260	9,260	-
Prepaid Expenses	263	-	4,044	4,307	-
Securities Lending Collateral	198,398	-	-	198,398	-
Restricted Cash and Investments	-	-	92,876	92,876	33,600
Capital Assets - Non-Depreciable	-	-	105,947	105,947	-
Capital Assets - Depreciable	6,691	-	55,641	62,332	-
TOTAL ASSETS	8,167,497	6,394	467,386	8,641,277	48,523
DEFFERRED OUTFLOWS OF RESOURCES					
Loss on Refunding	-	-	477	477	-
LIABILITIES					
Accounts Payable	7,762	-	6,689	14,451	4,738
Accrued Wages and Benefits	799	-	-	799	-
Interest Accrued on Long-Term Debt	-	-	195,186	195,186	-
Deposits/Advances from Others	-	-	-	-	154
Sundry Trust/Agency Liabilities	-	-	522	522	16,186
Due to Bondholders	-	-	597,669	597,669	27,445
Arbitrage Liability	-	-	4	4	-
Liability Claims	-	-	70,207	70,207	-
Loans Payable	-	-	102,339	102,339	-
Supplemental Benefits Payable	11,145	-	-	11,145	-
Net Other Postemployment Benefit Obligation	1,487	-	-	1,487	-
Net Pension Obligation	605	-	-	605	-
Securities Lending Obligations	198,688	-	-	198,688	-
Securities Purchased	197,117	-	-	197,117	-
TOTAL LIABILITIES	417,603	-	972,616	1,390,219	48,523
NET POSITION (DEFICIT)					
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 7,749,894	$ 6,394	$ (504,753)	$ 7,251,535	$ -

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2014
(Dollars in Thousands)

	Trust Funds			
	Pension	Investment	Private-Purpose	Total
ADDITIONS				
Employer Contributions	$ 350,530	$ -	$ -	$ 350,530
Plan Member Contributions:				
Employee Contributions	107,569	-	-	107,569
DROP Contributions	5,066			5,066
Retiree Contributions	7,437	-	-	7,437
Contributions to Pooled Investments	-	103	-	103
Redevelopment Property Tax Trust Fund (RPTTF)	-	-	68,497	68,497
Earnings on Investments:				
Investment Income	1,145,296	45	2,690	1,148,031
Investment Expense	(32,683)	-	-	(32,683)
Net Investment Income	1,112,613	45	2,690	1,115,348
Securities Lending Income:				
Gross Earnings	1,352	-	-	1,352
Borrower Rebates	(302)	-	-	(302)
Net Securities Lending Income	1,050	-	-	1,050
Other Income	1,861	-	7,178	9,039
TOTAL ADDITIONS	1,586,126	148	78,365	1,664,639
DEDUCTIONS				
Enforceable Obligation Payments	-	-	37,069	37,069
Payments to County of San Diego	-	-	1,439	1,439
Interest on Long-Term Debt	-	-	35,711	35,711
DROP Interest Expense	22,446	-	-	22,446
Benefit and Claim Payments	496,626	-	-	496,626
Distributions from Pooled Investments	-	1,690	-	1,690
Administration	12,134	-	4,448	16,582
TOTAL DEDUCTIONS	531,206	1,690	78,667	611,563
Extraordinary Gain	-	-	37,677	37,677
CHANGE IN NET POSITION	1,054,920	(1,542)	37,375	1,090,753
Net Position (Deficit) at Beginning of Year, as Restated	6,694,974	7,936	(542,128)	6,160,782
NET POSITION (DEFICIT) AT END OF YEAR	$ 7,749,894	$ 6,394	$ (504,753)	$ 7,251,535

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014

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 represents 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.

Blended component units are those component units that, despite being legally separate entities, are so intertwined with the primary government that they are, in substance, the same as the primary government. These component units are reported as funds of the primary government. Discretely presented component units 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 report 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)
- City of San Diego/Metropolitan Transit Development Board Authority (City/MTDB Authority)
- Convention Center Expansion Financing Authority (CCEFA)
- Public Facilities Financing Authority (PFFA)
- San Diego Data Processing Corporation (SDDPC)
- 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 established for the purpose of administering certain redevelopment projects in designated project areas throughout the City. CSD resulted from restructuring and reorganization of the former Centre City Development Corporation (CCDC) and the Southeastern Economic Development Corporation's (SEDC) into a single corporation. Upon dissolution of the former San Diego Redevelopment Agency (former RDA), CSD's main function is to provide 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 City of San Diego/Metropolitan Transit Development Board Authority (City/MTDB Authority) is a financing authority, which was established in 1988 by the City and the Metropolitan Transit Development Board (now the Metropolitan Transit System or MTS) to acquire and construct mass transit guide ways, public transit systems, and related transportation facilities primarily benefiting the residents of the City. The Mayor appoints, with City Council confirmation, two public members and the MTS Board appoints one MTS board member to the governing board of the City/MTDB Authority. The City/MTDB Authority primarily provides services to the City. The City/MTDB Authority is reported as a governmental fund. On October 2, 2014, a Council resolution was passed authorizing and directing the City Comptroller to take appropriate measures to rescind the JPA agreement and terminate the Authority. All related funds and accounts have been closed and the filing of dissolution with the Secretary of the State to fully dissolve the entity was completed on October 31, 2014.

- 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, 2014, 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.

- San Diego Data Processing Corporation (SDDPC) was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services. On August 5, 2013, a resolution was passed by the City Council to take the necessary steps to wind-up and dissolve the Corporation. On February 6, 2014, the California Secretary of State officially endorsed SDDPC's Certification of Dissolution. Prior to dissolution, SDDPC's budget and a majority of the governing board were approved by the City Council. SDDPC provided services almost exclusively to the City. SDDPC is reported as an internal service fund.

- 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. 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 of each 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 in the State of California 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 out of the nine-member Board of Directors of SDCCC. The City allocates general revenue for SDCCC operations in accordance with the annual budgeting process. SDCCC is discretely presented because it provides 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 (HDP Mason); Casa Colina, LP (Casa Colina); Logan Development II, L.P. (Logan); HDP Churchill LLC; and Other Consolidated Companies. The Consolidated Companies include: Logan Development Management LLC; HDP Parker Kier, LLC; HDP Broadway Management LLC; and HDP Broadway L.P. 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, 2013 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; 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 funds 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 it to its customers.

The following are the City's other fund types:

Internal Service Funds - These funds account for fleet vehicles and transportation, printing, data processing, 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's collections of the current year's taxes are received through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1, based on the assessed values of the lien date, and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal year ended 1979, general property taxes are based 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 uncollected property taxes, which is analyzed each year against the most recent data from the County. For fiscal year 2014, the allowance amount was $3,916.

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 are considered to be cash on hand, demand deposits, restricted cash, and investments held by the City Treasurer in a cash management investment pool and reported at fair value. Cash equivalents reported in the Statement of Cash Flows for the Water and Sewer Utilities do not include restricted investments represented as Restricted Cash and Investments with 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 caused 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 caused an increase to the "Transfers from Other Funds" amount for the funds transferring the negative interest and caused a like increase to the "Transfers to Other Funds" amount for the General Fund. During fiscal year 2014, a net increase in interest of $547 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, 2014 are as follows:

Fund	Accounts Receivable Allowance	Taxes Receivable Allowance	Interfund Loan Allowance
General Fund	$ 9,461	$ 3,841	$ 21,083
Nonmajor Governmental Funds	25,103	75	170,810
Sewer Utility	1,221	-	1,180
Water Utility	2,367	-	686
Nonmajor Enterprise Funds	4,058	-	-
Internal Service Funds	1,575	-	-
Total	$ 43,785	$ 3,916	$ 193,759

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

In the government-wide and proprietary funds financial statements, deferred outflows/inflows of resources represent the difference between the reacquisition price of the refunded bond over its net carrying amount, which will be 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.

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 2014, $1,731 of net 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/Unavailable Revenue

In the government-wide and all fund level financial statements, unearned revenue represents amounts received, which have not been earned. The government-wide financial statements also include revenues earned from developer credits, which are not reported in the governmental funds because they are non-monetary transactions. In the governmental funds financial statements, unavailable revenue represents revenues which have been earned but have not met the recognition criteria based on the modified accrual basis of accounting. These unavailable revenues are reported as deferred inflows of resources.

l. Interfund Transactions

The City has the following types of interfund transactions:

Loans – amounts provided with a requirement for repayment. Interfund loans are normally reported as interfund receivables (i.e. Due from Other Funds) in lender funds and interfund payables (i.e. Due to Other Funds) in borrower funds. The non-current portions of long-term interfund loans receivable are reported as advances.

Services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net position.

Reimbursements – 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 – 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 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, 2014, the amount of restricted net position due to enabling legislation was approximately $214,588.
- 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 honor constraints on how resources can be spent.

- **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 determined by formal action of the City's highest level of decision making authority (City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur prior to the close of the reporting period; however, the amount which will be subject to the constraint may be determined in a subsequent period.
- **Assigned fund balance** – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making authority or by a body or an official designated for that purpose. This fund balance classification represents the residual balance for all funds other than the General Fund.
- **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.

The City Council establishes, modifies or rescinds fund balance commitments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. In addition, the Mayor or designee can assign fund balance to be used for specific 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 Reserves. 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.
- **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.

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, 2014, were $85,600 and $64,200 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, 2014

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, 2014.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate use of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources* to ensure consistency in financial reporting. The implementation of this statement resulted in reclassification of assets and liabilities as deferred outflows of resources and deferred inflows of resources and recognition of outflows of resources or inflows of resources for certain items that had previously been reported as assets and liabilities (see Note 23 regarding beginning net position restatement related to the implementation of this statement).

In March 2012, GASB issued Statement No. 66, *Technical Corrections–2012: An Amendment of GASB Statements No. 10 and No. 62*, which is intended to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The amendments included in the statement did not impact the City's financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans: An Amendment of GASB Statement No. 25.* The statement addresses reporting by pension plans that administer benefits for governments, and is effective for financial periods beginning after June 15, 2013. SDCERS is subject to the provisions of GASB Statement No. 67 beginning with fiscal year 2014. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Key changes include differences in accounting and funding:

- The asset valuation method used for funding purposes will allow asset smoothing, which reduces the impact of market volatility on plan assets, while the asset valuation method required for accounting purposes will be the fair value of assets.

- The discount rate used for funding purposes may continue to be similar to the long-term expected rate of return on plan assets. The discount rate for accounting purposes, however, may potentially include a portion based on tax exempt 20-year AA or higher rated general obligation municipal bond index yields. This reduced discount rate will be used to project future benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.

- Ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes will be incorporated into projections of benefit payments, if a plan sponsor's past practice and future expectations of granting them indicate they are essentially automatic. The actuarial valuations for the City, Port and Airport assume an annual 2.0% cost-of-living increase, compounded annually.

- More extensive note disclosures and required supplementary information.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which intends to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. It requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. It provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. In addition, it specifies the information required to be disclosed by governments that extend and receive nonexchange financial guarantees. As of the end of the fiscal year, the City has not made or received any financial guarantees to or from third parties.

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 June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No. 27* (GASB 68), which is intended to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision usefulness and accountability is intended to be enhanced through new note disclosures and required supplementary information. This statement will become effective in fiscal year 2015. According to a December 2014 actuarial report produced by SDCERS' actuary, if the City had elected to use June 30, 2013 as its initial measurement date under GASB 68, the Net Pension Obligation of $139,621 would have been reversed and a Net Pension Liability of $2,160,369 would have been recognized as of the beginning of the fiscal year, with a net decrease to the City's Net Position of $2,020,748.

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. This statement will become effective 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 Statement No. 68, *Accounting and Financial Reporting for Pensions.* The statement requires that, in the year of implementation of GASB Statement No. 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. This statement will become effective in fiscal year 2015.

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 $12,087 difference are as follows:

Deferred Charges, July 1, 2013	$ 7,673
GASB 65 Restatement (See Note 23)	(5,637)
Prepaid Insurance, July 1, 2013	2,036
Amortization Expense	(113)
Prepaid Insurance, June 30, 2014	1,923
Deferred Outflows of Resources - Loss on Refunding	
Loss on Refunding, July 1, 2013	10,873
Loss on Refunding for Bonds Issued	499
Amortization Expense	(1,208)
Loss on Refunding, June 30, 2014	10,164
Net Adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 12,087

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 $101,901 difference are as follows:

Deferred Inflows of Resources - Unavailable Revenue:	
Taxes Receivable	$ 65,797
Grants Receivable	13,699
Special Assessments Receivable	951
Revenue from Use of Money and Property	2,445
Revenue from Other Agencies	5,593
Notes Receivable	846
Other	12,570
Net Adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 101,901

Another element of the reconciliation states: "Certain liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds." The details of this ($1,391,493) difference are as follows:

Interest Accrued on Long-Term Debt	$ (8,626)
Compensated Absences	(64,512)
Liability Claims	(307,304)
Capital Lease Obligations	(24,356)
QECB Lease Obligation	(10,864)
Contracts Payable	(16,820)
Loans Payable	(13,552)
Section 108 Loans Payable	(4,081)
Net Bonds Payable	(649,793)
Net Other Postemployment Benefits Obligation	(179,713)
Net Pension Obligation	(111,872)
Net adjustment to decrease "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ (1,391,493)

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, Employee Benefit Programs, and Data Processing 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 $169,712 difference are as follows:

Assets:	
Capital Assets - Non-Depreciable	$ 5,043
Capital Assets - Depreciable	109,398
Internal Balances	7,164
Current Assets	130,540
Liabilities:	
Compensated Absences	(6,134)
Liability Claims	(24,642)
Capital Lease Obligations	(33,738)
Net Other Postemployment Benefits Obligation	(9,133)
Net Pension Obligation	(2,150)
Other Liabilities	(6,636)
Net adjustment to increase "Total Fund Balances" of Governmental Funds to arrive at "Total Net Position" of Governmental Activities	$ 169,712

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 $54,005 difference are as follows:

Capital Outlay	$ 118,187
Donated Capital Assets	85,949
Other Capital Activities	2
Depreciation/Amortization Expense	(150,133)
Net Adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ 54,005

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 ($13,739) 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.	$ (10,703)
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.	3,259
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.	(6,295)
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ (13,739)

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, Employee Benefit Programs, and Data Processing to individual funds. The net expense of certain internal service activities is reported with governmental activities." The details of this ($5,411) are as follows:

Allocated Operating Income	$ 730
Nonoperating Revenues:	
Gain on Sale/Retirement of Capital Assets	354
Federal and Other Agency Grant Assistance	135
Other Nonoperating Revenues, net	160
Capital Asset Transfers	(3,259)
Transfers, net	(3,531)
Net adjustment to decrease "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ (5,411)

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 $52 difference are as follows:

Debt Issued or Incurred:	
Capital Lease Obligations	$ (22,850)
Contracts Payable	(16,951)
Loans Payable	(761)
Lease Revenue Bonds	(49,530)
Principal Repayments:	
Capital Lease Obligations	31,705
QECB Lease Obligations	773
Contracts Payable	7,585
Loans Payable	8,847
Section 108 Loans	1,549
Lease Revenue Bonds	19,810
Tobacco Settlement Asset-Backed Bonds	3,850
Refundings:	
Revenue Bonds	16,025
Net adjustment to increase "Net Change in Fund Balances of Governmental Funds" to arrive at "Change in Net Position of Governmental Activities"	$ 52

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 obligation), and therefore, are not accrued as expenditures in governmental funds.” The details of this $11,522 difference are as follows:

Compensated Absences	$ 152
Liability Claims	10,778
Net Pension Obligation/Net OPEB Obligation	1,436
Interest Accrued on Long-Term Debt	534
Current Year Premiums and Loss on Refunding	
Less Amortization of Bond Premiums, Discounts, and Loss on Refunding	(1,265)
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"	$ 11,522

3. CASH AND INVESTMENTS (Dollars in Thousands)

The following is a summary of the carrying amount of cash and investments as of June 30, 2014:

	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	$ 1,166,252	$ 945,675	$ 196,209	$ 2,308,136	$ 1,167	$ 2,309,303
Cash and Investments with Custodian, Fiscal Agents, and Trustees	140,106	150,832	118,685	409,623	239,361	648,984
Investments at Fair Value	20,830	-	965,655	986,485	6,680,200	7,666,685
Securities Lending Collateral	-	-	-	-	198,398	198,398
Total	$ 1,327,188	$ 1,096,507	$ 1,280,549	$ 3,704,244	$ 7,119,126	$ 10,823,370

a. Cash or Equity in Pooled Cash and Investments

Cash or Equity in Pooled Cash and Investments represents petty cash, cash held with banks in demand deposit and/or savings accounts, and cash in escrow for contract retention payables. Furthermore, it represents equity in pooled cash and investments, which is discussed in further detail below.

As provided for by California Government Code, the cash balances of substantially all funds and certain outside entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the table above, under the caption Cash 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 - Held in Escrow Accounts	7,800
Deposits - Cash and Cash Equivalents (Not Pooled)	7,466
Deposits - Cash and Cash Equivalents (Pooled)	17,392
City Treasurer's Investment Pool	2,275,276
SDCERS Cash Deposits	1,167
Total Cash or Equity in Pooled Cash and Investments	$ 2,309,303

A summary of the investments held by the City Treasurer's Investment Pool as of June 30, 2014 is presented in the table below:

Investment	Fair Value	Book Value	Interest Rate % Range	Maturity Range
U.S. Treasury Notes	$ 1,125,918	$ 1,124,187	0.125-0.875%	7/31/2014-6/15/2017
Agency Discount Notes	106,471	106,406	0.1-0.14% [1]	7/1/2014-5/7/2015
Agency Notes and Bonds	409,742	409,820	0.125-1.2%	7/15/2014-5/24/2018
Asset Backed Securities	86,965	86,913	0.28-1.15%	6/15/2015-1/15/2019
Commercial Paper	124,939	124,858	0.14-0.33%	7/1/2014-12/5/2014
Corporate Notes and Bonds	114,756	114,693	0.29-1.3%	8/15/2014-3/1/2019
Negotiable Certificates of Deposit	125,009	125,000	0.19-0.24%	7/1/2014-2/27/2015
Repurchase Agreements	131,700	131,700	0.05%	7/1/2014
State Local Agency Investment Fund (LAIF)	49,776	49,761	0.23% [2]	2/17/2015
Total	$ 2,275,276	$ 2,273,338		

[1] Discount Rates

[2] LAIF - Fair Value is adjusted to account for LAIF factor. Maturity range is based on weighted average maturity of 232 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, 2014:

Statement of Net Position	
Deposits - Cash and Cash Equivalents (Pooled)	$ 17,392
Investments of Pool Participants	2,275,276
Accrued Interest Receivable of Internal Pool Participants	2,672
Accrued Interest Receivable of External Pool Participants	8
Total Cash, Investments, and Interest Receivable	$ 2,295,348
Net Position of Internal Pool Participants	$ 2,288,954
Net Position of External Pool Participants[1]	6,394
Total Net Position	$ 2,295,348
Statement of Changes in Net Position	
Net Position Held for Pool Participants at July 1, 2013	$ 2,370,282
Net Change in Investments by Pool Participants	(74,934)
Total Net Position Held for Pool Participants at June 30, 2014	$ 2,295,348

[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 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 (e.g., Cemetery Perpetuity Fund, Los Penasquitos Canyon Fund, and the Edwin A. Benjamin, Jane Cameron Estate, Gladys Edna Peters, and Effie Sergeant Library Funds).

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 permanent funds (which are 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), Sections 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
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 [6]	5 years	5 years	30%	30%	None	10%	None	(3)
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements [4]	92 days	92 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	None	None	None	None	None
Non-Negotiable Time Deposits [6, 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 Pass-Through Securities	5 years	5 years	20%	20%	None	None	AA	AAA
Financial Futures [5]	N/A	None	None	None	None	None	None	None

[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 (+/-).

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 Section 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, 2014, 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					
U.S. Treasury Notes	$ 275,295	$ 850,623	$ -	$ -	$ 1,125,918
U.S. Agencies - Federal Farm Credit Bank	40,064	10,015	-	-	50,079
U.S. Agencies - Federal Home Loan Bank	166,427	49,967	9,869	-	226,263
U.S. Agencies - Federal Home Loan Mortgage Corporation	70,033	50,020	-	-	120,053
U.S. Agencies - Federal National Mortgage Association	14,998	35,001	29,811	-	79,810
Agencies - Int'l Bank of Reconstruction and Development	20,000	20,008	-	-	40,008
Asset Backed Securities	10,037	56,914	20,014	-	86,965
Commercial Paper	124,939	-	-	-	124,939
Corporate Notes	17,015	58,109	39,632	-	114,756
Negotiable Certificates of Deposit	125,009	-	-	-	125,009
Repurchase Agreements	131,700	-	-	-	131,700
State Local Agency Investment Fund	49,776	-	-	-	49,776
	1,045,293	1,130,657	99,326	-	2,275,276
Non-Pooled Investments with City Treasurer					
U.S. Treasury Notes	4,001	-	-	-	4,001
U.S. Agencies - Federal Home Loan Bank	11,088	-	-	-	11,088
U.S. Agencies - Federal National Mortgage Association	3,117	-	-	-	3,117
Commercial Paper	6,901	-	-	-	6,901
	25,107	-	-	-	25,107
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units					
U.S. Treasury Bonds and Notes	45,514	31,411	27,247	8,448	112,620
U.S. Agencies - Federal Farm Credit Bank	5,001	-	-	-	5,001
U.S. Agencies - Federal Home Loan Bank	27,015	14,059	8,698	-	49,772
U.S. Agencies - Federal Home Loan Mortgage Corporation	9,250	9,848	4,800	-	23,898
U.S. Agencies - Federal National Mortgage Association	2,139	8,301	23,853	-	34,293
Commercial Paper	62,852	-	-	-	62,852
Corporate Bonds and Notes	204	886	1,805	-	2,895
Exchange Traded Funds - Equity [1]	1,089	-	-	-	1,089
Exchange Traded Funds - Fixed Income	-	-	1,237	-	1,237
Government Mortgage Backed Securities	-	-	-	9	9
Guaranteed Investment Contracts	-	-	-	9,223	9,223
Money Market Mutual Funds	108,899	-	-	-	108,899
Mutual Funds - Equity [1]	552,163	-	-	-	552,163
Mutual Funds - Fixed Income	-	389,100	-	9,282	398,382
Stocks - Common Stock [1]	3,263	-	-	-	3,263
Stocks - Preferred Stock [1]	371	-	-	-	371
	817,760	453,605	67,640	26,962	1,365,967
Total Investments	$ 1,888,160	$ 1,584,262	$ 166,966	$ 26,962	3,666,350
Cash on Hand - Petty Cash					202
Deposits - Cash and Cash Equivalents (Not Pooled)					7,466
Deposits - Cash and Cash Equivalents (Pooled)					17,392
Deposits - Cash with Fiscal Agents/Trustees					5,034
Deposits - Held in Escrow Accounts					7,800
Total Investments, Cash on Hand, and Deposits					$ 3,704,244

[1] Equity exchange traded funds, equity mutual funds, and stocks do not have maturities.

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. As of June 30, 2014, the City's investments and corresponding credit ratings are as follows:

	Moody's	S&P	Fair Value	Percentage
City Treasurer's Investment Pool				
U.S. Treasury Notes	Exempt	Exempt	$ 1,125,918	49.48%
U.S. Agencies - Federal Farm Credit Bank	Aaa	Not Provided	50,079	2.20%
U.S. Agencies - Federal Home Loan Bank [1]	Aaa	Not Provided	199,788	8.78%
U.S. Agencies - Federal Home Loan Bank [1]	P-1	Not Provided	26,475	1.16%
U.S. Agencies - Federal Home Loan Mortgage Corporation [1]	Aaa	Not Provided	75,055	3.30%
U.S. Agencies - Federal Home Loan Mortgage Corporation [1]	P-1	Not Provided	44,998	1.98%
U.S. Agencies - Federal National Mortgage Association	Aaa	Not Provided	64,812	2.85%
U.S. Agencies - Federal National Mortgage Association	P-1	Not Provided	14,998	0.66%
Agencies - Int'l Bank of Reconstruction and Development	Aaa	Not Provided	20,008	0.88%
Agencies - Int'l Bank of Reconstruction and Development	P-1	Not Provided	20,000	0.88%
Asset Backed Securities	Aaa	Not Rated	61,913	2.72%
Asset Backed Securities	Not Rated	AAA	25,052	1.10%
Commercial Paper	P-1	Not Provided	124,939	5.49%
Corporate Notes	Aaa	Not Provided	5,005	0.22%
Corporate Notes	Aa1	Not Provided	9,780	0.43%
Corporate Notes	Aa3	Not Provided	52,042	2.29%
Corporate Notes	A1	Not Provided	29,941	1.32%
Corporate Notes	A2	Not Provided	12,965	0.57%
Corporate Notes	A3	Not Provided	5,023	0.22%
Negotiable Certificates of Deposit	P-1	Not Provided	125,009	5.49%
Repurchase Agreements	Not Rated	Not Rated	131,700	5.79%
State Local Agency Investment Fund	Not Rated	Not Rated	49,776	2.19%
			2,275,276	100.00%
Non-Pooled Investments with City Treasurer				
U.S. Treasury Notes	Exempt	Exempt	4,001	15.94%
U.S. Agencies - Federal Home Loan Bank [1]	Aaa	Not Provided	7,585	30.21%
U.S. Agencies - Federal Home Loan Bank [1]	P-1	Not Provided	3,503	13.95%
U.S. Agencies - Federal National Mortgage Association [1]	P-1	Not Provided	3,117	12.41%
Commercial Paper	P-1	Not Provided	6,901	27.49%
			25,107	100.00%

	Moody's	S&P	Fair Value	Percentage
Investments with Fiscal Agents/Trustees, Funds Commission, and Blended Component Units				
U.S. Treasury Bonds and Notes	Exempt	Exempt	$ 112,620	8.24%
U.S. Agencies - Federal Farm Credit Bank	Aaa	Not Provided	5,001	0.37%
U.S. Agencies - Federal Home Loan Bank	Aaa	Not Provided	22,757	1.67%
U.S. Agencies - Federal Home Loan Bank	P-1	Not Provided	15,753	1.15%
U.S. Agencies - Federal Home Loan Bank	Not Rated	AA+	11,262	0.82%
U.S. Agencies - Federal Home Loan Mortgage Corporation	Aaa	Not Provided	17,451	1.28%
U.S. Agencies - Federal Home Loan Mortgage Corporation	P-1	Not Provided	6,447	0.47%
U.S. Agencies - Federal National Mortgage Association	Aaa	Not Provided	34,293	2.51%
Commercial Paper	P-1	Not Provided	62,852	4.60%
Corporate Bonds and Notes	Aa2	Not Provided	336	0.02%
Corporate Bonds and Notes	A1	Not Provided	805	0.06%
Corporate Bonds and Notes	A2	Not Provided	752	0.06%
Corporate Bonds and Notes	A3	Not Provided	440	0.03%
Corporate Bonds and Notes	Baa1	Not Provided	172	0.01%
Corporate Bonds and Notes	Baa2	Not Provided	390	0.03%
Exchange Traded Funds - Equity	Not Rated	Not Rated	1,089	0.08%
Exchange Traded Funds - Fixed Income	Not Rated	Not Rated	1,237	0.09%
Government Mortgage Backed Securities	Not Rated	Not Rated	9	0.01%
Guaranteed Investment Contracts	Not Rated	Not Rated	9,223	0.68%
Money Market Mutual Funds	Aaa	Not Provided	108,899	7.97%
Mutual Funds - Equity	Not Rated	Not Rated	552,163	40.42%
Mutual Funds - Fixed Income	Not Rated	Not Rated	398,382	29.16%
Stocks - Common Stock	Not Rated	Not Rated	3,263	0.24%
Stocks - Preferred Stock	Not Rated	Not Rated	371	0.03%
			1,365,967	100.00%
Total Investments			$ 3,666,350	

"Exempt" - Per GASB Statement No. 40, US 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.

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, 2014, 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, 2014, the carrying amount of the City's cash on hand and deposits was approximately $30,094 and the bank balance was approximately $37,123; the difference is substantially due to outstanding checks. For the balance of cash deposits in financial institutions, approximately $523 was covered by federal depository insurance and approximately $36,600 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, $36,600 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 $7,800. For the balance of deposits in escrow accounts, approximately $2,294 was covered by federal depository insurance. The remaining balance of $5,506 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, 2014 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, 2014, 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 Bonds and Notes	$ 2,895
Exchange Traded Funds - Equity	1,089
Exchange Traded Funds - Fixed Income	1,237
Government Mortgage Backed Securities	9
Stocks - Common Stock	3,130
Stocks - Preferred Stock	371
U.S. Treasury Bonds and Notes	1,008
Total	$ 9,739

h. Restricted Cash and Investments

Cash and investments at June 30, 2014 that are restricted by legal or contractual requirements are comprised of the following:

Nonmajor Governmental Funds	
Special Revenue	$ 9,722
Debt Service	29,124
Capital Projects	108,196
Permanent Endowments	24,315
Total Nonmajor Governmental Funds	171,357
Sewer Utility Enterprise Fund	
Interest and Redemption Funds	83,008
Water Utility Enterprise Fund	
Customer Deposits	6,906
Interest and Redemption Funds	73,497
Total Water Utility Enterprise Fund	80,403
Nonmajor Enterprise Funds	
Environmental Services Fund - Funds set aside for landfill site closure and maintenance costs	48,638
Recycling Fund - Customer deposits	9,161
Total Nonmajor Enterprise Funds	57,799
Trust Funds	
Private-Purpose Trust Fund	92,883
Miscellaneous Agency Funds	
Special Assessment Funds and Retention Held in Escrow Accounts	33,600
Total Restricted Cash and Investments	$ 519,050

Summary of Total Cash and Investments

Total Unrestricted Cash and Investments	$ 10,304,320
Total Restricted Cash and Investments	519,050
Total Cash and Investments	$ 10,823,370
Total Governmental Activities	$ 1,327,188
Total Business-Type Activities	1,096,507
Total Fiduciary Activities	8,399,675
Total Cash and Investments	$ 10,823,370

San Diego City Employees' Retirement System (SDCERS) – Disclosures for Policy and Specific Risks

Narratives and tables presented in the following sections (i. through t.) are taken directly from the comprehensive annual financial report of the San Diego City Employees' Retirement System as of June 30, 2014 (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	$ 1,167
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	239,361
Investments at Fair Value	
Domestic Fixed Income Securities	1,774,200
International Fixed Income Securities	451,069
Domestic Equity Securities	1,703,423
International Equity Securities	1,261,674
Global Equity Securities	364,418
Real Estate	693,636
Private Equity	380,975
Infrastructure	50,805
Securities Lending Collateral	198,398
Total Cash and Investments for SDCERS	$ 7,119,126

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. 67, *Financial Reporting for Pension Plans*.

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 $422,500 for the year ended June 30, 2014. 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 on 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, 2014:

Asset Class	Target Allocation
U.S. Equity	21.0%
Non-U.S. Equity	14.0%
Emerging Market Equity	1.0%
Global Equity	5.0%
U.S. Fixed Income	22.0%
Emerging Market Debt	5.0%
Real Estate	11.0%
Private Equity	10.0%
Infrastructure	3.0%
Opportunity Fund	8.0%
Total	100.0%

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 16.84%. 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, 2014 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, 2014.

Type of Security	Effective Duration (in years)	Fair Value [1]
Asset-Backed Securities	0.76	$ 51,054
Commercial Mortgage-Backed Securities	1.15	54,031
Collateralized Mortgage Obligations	1.55	31,709
Corporate Bonds [2]		
Corporate Bonds	1.84	207,168
Bank Loans	0.73	1,600
Government and Agency Obligations		
Municipal Securities	6.55	13,793
Foreign Securities	1.69	65,074
Agency and Treasury Securities	3.97	302,688
Mortgage-Backed Securities	3.54	235,303
Short-Term/Other [3]		
Cash Equivalents	0.43	22,052
Total	2.81	$ 984,472

[1] Fair Value does not include convertible bonds, mutual funds and derivative instruments of $1,240,797. These securities do not exhibit interest rate risk and duration cannot be calculated.

[2] Corporate Bonds do not include convertible securities of $183,922.

[3] Short Term/Other does not include derivative instruments, short-term instruments and mutual funds of $1,056,875. 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	$ 324,497	4.35
MetWest Floating Rate	6,796	5.22
PIMCO FDS Pac Mgmt Ser Emrg	575	1.31
PIMCO PAPS Short-Term Floating NAV II Portfolio	275,345	0.25
Stone Harbor	119,525	7.57
Wellington Trust Company CIF II Opportunistic Emerging Markets Debt Portfolio	94,130	12.35
Investec Emerging Market Debt	124,152	6.96
GCM Wind and Sea Fund	108,881	3.60
Total	$ 1,053,901	

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, 2014, 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	$ 115,110	5.20%
Asset-Backed Securities	25,329	1.10%
Range Notes	6,300	0.30%
Adjustable Rate Notes	2,988	0.10%
Total	$ 149,727	6.70%

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. One of SDCERS' domestic core fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core fixed income manager is limited to U.S. fixed income investments only.

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, 2014.

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 [3]
US Treasuries	$ 169,297	$ -	$ -	$ -	$ -	$ 169,297	$ -	$ -
GNMA Securities	15,292	-	-	-	-	15,292	-	-
AAA	57,893	11,412	27,469	139	-	18,873	-	-
AA+	33,262	12,776	-	1,484	2,013	16,989	-	-
AA	12,338	3,396	6,755	72	-	2,115	-	-
AA-	12,040	4,187	-	-	5,710	2,143	-	-
A+	30,313	8,132	-	9,044	11,080	2,057	-	-
A	26,953	1,620	172	1,236	22,378	1,547	-	-
A-	85,815	-	6	134	82,703	2,972	-	-
BBB+	29,900	166	-	129	29,605	-	-	-
BBB	50,576	308	-	290	22,916	27,062	-	-
BBB-	33,597	-	4,398	-	29,199	-	-	-
BB+	12,154	-	-	-	12,050	104	-	-
BB	21,518	-	-	109	21,409	-	-	-
BB-	18,506	-	-	11	18,213	282	-	-
B+	13,905	-	88	478	13,339	-	-	-
B	3,074	-	289	101	2,684	-	-	-
B-	15,924	-	25	1,332	13,220	1,347	-	-
CCC+	900	-	-	-	900	-	-	-
CCC	75	-	75	-	-	-	-	-
CCC-	2,617	-	-	-	2,617	-	-	-
D	263	-	-	263	-	-	-	-
NR	1,579,057	9,057	14,754	16,887	102,654	121,475	235,303	1,078,927
Totals	$ 2,225,269	$ 51,054	$ 54,031	$ 31,709	$ 392,690	$ 381,555	$ 235,303	$ 1,078,927

[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 $1,053,901. 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 have been included in the credit risk disclosure as AA+. 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, 2014, 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

At June 30, 2014 SDCERS' cash balance was $1,167. Cash and cash equivalents on deposit with custodial bank and fiscal agents was $239,361, which includes cash collateral for SDCERS' cash overlay program of $58,721 and residual cash held in each manager's portfolio of $180,640, 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 are held in SDCERS' name and are not subject to custodial credit risk. As of June 30, 2014, SDCERS held $216,322 in STIF and a cash balance of $23,039. 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, 2014, 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 $132,500 as of June 30, 2014. 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 $198,688 as of June 30,

2014, 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, 2014.

Local Currency Name	Cash	Equity	Fixed Income	Real Estate	Total
Australian Dollar	$ 2	$ 6,758	$ -	$ 3,078	$ 9,838
Canadian Dollar	1,005	4,161	1,432	2,176	8,774
Danish Krone	-	4,257	-	-	4,257
Euro Currency	8,317	77,718	68,825	5,573	160,433
Hong Kong Dollar	-	19,245	-	7,497	26,742
Japanese Yen	411	68,417	-	9,077	77,905
Singapore Dollar	-	3,495	-	2,932	6,427
South Korean Won	-	1,073	-	-	1,073
Swedish Krona	-	7,016	-	975	7,991
Swiss Franc	9	20,225	-	-	20,234
Thai Baht	-	-	-	1,087	1,087
United Kingdom Pound	-	53,882	1,100	6,528	61,510
Totals	$ 9,744	$ 266,247	$ 71,357	$ 38,923	$ 386,271

This schedule does not include the foreign currency exposure to 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, 2014, 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 Plan 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 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, 2014.

	Net Appreciation (Depreciation) in Fair Value	Fair Value at June 30, 2014			
Investment Derivative Instruments	Amount	Classification	Amount	Notional (Dollars)	Notional (Shares)
Credit Default Swaps	$ 470	Domestic Fixed Income	$ 985	$ 56,453	-
Fixed Income Futures	4,103	Domestic Fixed Income	-	751,550	-
Fixed Income Options	3,244	Domestic Fixed Income	(2,030)	(723,780)	-
Foreign Currency Futures	401	Domestic Fixed Income	-	5,300	-
Foreign Currency Options	1	Domestic Fixed Income	-	-	-
Futures Options	155	Domestic Fixed Income	-	-	-
Foreign Currency Forwards	(1,831)	Domestic Fixed Income	(77)	201,757	-
Index Futures	53,813	Domestic Fixed Income	-	106	-
Interest Rate Swaps	(4,480)	Domestic Fixed Income	1,812	129,700	-
Rights	9	Domestic Equity	-	-	-
Warrants	5	Domestic Equity	5	-	4
Total Derivative Instruments	$ 55,890		$ 695	$ 421,086	4

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, 2014. 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, 2014.

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, 2014:

Counterparty Name	Fair Value	S&P Rating
Deutsche Bank AG London	$ 519	A
Barclays Capital	208	A
Credit Suisse International	124	A
Morgan Stanley CME	105	A-
Citibank N.A.	88	A
UBS AG	80	A
Barclays Bank PLC Wholesale	58	A
Bank of America N.A.	49	A
National Australia Bank Limited	44	AA-
Goldman Sachs Capital Markets LP	16	A-
HSBC Bank USA	16	AA-
JP Morgan Chase Bank N.A.	13	A+
Morgan Stanley Bank N.A.	10	A
Total	$ 1,330	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2014 was $1,330. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2014, 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, 2014, 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, 2014, 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	$ 985	$ 26	$ 959	$ -	$ -
Fixed Income Options	(2,030)	(2,421)	398	(7)	-
Interest Rate Swaps	1,812	-	569	-	1,243
Total	$ 767	$ (2,395)	$ 1,926	$ (7)	$ 1,243

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, 2014.

Investment Type	Fair Value	Notional
Credit Default Swaps	$ 985	$ 56,453
Fixed Income Futures	-	751,550
Fixed Income Options	(2,030)	(723,780)
Interest Rate Swaps	1,812	129,700
Total	$ 767	$ 213,923

Foreign Currency Risk

At June 30, 2014, 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/ Warrants	Net Receivables	Net Payables	Swaps	Total
Canadian Dollar	$ -	$ -	$ (34)	$ -	$ (34)
Euro Currency	-	376	(389)	5	(8)
Pound Sterling	-	13	(43)	-	(30)
Hong Kong Dollar	5	-	-	-	5
Subtotal	5	389	(466)	5	(67)
Investments Denominated in USD	(2,030)	-	-	2,792	762
Total	$ (2,025)	$ 389	$ (466)	$ 2,797	$ 695

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of $5,300 and in foreign index futures with a total notional value of $5,500. 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, 2014.

Contingent Features

At June 30, 2014, SDCERS did not hold any positions in derivatives containing contingent features.

q. Private Equity

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. SDCERS' target allocation to private equity is 10%, with a portfolio composition focused on value and current income producing strategies. As of June 30, 2014, unfunded capital commitments totaled $242,600 and private equity investments totaled $380,975.

r. Infrastructure

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 infrastructure is 3%, with a portfolio composition focused on value and current income producing strategies. Unfunded capital commitments as of June 30, 2014 totaled $147,900. As of June 30, 2014, infrastructure investments totaled $50,805.

s. 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, 2014, real estate investments totaled $693,636 and unfunded capital commitments totaled $190,700. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2014, SDCERS' real estate portfolio had leverage of 28.8%. SDCERS' share of outstanding debt in the real estate portfolio is $127,852, 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 November 2025.

The following table illustrates mortgage loans that SDCERS has outstanding as of June 30, 2014.

Fiscal Year Ending June 30	Principal	Interest	Total
2015	$ 230	$ 5,843	$ 6,073
2016	237	5,842	6,079
2017	25,495	5,214	30,709
2018	22,777	3,575	26,352
2019	41,611	2,849	44,460
2020-2024	19,502	5,863	25,365
2025	18,000	1,385	19,385
Total	$ 127,852	$ 30,571	$ 158,423

t. Securities Lending

SDCERS has entered into an agreement with State Street Bank and Trust Company (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, 2014, securities on loan collateralized by cash had a fair value of $194,700 and SDCERS received cash collateral of $198,688, 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, 2014, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $123,900 and a collateral value of $132,500, 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, 2014 for its securities lending activities was $331,188.

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, 2014, these collateral pools were not rated by the NRSROs.

As of June 30, 2014, SDCERS had $186,377 invested in the Quality D liquidity collateral pool, which had an average duration of 37.4 days and an average weighted final maturity of 103.7 days. SDCERS had $12,021 invested in the Quality D duration pool, which had an average duration of 41.8 days and an average weighted final maturity of 1,770.3 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 (u. through v.) are taken directly 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, 2014.

u. San Diego Convention Center Corporation

Cash, deposits and investments were categorized as follows at June 30, 2014:

Cash on hand	$ 109
Deposits	1,274
Certificates of deposit (non-negotiable)	1,277
Bank money market account deposits	5,669
Total cash and investments	$ 8,329

Deposits

At June 30, 2014, the carrying amount of SDCCC's cash on hand, deposits, non-negotiable certificates of deposit and bank money market account deposits was $8,329 and the bank balance was $8,197. Of the bank balance, $500 was covered by federal depository insurance. The remaining uninsured balance of $7,697 was collateralized with the collateral held by an affiliate of the counterparty's financial institution. Neither the bank money market account deposits nor the certificates of deposit are rated by credit rating agencies. The $1,277 invested in non-negotiable certificates of deposit bear interest rates of 0.3% and have maturities greater than three months and less than one year.

Investments

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.

v. San Diego Housing Commission

Cash, cash equivalents, and investments at June 30, 2014 consisted of the following:

	Housing Commission	Component Units [1]	Grand Total
Deposits	$ 10,193	$ 10,892	$ 21,085
Petty cash	20	-	20
Agency Bonds	74,896	-	74,896
Local Agency Investment Fund	16,921	-	16,921
Negotiable Certificates of Deposit	3,195	-	3,195
San Diego County Investment Pool	10,011	-	10,011
Total cash and investments	115,236	10,892	126,128
Restricted cash and cash equivalents	3,904	71	3,975
Total	$ 119,140	$ 10,963	$ 130,103

[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 was $10,193 at June 30, 2014. 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. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. 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 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. An Investment Committee, consisting of two SDHC Board members, monitors the management of funds and compliance with the SDHC Investment Policy.

SDHC utilizes the services of an experienced financial advisor to aid in making investment decisions. Working with the Investment Committee and staff, 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 State's Local Agency Investment Fund and San Diego County Investment Pool 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, 2014, SDHC had investments in agency bonds, negotiable certificates of deposit, California Local Agency Investment Fund (LAIF) and San Diego County Investment Pool (SDCIP). The following paragraphs provide further detail for each investment.

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. The U.S. Government Agency securities in SDHC's portfolio include Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Home Loan Bank (FHLB). At June 30, 2014, SDHC had $74,896 invested in Agency MBS bonds.

SDHC had $3,195 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. According to SDHC's Investment Policy, certificates of deposit are to be collateralized at least 100% of the amount that is not federally insured. Securities pledged as collateral are held by a third party. Joint custody safekeeping receipts are held in the name of the depository institution, but pledged to SDHC.

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, 2014, the average maturity of PMIA investments was 232 days and the balance of the investment portfolio of PMIA was $64,846,000. SDHC had $16,921 invested with LAIF as of June 30, 2014.

In addition to LAIF, 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, 2014 was $7,262,000. The investment portfolio had a weighted average yield to maturity of 0.43%, weighted days to maturity of 366 days and an effective duration of 0.78 years. As of June 30, 2014, SDHC had $10,011 invested in SDCIP.

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, 2014 is as follows:

	Total Fair Value	Less Than 3 Months	4-12 Months	1-5 Years
Cash and Cash Equivalents				
Deposits	$ 10,193	$ 10,193	$ -	$ -
Petty Cash	20	20	-	-
Restricted Cash and Cash Equivalents	3,904	3,904	-	-
Total Cash and Cash Equivalents	14,117	14,117	-	-
Short-Term Investments				
U.S. Government Agency	3,095	332	2,763	-
Negotiable Certificates of Deposit	1,473	-	1,473	-
San Diego County Investment Pool	10,011	-	-	10,011
State Local Agency Investment Fund	16,921	-	16,921	
Total Short-Term Investments	31,500	332	21,157	10,011
Long-Term Investments				
U.S. Government Agency	71,801	-	-	71,801
Negotiable Certificates of Deposit	1,722	-	-	1,722
Total Long-Term Investments	73,523	-	-	73,523
Total Cash, Cash Equivalents, and Investments	$ 119,140	$ 14,449	$ 21,157	$ 83,534

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, 2014 is as follows:

		Standard & Poor's Credit Rating	
	Total Fair Value	AAA	Not Subject to Rating
Short-Term Investments			
U.S. Government Agency	$ 3,095	$ 2,030	$ 1,065
Negotiable Certificates of Deposit	1,473	-	1,473
San Diego County Investment Pool	10,011	10,011	-
State Local Agency Investment Fund	16,921	-	16,921
Total Short-Term Investments	31,500	12,041	19,459
Long-Term Investments			
U.S. Government Agency	71,801	-	71,801
Negotiable Certificates of Deposit	1,722	-	1,722
Total Long-Term Investments	73,523	-	73,523
Total Investments	$ 105,023	$ 12,041	$ 92,982

4. CAPITAL ASSETS (Dollars in Thousands)

Capital asset activities for the year ended June 30, 2014 are as follows:

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	$ 1,729,238	$ 46,467	$ (10,703)	$ (75)	$ 1,764,927
Easements	656	55	-	58	769
Construction in Progress	389,928	72,948	(5,366)	(218,215)	239,295
Total Non-Depreciable Capital Assets	2,119,822	119,470	(16,069)	(218,232)	2,004,991
Depreciable Capital Assets:					
Structures and Improvements	1,122,932	13,756	(1,464)	186,285	1,321,509
Equipment	366,235	32,736	(11,118)	(1,955)	385,898
Equipment (Intangible)	37,708	-	-	8,367	46,075
Infrastructure	3,539,237	59,178	(409)	25,535	3,623,541
Total Depreciable Capital Assets	5,066,112	105,670	(12,991)	218,232	5,377,023
Less Accumulated Depreciation/Amortization For:					
Structures and Improvements	(455,159)	(36,578)	857	(581)	(491,461)
Equipment	(225,459)	(32,053)	10,079	8,369	(239,064)
Equipment (Intangible)	(14,162)	(11,175)	-	(8,367)	(33,704)
Infrastructure	(1,994,925)	(93,058)	147	579	(2,087,257)
Total Accumulated Depreciation/Amortization	(2,689,705)	(172,864)	11,083	-	(2,851,486)
Total Depreciable Capital Assets - Net of Depreciation	2,376,407	(67,194)	(1,908)	218,232	2,525,537
Governmental Activities Capital Assets, Net	$ 4,496,229	$ 52,276	$ (17,977)	$ -	$ 4,530,528
BUSINESS-TYPE ACTIVITIES					
Non-Depreciable Capital Assets:					
Land and Rights of Way	$ 97,036	$ 46	$ (17)	$ (52)	$ 97,013
Easements	667	767	-	268	1,702
Construction in Progress	191,265	110,498	(798)	(74,566)	226,399
Total Non-Depreciable Capital Assets	288,968	111,311	(815)	(74,350)	325,114
Depreciable Capital Assets:					
Structures and Improvements	1,672,218	1,714	(5,498)	8,335	1,676,769
Equipment	450,905	6,534	(6,750)	(1,084)	449,605
Equipment (Intangible)	17,897	-	-	6,407	24,304
Distribution and Collection Systems and Other Infrastructure	4,563,701	73,451	(5,612)	60,692	4,692,232
Total Depreciable Capital Assets	6,704,721	81,699	(17,860)	74,350	6,842,910
Less Accumulated Depreciation/Amortization For:					
Structures and Improvements	(490,765)	(34,934)	5,204	(185)	(520,680)
Equipment	(303,462)	(16,117)	6,310	1,772	(311,497)
Equipment (Intangible)	(1,958)	(1,983)	-	(2,021)	(5,962)
Distribution and Collection Systems and Other Infrastructure	(990,320)	(72,268)	3,159	434	(1,058,995)
Total Accumulated Depreciation/Amortization	(1,786,505)	(125,302)	14,673	-	(1,897,134)
Total Depreciable Capital Assets - Net of Depreciation	4,918,216	(43,603)	(3,187)	74,350	4,945,776
Business-Type Activities Capital Assets, Net	$ 5,207,184	$ 67,708	$ (4,002)	$ -	$ 5,270,890

Depreciation/amortization expense was charged to functions/programs of the primary government are as follows:

GOVERNMENTAL ACTIVITIES	
General Government and Support	$ 15,596
Public Safety - Police	5,055
Public Safety - Fire and Life Safety and Homeland Security	4,578
Parks, Recreation, Culture and Leisure	42,198
Transportation	81,284
Sanitation and Health	1,240
Neighborhood Services	182
Subtotal	150,133
Internal Service	22,731
Total Depreciation/Amortization Expense	$ 172,864
BUSINESS-TYPE ACTIVITIES	
Sewer Utility	$ 70,585
Water Utility	48,957
Airports	845
Development Services	47
Environmental Services	3,568
Golf Course	1,274
Recycling	26
Total Depreciation/Amortization Expense	$ 125,302

Discretely Presented Component Units

Capital asset activities for the City's Discretely Presented Component Units for the year ended June 30, 2014 are as follows:

	Discretely Presented Component Unit - San Diego Convention Center Corporation			
	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Capital Assets:				
Land	$ 18,114	$ 731	$ (246)	$ 18,599
Depreciable Capital Assets:				
Structures and Improvements	28,260	1,398	(369)	29,289
Equipment	6,684	429	(1,329)	5,784
Total Depreciable Capital Assets	34,944	1,827	(1,698)	35,073
Less Accumulated Depreciation/Amortization For:				
Structures and Improvements	(17,483)	(1,652)	298	(18,837)
Equipment	(5,905)	(284)	1,307	(4,882)
Total Accumulated Depreciation/Amortization	(23,388)	(1,936)	1,605	(23,719)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	11,556	(109)	(93)	11,354
Capital Assets, Net	$ 29,670	$ 622	$ (339)	$ 29,953

	Discretely Presented Component Unit - San Diego Housing Commission			
	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Non-Depreciable Capital Assets:				
Land	$ 63,036	$ -	$ 151	$ 63,187
Construction in Progress	1,854	2,143	(3,246)	751
Total Non-Depreciable Capital Assets	64,890	2,143	(3,095)	63,938
Depreciable Capital Assets:				
Structures and Improvements	119,623	-	2,770	122,393
Equipment	3,781	95	229	4,105
Total Depreciable Capital Assets	123,404	95	2,999	126,498
Less Accumulated Depreciation/Amortization For:				
Structures and Improvements	(19,531)	(4,401)	-	(23,932)
Equipment	(2,967)	(400)	-	(3,367)
Total Accumulated Depreciation/Amortization	(22,498)	(4,801)	-	(27,299)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	100,906	(4,706)	2,999	99,199
Capital Assets, Net	$ 165,796	$ (2,563)	$ (96)	$ 163,137

Discretely Presented Component Units of the San Diego Housing Commission

Capital assets for the discretely presented component units of SDHC as of December 31, 2013 are as follows:

Non-Depreciable Capital Assets:	
Land	$ 1,655
Construction in Progress	793
Total Non-Depreciable Capital Assets	2,448
Depreciable Capital Assets:	
Structures and Improvements	15,374
Equipment	612
Total Depreciable Capital Assets	15,986
Less Accumulated Depreciation/Amortization	(2,479)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	13,507
Capital Assets, Net	$ 15,955

Successor Agency - Private-PurposeTrust Fund

Capital asset activities for the City's Successor Agency for the year ended June 30, 2014 are as follows:

	Successor Agency - Private-Purpose Trust Fund		
	Beginning Balance	Increases	Ending Balance
Non-Depreciable Capital Assets:			
Land and Rights of Way	$ 105,947	$ -	$ 105,947
Total Non-Depreciable Capital Assets	105,947	-	105,947
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	(12,348)	(1,743)	(14,091)
Equipment	(819)	-	(819)
Total Accumulated Depreciation/Amortization	(13,167)	(1,743)	(14,910)
Total Depreciable Capital Assets - Net of Depreciation/Amortization	57,384	(1,743)	55,641
Capital Assets, Net	$ 163,331	$ (1,743)	$ 161,588

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, 2014 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, 2014
Compensated Absences				$ 70,646
Liability Claims				331,946
Capital Lease Obligations	0.71 - 5.0%	2023		58,094
Qualified Energy Conservation Bonds (QECB) Lease Obligation	6.16 [1]	2026	$ 13,142	10,864
Contracts Payable:				
Facilities Financing Reimbursement Agreement Obligations				16,820
Loans Payable:				
California Energy Resources Conservation and Development Commission, dated January 2007	4.5	2021	1,280	612
California Energy Resources Conservation and Development Commission, dated March 2007	3.95	2019	2,154	966
California Energy Resources Conservation and Development Commission, dated December 2011	3.0	2023	2,987	2,839
California Energy Resources Conservation and Development Commission, dated December 2012	1.0	2027	474	474
Bank of America, N.A. McGuigan Judgment, dated June 2010	3.79 [2]	2015	32,762	8,661
Total Loans Payable				13,552
Section 108 Loans Payable		2025	5,910	4,081
Lease Revenue Bonds:				
Public Facilities Financing Authority Ballpark Lease Revenue Refunding Bonds, Series 2007 A	5.0 - 5.25 [3]	2032	156,560	129,780
Public Facilities Financing Authority Lease Revenue Refunding Bonds, Series 2010 A	3.0-5.25 [3]	2040	167,635	155,170
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 2012 A	3.8 - 5.25 [3]	2028	140,440	126,610
Public Facilities Financing Authority CIP Lease Revenue Bonds, Series 2012 A	2.0 - 5.25 [3]	2042	72,000	70,215
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Refunding Bonds, Series 2012 B	2.0 - 5.0 [3]	2032	18,745	17,720
Public Facilities Financing Authority CIP/Old Town Light Rail Extension Lease Revenue Refunding Bonds, Series 2013 A	3.0 - 5.0 [3]	2043	43,245	41,590
Public Facilities Financing Authority Balboa Park/Mission Bay Park Lease Revenue Refunding Bonds, Series 2013 B	3.0 - 5.0 [3]	2024	6,285	5,845
Total Lease Revenue Bonds				546,930
Tobacco Settlement Asset-Backed Bonds:				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	7.125 [3]	2023 [4]	105,400	77,785
Total Bonds Payable				624,715
Net Other Postemployment Benefits Obligation				188,846
Net Pension Obligation				114,022
Total Governmental Activities Long-Term Liabilities				$ 1,433,586

[1] Nominal interest rate of 6.16% with a net effective rate of 2.40% inclusive of QECB federal subsidy.

[2] McGuigan Judgment loan payable has a 3.79% fixed rate for term of borrowing. The McGuigan Judgment loan was paid in full on July 1, 2014.

[3] Interest rates are fixed and reflect the range of rates for various maturities from the date of issuance to maturity.

[4] 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, 2014, 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. The QECB financing is eligible for the direct interest subsidy payment from the U.S. Department of the Treasury within the meaning of 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 payable out of any source of legally available funds.

Facilities Financing Reimbursement Agreements are contract 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 or provided program credits against future Facilities Benefit Assessment (FBA) or Development Impact Fees (DIF) payments due up to the amount of the eligible infrastructure costs as stated in an approved reimbursement agreement. Provisions of reimbursement agreements permit FBA/DIF cash reimbursement as funds become available, rather than at a certain time, and these agreements bear no interest.

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, 2014, including interest payments to maturity, are as follows:

Year Ending June 30	Capital Lease Obligations		Qualified Energy Conservation Bonds Lease Obligation		Contracts Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 14,435	$ 970	$ 792	$ 669	$ -	$ -	$ 9,297	$ 478
2016	12,338	726	811	620	-	-	660	122
2017	9,194	534	830	570	-	-	685	96
2018	6,804	376	850	519	-	-	487	73
2019	6,555	250	871	467	-	-	504	56
2020-2024	8,768	263	4,678	1,505	-	-	1,445	111
2025-2029	-	-	2,032	188	-	-	-	-
2030-2034	-	-	-	-	-	-	-	-
2035-2039	-	-	-	-	-	-	-	-
2040-2044	-	-	-	-	-	-	-	-
Unscheduled [1]	-	-	-	-	16,820	-	474	-
Total	$ 58,094	$ 3,119	$ 10,864	$ 4,538	$ 16,820	$ -	$ 13,552	$ 936

Year Ending June 30	Section 108 Loans Payable		Lease Revenue Bonds		Tobacco Settlement Asset-Backed Bonds	
	Principal	Interest	Principal	Interest	Principal [2]	Interest
2015	$ 280	$ 227	$ 20,210	$ 26,588	$ 5,400	$ 5,542
2016	294	212	21,055	25,750	5,700	5,157
2017	310	195	21,945	24,858	6,200	4,751
2018	325	178	22,905	23,888	6,600	4,310
2019	345	159	23,960	22,848	7,000	3,839
2020-2024	2,042	461	136,025	95,122	46,885	9,964
2025-2029	485	14	139,335	59,051	-	-
2030-2034	-	-	78,045	30,439	-	-
2035-2039	-	-	55,825	14,474	-	-
2040-2044	-	-	27,625	2,080	-	-
Total	$ 4,081	$ 1,446	$ 546,930	$ 325,098	$ 77,785	$ 33,563

[1] The contracts payable for the Facilities Financing Reimbursement Agreements in the amount of $16,820 do not have an annual repayment schedule. Annual payments to the Facilities Financing Reimbursement Agreements are based on availability of Facilities Benefit Assessment (FBA) and Development Impact Fee (DIF) revenues. Loan Payable of $474 to California Energy Resources Conservation and Development Commission does not have a fixed annual repayment schedule until construction of the project is completed and final billing submitted.

[2] The Tobacco Asset-Backed Bond Principal Debt Service requirements are based upon final turbo redemtion payments projected at time of issuance.

c. Change in Long-Term Liabilities

Additions to governmental activities long-term debt for contracts, notes and loans payable may differ from proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, due to funding received in prior fiscal years being converted from short-term to long-term debt as a result of developers extending the terms of the obligation.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2014. 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	$ 71,318	$ 52,022	$ (52,694)	$ 70,646	$ 30,090
Liability Claims	339,002	61,047	(68,103)	331,946	39,485
Capital Lease Obligations	65,369	31,235	(38,510)	58,094	14,435
Qualified Energy Conservation Bonds Lease Obligation	11,637	-	(773)	10,864	792
Contracts Payable	7,454	16,951	(7,585)	16,820	-
Loans Payable	21,638	761	(8,847)	13,552	9,297
Section 108 Loans Payable	5,630	-	(1,549)	4,081	280
Lease Revenue Bonds	533,235	49,530	(35,835)	546,930	20,210
Unamortized Bond Premiums and Discounts	24,522	2,183	(1,627)	25,078	1,558
Net Lease Revenue Bonds	557,757	51,713	(37,462)	572,008	21,768
Tobacco Settlement Asset-Backed Bonds	81,635	-	(3,850)	77,785	5,400
Net Other Postemployment Benefits Obligation	188,428	418	-	188,846	-
Net Pension Obligation	115,925	-	(1,903)	114,022	-
Total	$ 1,465,793	$ 214,147	$ (221,276)	$ 1,458,664	$ 121,547

[1] Beginning balances for liability claims and net lease revenue bonds have been restated, due to the reclassification of components of the Self Insurance Internal Service Fund to the General Fund, and GASB 65 implementation, respectively. Additional information on the restatements is included in Note 23.

PFFA issued $43,245 of Lease Revenue Bonds and Lease Revenue Refunding Bonds, Series 2013A (Capital Improvement Projects and Old Town Light Rail Extension Refunding) and $6,285 of Lease Revenue Refunding Bonds, Series 2013B (Balboa Park/Mission Bay Park Refunding). The Series 2013A fully refunded the outstanding City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding). The Series 2013B fully refunded all the outstanding City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding). The 2013A and 2013B 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.

d. Redemption of Debt

The Lease Revenue Refunding Bonds, Series 2013A (Old Town Light Rail Extension Refunding) were issued to refund the outstanding City of San Diego/MTDB Authority 2003 Lease Revenue Refunding Bonds (San Diego Old Town Light Rail Transit Extension Refunding) and the Lease Revenue Refunding Bonds, Series 2013B (Balboa Park/Mission Bay Park Refunding) were issued to refund the outstanding City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding). Since the refunded bonds have been fully redeemed prior to fiscal year end, the liability has been removed from the Statement of Net Position. The refunding transaction resulted in a total economic gain of $771 and a cash flow savings of approximately $1,188. The refunded 2003 Lease Revenue Refunding Bonds were fully redeemed on July 11, 2013 and the refunded 2003 Certificates of Participation were fully redeemed on November 1, 2013.

e. Long-Term Pledged Liabilities

Governmental long-term pledged liabilities as of June 30, 2014 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 Developer Revenue:				
Regional Transportation Center Redevelopment Project (Section 108)	2021	$ -	$ 1,325	$ 1,325
Pledged Development Impact Fee (DIF) Revenue:				
Kearny Mesa Reimbursement Agreement, dated June 2005		309	735	735
Pledged Facilities Benefit Assessment (FBA) Revenue:				
Facilities Financing Reimbursement Agreement Obligations		16,511	6,850	6,850
Naval Training Center Civic, Arts, and Cultural Center (Section 108)	2025	5,527	506	506
Total Pledged Facilities Benefit Assessment (FBA) Revenue		22,038	7,356	7,356
Pledged Tobacco Settlement Revenue:				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	2023	111,348	9,666	9,082
Total		$ 133,695	$ 19,082	$ 18,498

6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (Dollars in Thousands)

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2014 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2014
Arbitrage Liability				$ 90
Compensated Absences				13,267
Liability Claims				37,844
Capital Lease Obligations	1.665% - 1.838% [1]	2022		2,590
Loans Payable:				
State Water Resources Control Board, issued February 9, 2000	1.80% [2]	2020	$ 10,606	3,590
State Water Resources Control Board, issued February 9, 2000	1.80 [2]	2022	6,684	2,965
State Water Resources Control Board, issued March 30, 2001	1.80 [2]	2022	33,720	14,944
State Water Resources Control Board, issued May 17, 2001	1.80 [2]	2022	7,742	3,432
State Water Resources Control Board, issued May 17, 2001	1.80 [2]	2021	860	337
State Water Resources Control Board, issued June 11, 2001	1.80 [2]	2021	2,525	988
State Water Resources Control Board, issued October 3, 2002	1.99 [2]	2020	3,767	1,408
State Water Resources Control Board, issued October 3, 2002	1.80 [2]	2023	8,068	3,987
State Water Resources Control Board, issued December 14, 2005	1.89 [2]	2024	10,093	5,759
Department of Health Services, issued July 6, 2005	2.51 [2]	2026	21,525	13,669
State Water Resources Control Board, issued October 15, 2006	1.99 [2]	2024	3,858	2,311
State Water Resources Control Board, issued February 28, 2007	1.89 [2]	2026	11,068	7,439
Department of Health Services, issued May 30, 2011	2.31 [2]	2032	12,000	10,783
Department of Health Services, issued January 1, 2012	2.31 [2]	2032	20,000	17,971
Department of Health Services, issued January 1, 2012	2.50 [2]	2032	18,000	16,576
State Water Resources Control Board, issued February 17, 2012	2.70 [2]	2034	21,092	21,092
State Water Resources Control Board, issued July 10, 2012	2.20 [2]	2033	16,008	15,472
Department of Health Services, issued January 29, 2013	2.093 [2]	2034	4,775	4,775
Department of Health Services, issued January 29, 2013	2.093 [2]	2034	2,301	2,301
State Water Resources Control Board, issued June 26, 2013	2.20 [2]	2034	3,964	3,964
State Water Resources Control Board, issued August 22, 2013	2.20 [2]	2034	7,597	7,597
Total Loans Payable				161,360

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2014
Bonds Payable:				
Senior Sewer Revenue Bonds, Series 2009 A	2.0-5.375 [1]	2039	$ 453,775	$ 394,500
Senior Sewer Revenue Refunding Bonds Series 2009 B	3.0-5.5 [1]	2025	634,940	469,640
Water Revenue Refunding Bonds, Series 2009 A	2.5-5.25 [1]	2039	157,190	151,520
Water Revenue Bonds, Series 2009 B	2.5-5.75 [1]	2040	328,060	306,140
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	171,505
Total Bonds Payable				1,778,310
Estimated Landfill Closure and Postclosure Care				23,290
Net Other Postemployment Benefits Obligation				54,277
Net Pension Obligation				22,610
Total Business-Type Activities Long-Term Liabilities				$ 2,093,638

[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, 2014, including interest payments to maturity, are as follows:

Year Ending June 30	Capital Lease Obligations		Loans Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 340	$ 41	$ 8,855	$ 2,546	$ 75,370	$ 89,240
2016	357	36	9,038	2,363	79,255	85,847
2017	363	30	9,226	2,175	82,205	82,127
2018	370	24	9,416	1,984	86,410	78,104
2019	376	18	9,612	1,789	90,695	73,819
2020-2024	784	17	40,529	6,050	493,915	298,290
2025-2029	-	-	20,735	2,554	414,280	177,179
2030-2034	-	-	11,220	485	213,305	95,531
2035-2039	-	-	-	-	221,720	39,780
2040-2044	-	-	-	-	21,155	582
Unscheduled [1]	-	-	42,729	-	-	-
Total	$ 2,590	$ 166	$ 161,360	$ 19,946	$ 1,778,310	$ 1,020,499

[1] The loans payable to the State Water Resources Control Board in the amount of $35,653 and loans payable to Department of Health Services in the amount of $7,076 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, 2014. 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	$ 60	$ 30	$ -	$ 90	$ -
Compensated Absences	13,347	10,926	(11,006)	13,267	6,016
Liability Claims	37,285	10,333	(9,774)	37,844	6,427
Capital Lease Obligations	-	2,590	-	2,590	340
Loans Payable	145,330	24,717	(8,687)	161,360	8,855
Revenue Bonds Payable	1,850,645	-	(72,335)	1,778,310	75,370
Unamortized Bond Premiums and Discounts	78,778	-	(5,317)	73,461	5,317
Net Revenue Bonds Payable	1,929,423	-	(77,652)	1,851,771	80,687
Estimated Landfill Closure/Postclosure Care	22,565	725	-	23,290	-
Net Other Postemployment Benefits Obligation	54,169	108	-	54,277	-
Net Pension Obligation	23,076	-	(466)	22,610	-
Totals	$ 2,225,255	$ 49,429	$ (107,585)	$ 2,167,099	$ 102,325

[1] Liability Claims and Net Revenue Bonds beginning balances have been restated due to reclassification of components of the Self Insurance Internal Service Fund to the General Fund, and GASB 65 implementation, respectively. Additional information on the restatements is included in Note 23.

d. Long-Term Pledged Liabilities

Business-type activities long-term pledged liabilities as of June 30, 2014 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	$ 3,820	$ 637	$ 637
State Water Resources Control Board, issued February 9, 2000	2022	3,210	401	401
State Water Resources Control Board, issued March 30, 2001	2022	16,197	2,025	2,025
State Water Resources Control Board, issued May 17, 2001	2022	3,717	464	464
State Water Resources Control Board, issued May 17, 2001	2021	360	52	52
State Water Resources Control Board, issued June 11, 2001	2021	1,060	152	152
State Water Resources Control Board, issued October 3, 2002	2020	1,507	251	251
State Water Resources Control Board, issued October 3, 2002	2023	4,357	484	484
State Water Resources Control Board, issued December 14, 2005	2024	6,375	638	638
State Water Resources Control Board, issued October 15, 2006	2024	2,573	257	257
State Water Resources Control Board, issued February 28, 2007	2026	8,388	699	699
State Water Resources Control Board, issued February 17, 2012	2034	21,092	-	-
State Water Resources Control Board, issued July 10, 2012	2033	18,394	810	810
State Water Resources Control Board, issued June 26, 2013	2034	3,964	-	-
State Water Resources Control Board, issued August 22, 2013	2034	7,597	-	-
Bonds and Notes				
Senior Sewer Revenue Bonds, Series 2009 A	2039	691,706	36,280	32,577
Senior Sewer Revenue Refunding Bonds, Series 2009 B	2025	608,482	57,702	53,751
Senior Sewer Revenue Refunding Bonds, Series 2010 A	2029	264,342	8,502	8,502
Total Pledged Net Sewer Systems Revenue		1,667,141	109,354	101,700

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Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Recognized
Pledged Net Water Systems Revenue:				
Loans				
Department of Health Services, issued July 6, 2005	2026	$ 15,823	$ 1,376	$ 1,376
Department of Health Services, issued May 30, 2011	2032	13,169	753	753
Department of Health Services, issued January 1, 2012	2032	21,938	1,254	1,254
Department of Health Services, issued January 1, 2012	2032	20,689	1,149	1,149
Department of Health Services, issued January 29, 2013	2034	4,775	19	19
Department of Health Services, issued January 29, 2013	2034	2,301	22	22
Bonds and Notes				
Water Revenue Refunding Bonds, Series 2009 A	2039	219,212	8,681	8,468
Water Revenue Bonds, Series 2009 B	2040	565,147	21,735	21,217
Water Revenue Refunding Bonds, Series 2010 A	2029	198,356	6,311	5,802
Water Revenue Refunding Bonds, Series 2012 A	2033	251,564	25,394	25,346
Total Pledged Net Water Systems Revenue		1,312,974	66,694	65,406
Total Pledged Revenues		$ 2,980,115	$ 176,048	$ 167,106

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, 2014.

San Diego Convention Center Corporation

Long-term liabilities of SDCCC as of June 30, 2014 are comprised of the following:

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2014	Due Within One Year
Compensated Absences				$ 1,245	$ 1,218
Notes Payable:					
Fifth Avenue Landing LLC	5.27%	2015	$ 12,500	12,500	12,500
San Diego Gas and Electric - Retrocommissioning	0.00%	2015	418	127	127
CG 7600 LLC	0.00%	2023	22	19	2
Total Notes Payable				12,646	12,629
Total Long-Term Liabilities				$ 13,891	$ 13,847

SDCCC entered into a Note Purchase Contract on May 6, 2010 for $12,500 with Fifth Avenue Landing, LLC, the proceeds of which were used for the Phase III expansion site ground lease purchase. The Fifth Avenue Landing LLC note payable is repaid at the rate of 5.27% per annum, simple interest, with a $12,500 principal payment due by May 6, 2015. SDCCC is required to pay an annual interest payment of $500, while the remaining accrued interest owed in any one year is payable at the date of final maturity.

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.

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 amortized portion becomes payable and due upon termination of the contract.

Annual requirements to amortize long-term debt as of June 30, 2014, are as follows:

	Notes Payable	
Year Ending June 30	Principal	Interest
2015	$ 12,629	$ 1,297
2016	2	-
2017	2	-
2018	2	-
2019	2	-
2020-2023	9	-
Total	$ 12,646	$ 1,297

San Diego Housing Commission

Long-term liabilities of SDHC as of June 30, 2014 are comprised of the following:

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2014 [1]	Due Within One Year
Compensated Absences				$ 1,738	$ 1,738
Notes Payable:					
Debts of SDHC					
GE Capital, (Smart Corner & Maya) dated November 2011	6.08%	2027	$ 15,000	11,344	492
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	11,729	162
Greystone Servicing Corp, Inc. Fannie Mae (Northern)	7.32%	2040	10,810	10,292	142
Greystone Servicing Corp, Inc. Fannie Mae (Central)	7.32%	2040	14,010	13,338	184
PNC Bank, NA FHA (Southern)	3.76%	2046	25,017	23,627	405
PNC Bank, NA FHA (Northern)	3.76%	2046	17,500	16,528	283
PNC Bank, NA FHA (Central)	3.65%	2046	15,726	14,855	258
Total Notes Payable				112,994	1,926
Total Long-Term Liabilities [1]				$ 114,732	$ 3,664

[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% for ten years. In November 2013, SDHC exercised the annual option to pay down the loan in the amount of $1.3 million.

In May 2013, the State of California loan was renegotiated through the Housing Loan Conversion Program and extended for 55 years to 2068. It now bears an interest rate of 3% with required annual interest payments and potential residual receipt requirements.

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 $6,030 disbursed as of June 30, 2014.

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, 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 Build America Bonds equal to 35 percent of the total coupon interest paid. 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 $753 in fiscal year 2014 subsidy payments.

The annual requirements to amortize such long-term liabilities as of June 30, 2014 are as follows:

	Notes Payable	
Year Ending June 30	Principal	Interest
2015	$ 1,926	$ 5,485
2016	2,031	5,382
2017	2,143	5,270
2018	2,260	5,152
2019	2,383	5,028
2020-2024	14,743	23,002
2025-2029	18,076	18,377
2030-2034	17,435	13,690
2035-2039	23,009	8,088
2040-2044	14,700	2,933
2045-2068	14,288	4,651
Total	$ 112,994	$ 97,058

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, 2013 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 $115 at December 31, 2013.	$ 2,353
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 $81 at December 31, 2013.	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 $49 at December 31, 2013.	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 $21 at December 31, 2013.	69
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, 2013.	207
Total HDP Mason	5,129

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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, 2013.	$ 3,053
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 $132 at December 31, 2013.	1,600
Total Casa Colina	4,653

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 Multifamily 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 a variable rate of one-month LIBOR rate quoted by JP Morgan Chase Bank, N.A. plus 2.17% (2.42% at December 31, 2013) through May 1, 2014. Principal and interest on the Series A-2 note is due May 1, 2014 at which time the Series A-1 note converts to a permanent loan. The permanent loan converted on February 28, 2014 and bears interest at a fixed rate of 5.58% and is payable in monthly installments of principal and interest through May 1, 2044. The note is secured by a deed of trust on Knox Glen Townhomes. Accrued interest totaled $0 at December 31, 2013.	4,456
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 $1,391 at December 31, 2013.	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 $80 at December 31, 2013.	150
Total Logan	6,006

HDP

Note payable is held by Local Initiatives Support Corporation in the original amount of $711. The note bears interest at 6% per annum. Interest is payable on a monthly basis until all amounts due under this note are paid in full. Principal and accrued interest are due and payable on the earlier of the closing and initial funding date of any construction financing or the first day of the nineteenth full month after the closing date. The note is unsecured. Accrued interest totaled $0 at December 31, 2013.	$ 418

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 $1 at December 31, 2013.	143
Total Notes Payable	16,349
Less: Current Portion	(3,423)
Notes Payable, Net of Current Portion	$ 12,926

The future principal payments on the notes payable following December 31, 2013 are as follows:

2014	$ 3,423
2015	546
2016	134
2017	141
2018	148
Thereafter	11,957
Total	$ 16,349

8. JOINTLY GOVERNED ORGANIZATIONS (Dollars in Thousands)

San Diego Workforce Partnership

The City and the County jointly govern the San Diego Workforce Partnership (Consortium). The Consortium's Board of Directors consists of two members of the City Council, two members from the County Board of Supervisors, and one member of a charitable organization. The purpose of the Consortium is to provide regional employment and training services in order to develop and create job opportunities throughout San Diego County. The Consortium is empowered to make applications for and receive grants from governmental or private sources. The City does not appoint a majority of the Consortium Board, is not able to impose its will on the Consortium, and the Consortium is not fiscally dependent on the City. Therefore, it is the City's conclusion that the Consortium is a governmental organization with a jointly appointed board and not a component unit of the City. However, in the event the Consortium incurs a liability it cannot financially sustain, the City and the County have agreed to share in the payment of such an obligation. For the fiscal year ended June 30, 2013, the Partnership reported an increase in net position of $28 and ending net position of $463.

Complete financial statements can be requested from San Diego Workforce Partnership, Inc. 3910 University Avenue, Suite 400, San Diego, CA 92105.

San Diego Geographic Information Source (SanGIS)

SanGIS was created in July 1997 as a joint powers agreement between the City and the County. 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. The SanGIS annual budget of $1,235 is funded primarily by equal contributions from the City and County. In its latest audited report, for the fiscal year ended June 30, 2013, SanGIS reported an increase in net position of $13 and an ending net position of $333.

Complete financial statements can be requested from SanGIS, 5510 Overland Ave., Suite 230, San Diego, CA 92123.

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 and structures. These capital leases have maturity dates ranging from July 1, 2014 through June 1, 2023 and interest rates ranging from 0.71% to 5.00%. A schedule of future minimum lease payments under capital leases as of June 30, 2014 is provided in Note 5. The value of all governmental capital leased assets as of June 30, 2014 is $64,193, net of accumulated depreciation of $50,941. These amounts are categorized by major asset class in the table below.

Values of Capital Leased Assets by Major Asset Class

	Gross Value	Depreciation	Net Book Value
Governmental			
Equipment	$ 111,500	$ (49,114)	$ 62,386
Structures & Improvements	3,634	(1,827)	1,807
Total Governmental	$ 115,134	$ (50,941)	$ 64,193

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. 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, 2014:

Year Ending June 30	Amount
2015	$ 5,644
2016	4,826
2017	4,596
2018	4,717
2019	4,880
2020-2022	729
Total	$ 25,392

Rent expense, as related to operating leases, was $13,930 for the year ended June 30, 2014, of which $12,019 was reported as governmental activities, and $1,911 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 $156,680, as well as depreciation, are reported in Note 4 and are consolidated with non-leased assets. Minimum annual lease revenues are reported in the following schedule:

Year Ending June 30	Amount
2015	$ 39,702
2016	38,451
2017	36,123
2018	34,145
2019	33,204
2020-2024	154,689
2025-2029	141,466
2030-2034	132,353
2035-2039	124,662
2040-2044	116,018
2045-2049	88,176
2050-2054	27,710
2055-2059	10,289
2060-2064	2,741
Total	$ 979,729

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 $64,816 for the year ended June 30, 2014, which includes contingent rentals of $24,676.

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. The deferred compensation plans are not considered part of the City's financial reporting entity.

Prior to dissolution, SDDPC offered a 457(b) deferred compensation plan to its employees. The plan was effectively terminated on December 3, 2013 and, as of the end of fiscal year 2014, was in the process of winding down.

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) has been closed for all new employees hired on or after July 20, 2012 except for sworn police officers.

An initiative titled "Comprehensive Pension Reform of San Diego" (Proposition B) was approved by voters on June 5, 2012. Generally, the measure amended the City Charter to provide all new City employees hired on or after the effective date of the amendments, except sworn police officers, with a 401(k)-style 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 2/3 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 labor agreements may be reopened at the option of employee organizations in fiscal years 2017 and 2018.

Proposition B resulted in increased costs to the City of $27,000 for fiscal year 2014. This is largely a result of the closing of the non-Police portion of the Pension Plan and the use of the level dollar amortization method for the non-Police Unfunded Actuarial Accrued Liability (UAAL) used by the actuary in calculating the Annual Required Contribution (ARC). Proposition B did not affect the City's UAAL.

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. The decision of the PERB board may also be appealed to the Fourth District Court of Appeal. The actuarial valuation as of June 30, 2013 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

SDCERS, as authorized by Article IX of the City Charter, is a public employee retirement system established in fiscal year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the Port and 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 (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. As of January 1, 2007, benefit increases also require a majority vote of the public. All approved benefit changes are codified in the City's Municipal Code.

The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 working half-time or greater, all sworn police officers of the City, irrespective of hire date, and all full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City pursuant to GASB Statement No. 14; however, the financial statements of the SDCERS Pension Trust do include the Port and the 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 or the highest average salary earned over three one-year periods, 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. 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. 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.

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 must agree to 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 1.2%. 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 2014 was 3.3% and 3.2% 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. The cost of purchased service credits is determined by the Board consistent with the requirements of the San Diego Municipal Code (SDMC).

Preservation of Benefits Plan (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. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis, which is funded by the City. For purposes of disclosure requirements under GASB Statement No. 67, the City considers the POB plan to be an arrangement that allows payment of benefits earned under the Pension Plan and does not consider the POB Plan to be a separate defined benefit plan.

In fiscal year 2014, approximately $1,403 in benefits above 415(b) limits were paid by the City 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 year 2013 was $205 and $210 for calendar year 2014. For non-safety members, the limit is adjusted downward depending on the age of the participant when benefits began. In fiscal year 2014, the City's POB Plan pension cost was approximately $662; however, the City contributed approximately $1,403 to the POB Plan, and therefore, the $741 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.

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. The total benefit in fiscal year 2014 was $2,366, of which $1,844 was paid by the City and $522 from the Supplemental COLA reserve held by SDCERS. Plan assets are not used to pay this benefit. Any future Supplemental COLA benefits will be paid in cash by the City, less any balance remaining in the Supplemental COLA reserve. As of June 30, 2014, the Supplemental COLA reserve had a balance of $344. SDCERS accounts for changes to the Supplemental COLA reserve balances through the use of reserve accounts.

b. **Summary of Significant Accounting Policies – Pension**

Basis of Accounting - The pension trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Pension Plan. See Note 1(e) for additional disclosures on SDCERS' method used to value investments.

c. **Offset Agreements**

The City has historically negotiated employee retirement contribution offset agreements with certain employee groups, which have required the City to pay a portion of the employees' retirement contributions. In fiscal year 2014, the City eliminated the retirement contribution offset amounts related to Municipal Employees Association (MEA) and Teamsters Local 911 employees as a result of the five-year labor agreements. With this reduction, the retirement contribution offset has now been eliminated for all labor groups.

d. **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 Annual Required Contribution is calculated by SDCERS' actuary and approved by the Board. The Charter requires that employer contributions for normal retirement allowances be substantially equal to employee contributions.

Pursuant to the Charter, City employer contribution rates, adjusted for payment at the beginning of the year, are actuarially determined rates and are expressed as a fixed Annual Required Contribution. The entire expense of SDCERS' administration is charged against the earnings and Pension Plan assets of SDCERS.

The following table shows the City's contribution rates (weighted average of each employee group) for fiscal year 2014, based on the June 30, 2012 actuarial valuation, expressed as percentages of expected payroll:

	Employer Contribution Rates	
	Non-Safety Members	Safety Members
Normal Cost	8.74%	14.55%
Amortization Payment [1]	45.53%	56.08%
Normal Cost Adjusted for Amortization Payment [1]	52.27%	70.63%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	50.41%	68.11%

[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 2014, the City employee weighted average contribution rates as a percentage of annual covered payroll was 9.93% for general members and 14.67% 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: First, Pension Plan assets are used to credit interest, at a rate determined by the SDCERS Board, which was 7.5% for fiscal year 2014, to the Employer and Employee Contribution Reserves and 1.2% to the DROP member accounts. Second, Pension Plan assets fund the SDCERS Annual Budget. Third, 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, 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).

e. **Funded Status and Funding Progress**

The following table summarizes the Pension Plan's funding status as reported in the June 30, 2013 valuation:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a)/c)
6/30/2013	$ 5,317,778	$ 7,555,527	$ 2,237,749	70.38%	$ 499,463	448.03%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Pension Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

f. **Annual Pension Cost and Net Pension Obligation**

Annual Pension Cost

The City's annual pension cost for fiscal year 2014 is based on the SDCERS June 30, 2012 Actuarial Valuation. The following table summarizes the principal actuarial methods and assumptions used in the June 30, 2012 and June 30, 2013 actuarial valuations:

	Method/Assumption for the Valuation Ended	
Description	June 30, 2012	June 30, 2013
Actuarial Method	Entry Age Normal (EAN)	Entry Age Normal (EAN)
Amortization Method	Closed; Level % (Police) Level $ (non-Police)	Closed; Level % (Police) Level $ (non-Police)
Equivalent Single Amortization Period	15.117 years [1]	15.233 years [2]
Asset Smoothing Method	Expected Value Method	Expected Value Method
Annual Rate of Return on Investments	7.50%, net of administrative expenses	7.25% net of administrative expenses
Inflation Rate	3.75% 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[3]	0% for the next year, 3.75% thereafter	0% for FY15-FY18, 3.3% thereafter

[1] 15 years for the outstanding balance of the 2007 UAL, 15 years for experienced gains and losses, 30 years for changes in methods and assumptions, five years for benefit changes, and 15 years for the non-police UAL as of June 30, 2012.

[2] 14 years for the outstanding balance of the 2007 UAL, 15 years for experienced gains and losses, 30 years for changes in methods and assumptions, five years for benefit changes, and 15 years for the non-police UAL as of June 30, 2012.

[3] 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 the City's UAL.

The actuarial value of assets was determined using a methodology that smoothes the effects of short-term volatility in the market value of investments. For valuations effective June 30, 2007, the Board adopted a 20-year closed amortization schedule with no negative amortization and a 15-year closed amortization schedule for gains and losses beginning in fiscal year 2008.

The following table shows the City's annual pension cost (APC) and the percentage of APC contributed for the fiscal year ended June 30, 2014 and two preceding years (dollars in thousands):

Fiscal Year Ended June 30	APC	Percentage Contributed	Net Pension Obligation
2012	$ 232,349	100.21%	$ 140,763
2013	231,530	100.49%	139,621
2014	274,419	100.87%	137,237

Net Pension Obligation

Net Pension Obligation (NPO) is the cumulative difference between the annual pension cost and the employer's contributions to the Pension Plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt. As of June 30, 2014, the City's NPO is approximately $137,237 and is reported in accordance with GASB Statement No. 27. See table below.

The change to the NPO is derived by first calculating the City's ARC. The ARC is calculated by actuarially determining the cost of pension benefits accrued during the year (normal cost) as well as the annual amount needed to amortize the UAAL (amortization cost) as reported by the actuary, in accordance with the amortization period and method selected. The ARC is then increased by interest accruing on any outstanding NPO (NPO Interest) and then reduced by the amortization of the UAAL that is related to the NPO (ARC Adjustment).

The following shows the calculation for NPO based on the actuarial information provided to the City (dollars in thousands):

	Pension	POB	Total
ARC [Fiscal Year 2014]	$ 275,400	$ 708	$ 276,108
Interest on NPO	9,851	271	10,122
ARC Adjustment	(11,494)	(317)	(11,811)
Annual Pension Cost	273,757	662	274,419
Contributions [Fiscal Year 2014]	(275,400)	(1,403)	(276,803)
Change in NPO	(1,643)	(741)	(2,384)
NPO Beginning of Year [July 1, 2013]	135,877	3,744	139,621
NPO End of Year [June 30, 2014]	$ 134,234	$ 3,003	$ 137,237

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, 2014:

Plan	Participants
SPSP	6,787
SPSP – H	5,217

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 is also matched by City contributions.

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 Plan cost.

In fiscal year 2014, the City and the covered employees contributed $21,755 and $21,753, respectively. As of June 30, 2014, the fair value of plan assets totaled $646,673. SPSP, which includes SPSP-H, is considered part of the City's financial reporting entity and is reported as a pension trust fund.

Defined Contribution 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(k)-style defined contribution plan. 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.

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. 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 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.

The City and employees contributed $335 and $432, respectively, during the year ended June 30, 2014. As of June 30, 2014, the fair value of plan assets totaled $2,310. 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 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.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed $15,650 during the year ended June 30, 2014. There is no City contribution towards the 401(k) Plan.

As of June 30, 2014, the fair value of plan assets totaled $328,811. 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**

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.

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. The SDDPC 401(a) plan was effectively terminated on December 3, 2013 and is in the process of winding down. The SDDPC 401(a) Plan was intended to be a "governmental plan" as defined in section 411(e)(1)(A) and section 414(d) of the IRC and section 3(32) of the Employee Retirement Income Security Act of 1974 (ERISA). The SDDPC 401(a) Plan operated under the authority of section 401(a) of the IRC as well as under the direction of the SDDPC Board of Directors.

Upon employment and any re-employment, employees could become a member of the SDDPC 401(a) Plan. The SDDPC 401(a) Plan was an alternative plan to Social Security, and members did not contribute to Social Security under the Omnibus Budget Reconciliation Act of 1991. SDDPC contributed 20% of plan defined eligible wages for each participant in the plan. SDDPC contributions for each employee were fully vested after four years of continuous service. SDDPC's required 20% contribution to the SDDPC 401(a) Plan, amounting to $141 for the year ended June 30, 2014, was funded from forfeited contributions on hand in the Plan. Plan members voluntarily contributed $4 to the SDDPC 401(a) Plan for the year ended June 30, 2014.

SDDPC also administered a Tax Sheltered Annuity Plan (SDDPC 403(b) Plan), a voluntary defined contribution plan covering all employees of SDDPC who were eligible for membership as defined by the plan document and who elect to participate in the SDDPC 403(b) Plan. The SDDPC 403(b) plan was effectively terminated on December 3, 2013. The SDDPC 403(b) Plan operated under the authority of IRC section 403(b)(7) as well as under the direction of the SDDPC Board of Directors.

Upon employment and any re-employment, employees could become a member of the SDDPC 403(b) Plan. There were no employer contributions to the SDDPC 403(b) Plan. SDDPC 403(b) plan members contributed $26

for the year ended June 30, 2014.

The City does not act in a trustee or agency capacity for the SDDPC 401(a) Plan or the SDDPC 403(b); therefore, these assets are not reported within the City's basic financial statements.

Narratives presented in the following sections (e. through g.) are taken directly from the fiscal year 2014 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 2014 was $2,545. CSD's contributions were calculated based on the CSD Plan's compensation amounts for all eligible employees, which totaled $2,534. CSD made its required contribution amounting to $299 for fiscal year 2014.

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 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, 2014, pension expense amounted to $1,107 with no employee contributions made to the SDCCC Plan. 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 Diversified. 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's covered payroll in fiscal year 2014 was $16,399. SDHC made the required 14% contribution, amounting to $2,296 and plan members contributed $136 for the fiscal year ended June 30, 2014.

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 6,403 retirees and 6,566 active employees as of June 30, 2014, is comprised of defined benefit and defined contribution options. The defined benefit option includes 6,076 retirees and 1,511 active employees and the defined contribution plan includes 327 retirees and 5,055 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. 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's total retiree healthcare payment is not anticipated to be more than $57,782 annually for fiscal years 2013-15. The City's payment will increase by up to 2.5% annually thereafter and the terms of the Healthcare MOU may not be renegotiated until fiscal year 2015 at the earliest. In addition, the City makes contributions to the Medical Trust Plan (for General members hired after July 1, 2009).

The Healthcare MOU payment is allocated to various components of the OPEB Plan based on the following priority order: (1) fund current year defined benefit plan pay-as-you-go postemployment healthcare benefits, including administrative costs; (2) 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; and (3) contribute the residual balance to the CERBT. 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 2014, the City made Healthcare MOU payments of $57,782 related to the postemployment healthcare benefit plan as follows: (1) $31,540 was contributed to the defined benefit plan, (2) $603 was incurred for administration of the defined benefit plan; and (3) $25,639 was contributed to the Option C Plan. In addition to the $31,540 funded by the Healthcare MOU payments, the City also paid $2,634 of pay-go defined benefit costs by drawing funds from the CERBT. The City also contributed $137 to the defined contribution Medical Trust 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, 2014, the fair value of the City's assets invested in the CERBT was approximately $128,238. This balance is net of all contributions to and distributions from the plan, as well as fiscal year 2014 annual investment earnings and administrative expenses amounting to approximately $17,637 and $169, 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)
6/30/2014	$ 128,238	$ 607,712	$ 479,474	21.10%	$ 98,742	485.58%

[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 2014.

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, 2014. 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 2014 (actuarial valuation as of June 30, 2013), as well as for the most current actuarial valuation (as of June 30, 2014):

Description	Method/Assumption June 30, 2013	June 30, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Dollar
Remaining Amortization Period	23 years, closed	23 years, closed
Actuarial Asset Valuation Method	Market Value	Market Value
Discount Rate	6.81%	6.81%
Inflation Rate	N/A [1]	N/A [1]
Projected Payroll Increases	N/A [1]	N/A [1]
Healthcare Cost Trend Rate	FY13 8.5% grading down 0.5% each year to 4.5%	FY14 8.0% 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 2014, as well as for the two preceding fiscal years:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
6/30/2012	$ 54,027	44.16%	$ 247,467
6/30/2013	34,078	109.94%	244,081
6/30/2014	34,773	98.48%	244,610

The following table shows the calculation of the City's NOPEBO for the fiscal year ended June 30, 2014 (based on the valuation as of June 30, 2013):

ARC [Fiscal Year 2014]	$ 38,097
Interest on NOPEBO	16,621
ARC Adjustment	(19,945)
Annual OPEB Cost	34,773
Contributions [Fiscal Year 2014]	(34,244)
Change in NOPEBO	529
NOPEBO Beginning of Year [July 1, 2013]	244,081
NOPEBO End of Year [June 30, 2014]	$ 244,610

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 $38,805 balance is mainly comprised of a $29,670 loan from the General Fund to PFFA 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, and a $9,100 loan from the General Fund to the Capital Grants Fund, in order to cover negative cash resulting from deferred inflows of resources (unavailable grant revenue).

	Benefitting Fund (Payable)
Contributing Fund (Receivable)	Nonmajor Governmental
General Fund	$ 38,805

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 $6,754 balance is comprised of a $1,548 advance from the General Fund to Civic San Diego, mainly for administrative costs, and $5,206 advanced from the Capital Outlay Fund to Civic San Diego for various construction projects.

	Benefitting Fund (Payable)
Contributing Fund (Receivable)	Nonmajor Governmental
General Fund	$ 1,548
Nonmajor Governmental	5,206
Total	$ 6,754

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. During fiscal year 2014, there was a net transfer of capital assets of $3,259 from the SDDPC Internal Service Fund to the governmental activities, mainly related to the dissolution of SDDPC and the transfer of their remaining assets to the City. Interfund transfer balances for the year ended June 30, 2014 are as follows:

	Benefiting Fund						
Contributing Fund	General Fund	Nonmajor Governmental	Sewer Utility	Water Utility	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	$ 37,804	$ 19	$ 3,608	$ 6	$ 5,501	$ 46,938
Nonmajor Governmental	27,798	98,455	-	-	-	58	126,311
Sewer Utility	6,924	31	-	-	-	2,077	9,032
Water Utility	7,083	11	-	-	-	356	7,450
Nonmajor Enterprise	1,983	566	-	-	535	24	3,108
Internal Service	11,119	275	77	44	32	-	11,547
Total	$ 54,907	$ 137,142	$ 96	$ 3,652	$ 573	$ 8,016	$ 204,386

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 has established various self-insurance programs and maintains contracts with various insurance companies to manage excessive risks.

The City maintains an excess liability insurance policy in collaboration with a statewide joint powers authority risk pool, the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for amounts up to $50,000 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 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 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, 2014 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. Nonincremental 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 long-term disability liabilities 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, 2012	$ 114,918	$ 174,480	$ 289,398
Claims and Changes in Estimates	134,683	73,325	208,008
Claim Payments	(24,186)	(26,535)	(50,721)
Balance, June 30, 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

[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 scheduled locations for amounts up to $25,000 per occurrence under the primary policy, with a $25 deductible. Limits include coverage for business interruption losses for designated lease-financed locations. There is no sharing of limits among the City and member counties of the CSAC-EIA pool, unless the City and member 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.

Earthquake coverage is provided for designated buildings/structures and certain designated City lease-financed locations in the amount of $65,000, 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 2014, 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 such insurance coverage.

See Note 17 for additional information.

15. FUND BALANCE / NET POSITION DEFICITS (Dollars in Thousands)

The Capital Grants Capital Projects Fund has a fund balance deficit of $9,997, which represents deferred inflows of resources related to grant revenue which did not meet the City's availability criteria.

The Development Services Enterprise Fund and Publishing Services Internal Service Fund have net position deficits of $9,447 and $272, respectively. These deficits are primarily due to the accumulation of unfunded expenses related to the NPO and NOPEBO long-term liabilities. Generally, the NPO and NOPEBO liabilities are reduced yearly as the City continues to fully pay its ARC for the Pension and OPEB Plan, which includes amortized payments of the unfunded actuarial accrued liability for both plans (see Notes 11 and 12). The cost recovery rates for these funds are developed to fully fund the ARC payment for Pension and Postemployment benefits. As the City continues to fully pay its ARC for the Pension and Postemployment defined benefit plans, the net position deficit of these funds will be corrected.

The Private-Purpose Trust Fund (Successor Agency) has a net position deficit of $504,753 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, 2014 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. Encumbrances related to capital projects are funded through 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	$ 21,773
Nonmajor Governmental Funds	101,563
Sewer Utility	95,412
Water Utility	81,998
Nonmajor Enterprise Funds	9,322
Total Contractual Commitments	$ 310,068

California Regional Water Quality Control Board Administrative Proceeding – Municipal Storm Water Permit

On May 8, 2013, the Regional Water Quality Control Board (RWQCB), the State agency charged with implementing the federal Clean Water Act, adopted the City's Municipal Storm Water Permit (Order No. R9-2013-0001), which incorporated Dissolved Metals and Bacteria Total Maximum Daily Loads (TMDLs) into the Municipal Storm Water Permit in order to limit pollution in the San Diego region watersheds. On July 14, 2014, the State Office of Administrative Law approved a TMDL for Sediment in Los Penasquitos Lagoon. The RWQCB is currently amending the Municipal Storm Water Permit to incorporate the Sediment TMDL requirements. 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 federal Clean Water Act. By incorporating the TMDLs into the Municipal Storm Water Permit, the RWQCB made numeric measurements of pollutants a basis for enforcing violations of the Municipal Permit, and not solely on the basis of the City failing to control pollutants to the maximum extent practical. Additionally, the permit also 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 City Storm Water Division's estimated operating and capital costs to comply with the TMDLs and with flood risk management from fiscal years 2015 through 2019 will be approximately $882,000. Compliance costs from fiscal years 2020 through 2031 are expected to be up to approximately $3,022,000, of which an estimated $1,994,000 are projected capital expenses and $1,028,000 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. The City is currently negotiating with the RWQCB to update the Dissolved Metals TMDL which could result in a cost reduction of approximately $980,000 in capital expenditures between Fiscal Year 2019 and 2031.

The City is developing a plan to fund the increased expenditures and implementing a capital program for compliance with the storm water permit requirements. Currently, the available funding sources are storm water fees, general City revenues and bond proceeds. The City Storm Water Division's estimated costs to comply with the TMDLs are significantly higher compared to current spending levels. Estimated expenses for fiscal year 2015 are approximately $44,800. If no alternate funding sources are established, increased compliance costs will be paid by the General Fund. The City expects to continue to use proceeds from future bond issues to finance the storm water program and water quality capital projects.

If compliance activities are deferred to later fiscal years, the City would risk falling into non-compliance. The Storm Water Permit contains regulatory deadlines including (1) compliance with Areas of Special Biological Significance Structural Controls by March 2018; (2) wet weather Bacteria reduction by April 2018; (3) metal reduction in Chollas Creek by October, 2018; and (4) sediment reductions in the Los Penasquitos Lagoon Watershed and establishment of 84 acres of new salt marsh habitat in the Lagoon by July 2034. 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. The habitat restoration requirements identified in (4) above represent pollution remediation obligations subject to accrual, however the related costs cannot be reasonably estimated as of the issuance of this report. The City expects to have reasonable cost estimates in calendar year 2015 as the RWQCB amends the Municipal Storm Water Permit to incorporate Sediment TMDL requirements. 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.

Consent Decree

In October 2007, the City settled litigation filed by the U.S. Environmental Protection Agency (EPA) and two environmental groups by agreeing to additional requirements to reduce sewer spills, which are set forth in a court approved Consent Decree (Consent Decree). A provision of the Consent Decree allows for the extension of any CIP schedule for up to one year upon written notification to the EPA. The City requested an extension through December 2013. The City has completed all terms of the Consent Decree as of December 2013 and is in process of preparing documents to submit to EPA for final certification by the end of calendar year 2014.

The City has a condition assessment program and will continue to replace and upgrade its wastewater collection system as dictated by the results of this program. It is anticipated that the City will continue to replace or rehabilitate at least 45 miles of pipeline per year at a cost of $60,000 per year.

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.

For fiscal years 2015 through 2019, the City estimates Compliance Order project costs to total $90,827. 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. Water Utility expects to substantially fulfill all terms of the Compliance Order by fiscal year 2018.

Additionally, the City plans to continue water main replacement of 28 miles in fiscal year 2015 at an estimated cost of $50,000 to $60,000. The City will continue to evaluate the water main replacement program for the remaining 70 to 80 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, 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 2014 is in process.

Eligibility to Receive State Funding or Financial Assistance under Proposition A

On June 5, 2012, San Diego voters passed Proposition A, amending Municipal Code Section 22.4402 to prohibit the City from requiring a Project Labor Agreement (PLA) on City construction projects, except where required by state or federal law as a contracting or procurement obligation, or as a condition of the receipt of state or federal funds. A PLA is generally defined as a collective bargaining agreement between a contractor and a labor organization setting terms and conditions of employment for a given project. State Public Contract Code Section 2503 states that if a charter provision, initiative, or ordinance of a charter city prohibits, limits, or constrains in any way the governing board's authority or discretion to adopt, require, or utilize a project labor agreement that includes all the taxpayer protection provisions of Public Contract Code Section 2500 for some or all of the construction projects to be awarded by the city, then state funding or financial assistance shall not be used to support any construction projects awarded by the city. The City believes that the exception clause, allowing PLAs where required by state or federal law, meets the conditions for receipts of funds under State Law. On October 16, 2014, the State Water Resources Control Board, a State agency that provides funding to cities for water and wastewater projects, sent a letter to the City tentatively accepting the City's interpretation of Proposition A assuming the City Council concurs with the interpretation. On October 20, 2014, the City Council adopted a resolution confirming that under the exception in Proposition A, the City is not prohibited, limited, or constrained in any way from considering PLAs as a condition of state funding or financial assistance. It is reasonably possible that other State agencies could disagree with the City's position, but the City has not been notified by any other State agency that Proposition A is an obstacle to future state and federal funding or financial assistance to the City.

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 1,439 notices of claims in fiscal year 2014.

As of June 30, 2014, the City estimates the amount of tort and non-tort liabilities to be $199,409, 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 $337,554. 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, 2014.

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. For instance, the DOF has invalidated two agreements that involve repayment obligations for federal funds derived from the United States Department of Housing and Urban Development (HUD). These agreements include a repayment agreement for Community Development Block Grant funds by which the Successor Agency owed a remaining principal and interest balance of approximately $64,040 to the City in scheduled annual installments through FY 2019, as well as a loan agreement for Naval Training Center Section 108 loan funds by which the Successor Agency owed a remaining balance of approximately $4,346 to the City in scheduled semi-annual installments through FY 2025. If the DOF or a court of law does not restore these loan obligations, it is possible that the City will be required to make the future scheduled installments for the benefit of HUD under the two invalidated agreements.

Additionally, there are interfund loans between the City and the former RDA with total principal and accrued interest balances, as of June 30, 2014, of approximately $193,759. In consultation with legal counsel, management has taken the position that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency. The City's position on this issue is not a position of settled law, and there is considerable legal uncertainty regarding this issue. On October 28, 2014, the DOF disallowed the reinstatement of a modified version of the Long-Term Debt Agreement. At the conclusion of a statutory meet and confer process, the DOF will issue a final determination that could uphold, modify, or reverse its October 28 decision. It is reasonably possible that the DOF's final determination, and if applicable, a subsequent determination in a court of law, may resolve this issue unfavorably to the City. The City reports the balance of these interfund loan receivables in the fund level financial statements, net of allowances for uncollectible amounts. Allowances have been established in the funds to reflect the legal uncertainty regarding collectability of these loans (see Note 1(f) and Note 18(j) for additional information).

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 and renewed the modified permit for 5 more years. If the City cannot operate under a 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, based on an estimate in 2014, not including financing costs.

The City has worked with stakeholder groups, including the Participating Agencies and the environmental community to develop strategies for the next permit application. As a result of this effort, a consensus has been reached on a recommended strategy. This strategy includes submitting a modified permit renewal application, implementing a potable water reuse program, and based on reduced wastewater discharge to the ocean, seeking approval from the EPA to consider Point Loma to be equivalent to a secondary treatment plant for purposes of compliance with the Federal Clean Water Act (CWA). Because present law does not recognize this form of secondary equivalency, an administrative solution or change to the CWA would be required. Approval of secondary equivalency would mean that Point Loma would be permitted like any other secondary treatment facility, no future modified permits or waivers would be required, and the remaining flow at Point Loma would not have to be converted to secondary treatment.

The City intends to submit the modified permit renewal application by the end of January 2015, six months in advance of the permit expiration in July 2015. The permit will be based on compliance with CWA requirements as modified by the Ocean Pollution Reduction Act, the proposed requirements for secondary equivalency, and a reduction in permitted emissions from the current permit level by December 31, 2015. Additionally, the City will commit to starting the design and environmental review of the first phase of the potable water program. The total capital cost of the potable water program is estimated to be between $2,500,000 and $3,000,000, not including financing costs. If the City does not obtain approval of secondary equivalency, it will need to reevaluate its overall compliance strategy, including funding and implementation of the potable water program. See Note 24 for additional information regarding the modified permit renewal application.

POLLUTION REMEDIATION OBLIGATIONS

California Regional Water Quality Control Board (RWQCB) Administrative Proceeding – San Diego Bay

This matter involves cleanup and abatement order 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.

A Remedial Action Plan for the cleanup project has been submitted by the Dischargers to the RWQCB. The cleanup project has an estimated cost of $78,000 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 Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) litigation is pending for contribution levels among the Dischargers; however, the parties are continuing to address allocation of these costs in mediation while the litigation is pending. Many variables exist, which make accurate estimation of the City's share of the total costs impossible at this time. A conservative, high estimate of the City's exposure is 25% of cleanup and associated response costs; however, a lesser percentage is possible. The remediation costs are an estimate and are subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations. The City has tendered claims on insurance policies in regard to this order, which remain pending.

On October 8, 2013, the City Council passed a resolution authorizing, subject to a full reservation of rights in the litigation and the insurance claims, to cooperate with the cleanup by committing $6,541 so that the remediation of the South Shipyard (National Steel and Shipbuilding Co.) sediments can commence according to the ordered schedule. On July 28, 2014, the City Council passed a second resolution authorizing, subject to a full reservation of rights in the litigation and insurance claims, to cooperate with the cleanup by committing an additional $9,190 so that the remediation of the North Shipyard (BAE Systems, Inc.) sediments can continue according to the ordered schedule.

This action brings the Council authorized amount to date to $15,731. The City's total share of the cost is expected to be approximately $19,500. The City has tendered claims on insurance policies which, collectively, may cover approximately half of the City's cost. Notwithstanding, this estimate of coverage could be significantly higher or lower. As of June 30, 2014, the City has incurred expenditures totaling $4,083 and has accrued an additional $5,667 in the government-wide financial statements.

18. DEBT WITHOUT GOVERNMENT COMMITMENT (Dollars in Thousands)

The City and 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, loans or notes 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, 2014, the status of mortgage revenue bonds issued is as follows:

	Original Amount	Balance June 30, 2014
Mortgage Revenue	$ 15,700	$ 2,605

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, 2014, the status of each of the special assessment/special tax bonds issued is as follows:

	Original Amount	Balance June 30, 2014
Reassessment District No. 1999-1, Issued February 1999	$ 38,145	$ 4,083
Communities Facilities District No.2 (Santaluz), Improvement Area No. 3, Series 2000 B	4,350	3,475
Reassessment District No. 2003-1, Issued August 2003	8,850	3,125
Communities Facilities District No.2 (Santaluz), Improvement Area No. 4, Series 2004 A	9,965	6,840
Communities Facilities District No.4 (Black Mountain Ranch Villages), Series 2008 A	12,365	11,180
Communities Facilities District No.2 (Santaluz), Improvement Area No. 1, Series 2011 A	51,680	46,735
Communities Facilities District No.1 (Miramar Ranch North), Series 2012	24,795	22,160
Communities Facilities District No.3 (Liberty Station), Series 2013	15,770	15,495
Assessment District No.4096 (Piper Ranch), Issued July 2013	3,830	3,830
Total Special Assessment / Special Tax Bonds	$ 169,750	$ 116,923

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, 2014, the status of each of the refunding revenue bonds issued is as follows:

	Original Amount	Balance June 30, 2014
Reassessment District No. 1999-1, Series 1999 A Senior Lien Bonds	$ 30,515	$ 2,695
Reassessment District No. 1999-1, Series 1999 B Subordinate Lien Bonds	7,630	660
Total Refunding Revenue Bonds	$ 38,145	$ 3,355

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, 2014, the status of each of the parking revenue and tax allocation bonds issued is as follows:

	Original Amount	Balance June 30, 2014
Revenue Bonds:		
Centre City Parking Revenue Bonds, Series 1999 A	$ 12,105	$ 7,905
Centre City Parking Revenue Bonds, Series 2003 B	20,515	14,075
Total Revenue Bonds	32,620	21,980
Tax Allocation Bonds:		
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	1,200	465
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	12,970	2,085
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 A	25,680	16,570
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 C	13,610	10,355
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 A	5,690	4,255
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B	10,141	6,679
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	6,100	3,730
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	21,390	15,260
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	15,025	9,610
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	13,000	9,720
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	7,000	5,240
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A	58,425	53,155
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	4,955
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	3,615
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	8,000	4,705

	Original Amount	Balance June 30, 2014
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	$ 7,145	$ 4,950
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	74,440
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	27,785	20,695
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	8,905	6,655
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	76,225	66,525
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	33,760	29,095
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	69,000	45,335
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	4,770
Housing Set-Aside Tax Allocation Bonds, Series 2010 A	58,565	57,840
Naval Training Center Redevelopment Project Tax Allocation Bonds, Series 2010 A	19,765	18,775
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	4,735
Total Tax Allocation Bonds	697,786	542,989
Total Parking Revenue and Tax Allocation Bonds	$ 730,406	$ 564,969
Accreted Interest Payable on Tax Allocation Bonds:		
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B		$ 10,334
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A		13,420
Total Accreted Interest Payable		$ 23,754

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, 2014
Pooled Financing Bonds:		
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 A	$ 17,230	$ 14,240
Public Facilities Financing Authority Pooled Financing Bonds, Series 2007 B	17,755	15,185
Total Pooled Financing Bonds	$ 34,985	$ 29,425

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, 2014
Loans Payable:		
California Housing Financing Agency (HELP) Loan dated October 2008	$ 1,250	$ 1,250
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	30,948
City of San Diego - Miscellaneous dated various dates	65,167	65,795
Total Loans Payable	$ 117,638	$ 102,339
Accrued Interest Payable:		
City San Diego - HUD Settlement Agreement	$ 33,476	$ 33,092
City of San Diego - Miscellaneous	-	127,964
Total Accrued Interest Payable	$ 33,476	$ 161,056

g. Amortization Requirements

The annual requirements to amortize the private-purpose trust fund long-term debt outstanding as of June 30, 2014, including interest payments to maturity, are as follows:

Year Ending June 30	Loans Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	$ 6,445	$ 582	$ 1,255	$ 1,194
2016	8,516	1,146	1,320	1,127
2017	11,687	1,614	1,390	1,055
2018	788	14,488	1,465	976
2019	673	16,233	1,545	893
2020-2024	2,042	461	9,140	3,001
2025-2029	485	14	5,865	445
Unscheduled [2]	71,703	128,393	-	-
Total	$ 102,339	$ 162,931	$ 21,980	$ 8,691

Year Ending June 30	Tax Allocation Bonds			Pooled Financing Bonds	
	Principal	Unaccreted Appreciation [1]	Interest	Principal	Interest
2015	$ 27,103	$ 2,459	$ 29,122	$ 950	$ 1,671
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	1,511
2019	33,188	2,325	22,986	1,175	1,450
2020-2024	143,025	8,824	90,729	5,725	6,246
2025-2029	115,593	2,182	57,265	6,880	4,470
2030-2034	67,850	-	32,509	7,895	2,155
2035-2039	45,405	-	15,579	3,645	446
2040-2044	20,745	-	1,382	-	-
Total	542,989	23,020	328,166	29,425	21,138
Add: Accreted Appreciation through June 30, 2014	23,754	-	-	-	-
Total	$ 566,743	$ 23,020	$ 328,166	$ 29,425	$ 21,138

[1] Unaccreted Appreciation represents the amount to be accreted in future years regardless of the timing of cash flows.

[2] The loans payable to the City in the amount of $70,453, loan payable to the California Housing Financing Agency in the amount of $1,250 and accrued interest associated with loans payable of $128,393 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).

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, 2014. The effects of bond accretion, bond premiums and discounts are reflected as adjustments to long-term liabilities.

	Beginning Balance, as Restated [1]	Additions	Reductions	Ending Balance
Arbitrage Liability	$ 3	$ 1	$ -	$ 4
Liability Claims	70,398	-	(191)	70,207
Note Payable	8,300	-	(8,300)	-
Loans Payable	105,324	-	(2,985)	102,339
Revenue Bonds	23,175	-	(1,195)	21,980
Unamortized Bond Premiums and Discounts	(68)	-	6	(62)
Net Revenue Bonds	23,107	-	(1,189)	21,918
Tax Allocation Bonds	569,238	-	(26,249)	542,989
Interest Accretion	21,993	2,455	(694)	23,754
Balance with Accretion	591,231	2,455	(26,943)	566,743
Unamortized Bond Premiums and Discounts	3,265	-	(218)	3,047
Net Tax Allocation Bonds	594,496	2,455	(27,161)	569,790
Pooled Financing Bonds	30,325	-	(900)	29,425
Unamortized Bond Premiums and Discounts	304	-	(14)	290
Net Pooled Financing Bonds	30,629	-	(914)	29,715
Interest Accrued on City Loans and Note	172,138	270	(11,352)	161,056
Total	$ 1,004,395	$ 2,726	$ (52,092)	$ 955,029

[1] Net Tax Allocation Bonds Beginning Balance has been restated due to GASB 65 implementation. Additional information on the restatements is included in Note 23.

i. Reinstatement of Naval Training Center Interfund Loan

On June 26, 2000, the City and the former RDA entered into a Cooperation Agreement for the Naval Training Center Redevelopment Project. Pursuant to the agreement, the City sold to the former RDA the majority of the Naval Training Center site, comprising approximately 259 acres, for the purchase price of $8,300. The former RDA acquired the site by executing a loan agreement of $8,300, payable to the City, which accrued interest at a rate of 8 percent per annum (NTC Loan Agreement). Pursuant to ABX1 26, the former RDA dissolved as of February 1, 2012. Under ABX1 26, agreements between the City and the former RDA were invalidated, including the NTC Loan 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 August 6, 2014, the Successor Agency Oversight Board passed and adopted a resolution approving the reinstatement of a modified version of the NTC Loan Agreement. However, on September 19, 2014, the California Department of Finance (DOF) disallowed the reinstatement of the original loan stating that the loan was not valid because the June 2000 agreement conveyed the property to the former RDA but no money was actually borrowed.

In consultation with legal counsel, management has taken the position that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency. The City's position on this issue is not a position of settled law, and there is considerable legal uncertainty regarding this issue. In the case of the NTC loan, the DOF has made a final determination on the validity of the loan. As such, the City has written off the principal and accrued interest payable on the note and the related interfund note receivable related to the NTC Loan Agreement. The principal component of the note payable which was written off was $8,300 and the accrued interest component was $11,310. See Note 17 for additional information on interfund loans between the City and the former RDA.

j. Reinstatement of Modified Long-Term Debt Interfund Loan

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.

In consultation with legal counsel, management has taken the position that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency. The City's position on this issue is not a position of settled law, and there is considerable legal uncertainty regarding this issue. In the case of the Long-Term Debt Agreement, the DOF has made a final determination on the validity of the loan. However, the City is currently seeking remedy of the 2011 agreement through the appellate court process and has additional recourse for the 2014 modified agreement through an anticipated ROPS 14-15B meet and confer process with the DOF. Therefore, the City continues to recognize this obligation of the Successor Agency on its financial statements. See Note 17 for additional information on interfund loans between the City and the former RDA.

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 also 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 currently expects to close the landfill in fiscal year 2022. 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 $23,290 reported as landfill closure and postclosure care liability as of June 30, 2014 represents the cumulative amount reported to date based on the use of 85% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of $4,150 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, 2014. 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, 2014, the City is working with the State to comply with the new capacity calculations and to determine the fiscal year 2014 annual contributions that are required by state and federal laws and regulations to finance closure and postclosure care costs. At the end of fiscal year 2014, cash or equity in pooled cash and investments of $47,075 was currently held for this purpose. The net position related to this amount is reported as restricted in 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, 2014, the City is working with the State to comply with the new capacity calculations and to determine the fiscal year 2014 annual contributions that are required by 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 2014, cash or equity in pooled cash and investments of $1,563 was currently held for this purpose. This amount is reported as restricted assets in 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 2014, the City paid approximately $4,269 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	$ 1,248	$ 19	$ 1,267
Legally/Contractually Required to be Maintained Intact	-	24,307	24,307
Total Nonspendable	1,248	24,326	25,574
RESTRICTED			
Low and Moderate Income Housing	-	277,139	277,139
Facilities Benefit Assessments	-	185,398	185,398
Public Facilities Financing Authority	-	90,397	90,397
Impact Fees	-	88,574	88,574
Emergency Reserve	85,600	-	85,600
Underground Surcharge	-	68,139	68,139
Capital Outlay	-	40,878	40,878
Traffic Congestion Relief (Prop 42)	-	32,786	32,786
TransNet	-	22,675	22,675
Maintenance Assessment Districts	-	20,607	20,607
Developer Contributions	-	15,171	15,171
Mission Bay Reserve	-	12,633	12,633
Tobbacco Settlement Revenue Funding Corporation	-	12,415	12,415
Regional Parks	-	10,268	10,268
Tourism Marketing Districts	-	24,420	24,420
Grants [2]	4,258	68,206	72,464
Fiesta Island Sludge Mitigation	-	7,042	7,042
Special Gas Tax Street Improvement	6,701	-	6,701
Library Donations	-	6,307	6,307
Section 108	-	5,596	5,596
Environmental Growth	4,204	-	4,204
Animal Shelter Campaign	-	1,770	1,770
Storm Drain	1,547	-	1,547
Prop C Implementation	-	1,056	1,056
Other [1]	2,575	20,398	22,973
Total Restricted	104,885	1,011,875	1,116,760

[1] 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.

[2] Restricted Fund Balance for Grants of $64,040 and Committed Fund Balance for Capital Outlay of $31,360 represent long-term receivables due from the Successor Agency. These amounts are not available to satisfy liabilities of the current period.

	General Fund	Other Governmental Funds	Total Governmental Funds
COMMITTED			
Workers' Compensation	$ 47,196	$ -	$ 47,196
Public Liability	39,590	-	39,590
Capital Outlay [2]	-	62,800	62,800
Parking Meter Districts	26,724	-	26,724
Transient Occupancy Tax	-	17,228	17,228
De Anza Operating/Settlement	11,140	-	11,140
Sea World Traffic Mitigation	-	9,471	9,471
Parks and Recreation Districts	-	6,207	6,207
SAP Support	4,185	-	4,185
Qualcomm Stadium Operations	-	4,124	4,124
Tobacco Settlement Revenue	-	3,790	3,790
Civil Penalty Enforcement	-	3,771	3,771
Foreign Trade Zone Expansion	-	3,674	3,674
City TV	-	3,485	3,485
Library Improvement	4,242	-	4,242
Police Decentralization	3,219	-	3,219
Information Technology	2,687	-	2,687
Miscellaneous Public Safety Funds	-	2,122	2,122
Seized Assets	-	1,870	1,870
Wireless Communications Technology	1,569	-	1,569
Cemetery Pre-Need Trust	-	1,524	1,524
Automated Refuse Containers	-	1,378	1,378
Civic San Diego	-	1,244	1,244
Imperial Marketplace	1,130	-	1,130
Emergency Medical Services	1,003	-	1,003
Other [1]	4,368	17,580	21,948
Total Committed	147,053	140,268	287,321
ASSIGNED			
Encumbrances	5,575	-	5,575
UNASSIGNED	91,353	(15,156)	76,197
GRAND TOTAL	$ 350,114	$ 1,161,313	$ 1,511,427

22. EXTRAORDINARY GAIN (LOSS) (Dollars in Thousands)

The redevelopment dissolution laws require an independent accounting firm to complete a two-part due diligence review (DDR) of the housing assets and the non-housing assets of the Successor Agency to determine the amount of uncommitted cash or cash equivalents available for transfer by the Successor Agency to the County Auditor. The State issued a final determination letter on the housing DDR in late March 2013 and on the non-housing DDR in late October 2013, concluding that the Successor Agency must pay to the County Auditor approximately $13,300 in housing cash and approximately $167,250 in non-housing cash (including accrued interest). The $13,300 housing obligation was paid in fiscal year 2013 from the Successor Agency Private-Purpose Trust Fund.

The Successor Agency paid the full demanded amount under the non-housing DDR in November 2013, under protest and with a full reservation of rights. In order to allow the Successor Agency to make the full payment, the City loaned approximately $21,067 from the General Fund to the Successor Agency in November 2013. The loan corresponded to certain prior interagency payments that were reversed through the non-housing DDR. The loan repayment was contingent upon the Oversight Board and the Department of Finance approval of the Successor Agency's repayment of the loan amount as an enforceable obligation. Because the Oversight Board did not approve the Successor Agency's repayment as an enforceable obligation, the loan was written-off, resulting in an extraordinary loss to the General Fund of $21,067 and a corresponding extraordinary gain in the Successor Agency Private-Purpose Trust Fund of the same amount. Because a loss of $6,239 had been accrued in the government-wide statement of activities as a contingent liability in fiscal year 2013, the extraordinary loss in the government-wide statement of activities in fiscal year 2014 is $14,828.

Pursuant to Assembly Bill (AB) 1484, the DOF retroactively invalidated a $3,000 loan from the former RDA and determined the loan agreement between SDCCC and the Successor Agency to be a non-enforceable obligation per the redevelopment dissolution laws. As a result of the elimination of the debt, SDCCC recognized an extraordinary gain of $3,000 in fiscal year 2014. The Successor Agency Private-Purpose Trust Fund recognized a corresponding extraordinary loss of the same amount.

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 August 6, 2014, the Successor Agency Oversight Board passed and adopted a resolution approving the reinstatement of a modified version of the NTC Loan Agreement. However, on September 19, 2014, the California Department of Finance (DOF) disallowed the reinstatement of the original loan, stating that the loan was not valid because the June 2000 agreement conveyed the property to the former RDA but no money was actually borrowed. Since the DOF has made a final determination on the validity of the loan and there is no current litigation challenging such determination, the City has written off the principal and accrued interest payable on the note and the related note receivable related to the NTC Loan Agreement. The principal component of the note payable written off was $8,300 and the accrued interest component was $11,310, resulting in an extraordinary gain to the Successor Agency Private-Purpose Trust Fund of $19,610. The loan payable was owed to the Capital Outlay Fund. Due to the legal uncertainty surrounding this loan, the City recorded an extraordinary loss in fiscal year 2013 and established an allowance for uncollectable notes receivable, bringing the value of the receivable in the Capital Outlay Fund to $0.

23. RESTATEMENTS OF FUND BALANCE / NET POSITION (Dollars in Thousands)

Implementation of GASB Statements No. 65 and 67

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of this statement resulted in reclassification of assets and liabilities as deferred outflows of resources and deferred inflows of resources and recognition of outflows of resources or inflows of resources for certain items that had previously been reported as assets and liabilities, such as bond issuance costs. 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, and the Private-Purpose Trust Fiduciary Fund. The restatements resulted from expensing cost of issuance, which was previously reported as deferred charges, excluding prepaid bond insurance.

As a result of the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans,* the Deferred Retirement Option Program (DROP) benefit, reported in prior years as a liability, has been reclassified as a component of Net Position to conform to the provisions of GASB Statement No. 67. The restatement resulted in an increase to the Pension fund Net Position of $490,931.

Reclassification of the Self Insurance Internal Service Fund to the General Fund

In the current fiscal year, the balances and activity related to workers' compensation and public liability claims have been reported as part of the General Fund. In previous years, these balances and activities were reported as an internal service fund. The Self Insurance Fund had reported a deficit net position for the past several years since the full amount of the workers' compensation liability was recorded in the Self Insurance Fund. The cost recovery rates charged to other funds were established to fund only the pay-go costs and to establish a reserve balance equal to a percentage of workers' compensation claims, as required by the City's reserve policy. Similarly, cost recovery rates for public liability claims were also established to fund pay-go costs and to establish a reserve balance.

The reclassification of balances related to workers' compensation resulted in restatements to the net position beginning balances for governmental activities of $25,655 and a corresponding decrease of the same amount for business-type activities. The increase in business-type activities was due to the allocation of a proportionate share of the workers' compensation long-term liability to proprietary funds. Because governmental funds do not report long-term liabilities, the General Fund's beginning fund balance increased by $39,692 as current assets, mostly cash associated with the workers' compensation reserve, were transferred to the General Fund without a corresponding transfer of related long-term liabilities. The Internal Service funds' beginning net position increased by approximately $160,658 since the workers' compensation component of the Self Insurance Fund had a deficit net position at June 30, 2013.

The effect of the public liability claims reclassification on the General Fund's beginning fund balance was an increase of $57,123. As in the case of the workers' compensation reclassification, this was due to the fact that current assets, mostly cash associated with the public liability reserve, are being reported in the General Fund but the related long-term liabilities are not. Internal Service funds' beginning net position decreased by approximately $24,276 since this component of the Self Insurance Fund had a positive net position at June 30, 2013.

Special Revenue Funds consolidated with the General Fund

In the current fiscal year, the balances and activity of certain funds, previously reported as special revenue funds, were consolidated with the General Fund. These funds were no longer meeting the definition of special revenue funds due to the fact that the majority of their revenue collected was transferred out each year, in order to fund expenditures incurred by the General Fund. This consolidation resulted in an increase in beginning fund balance of $17,864 for the General Fund and a corresponding decrease of the same amount for Nonmajor Governmental Funds.

Discretely Presented Component Units of the San Diego Housing Commission (SDHC):

SDHC had one discretely presented component unit as of June 30, 2013, with net position of $1,956. In fiscal year 2013, the City determined that the assets, liabilities, and current year activity of SDHC's discretely presented component units did not represent a material component of the City's basic financial statements and therefore, did not include them in the City's basic financial statements for fiscal year 2013. As of June 30, 2014, SDHC reported nine discretely presented component units in their stand alone financial statements. The City included in its June 30, 2014 basic financial statements the balances and activity of the nine discretely presented component units as part of SDHC's Statement of Net Position and Statement of Activities. This resulted in a restatement of net position totaling $1,956.

Correction of Accrued Neighborhood Services Expenses/Expenditures

In fiscal year 2013, the City incorrectly accrued neighborhood services expenses/expenditures related to the downtown parking meter district. The resulting adjustment was an increase in Net Position for governmental activities of $9,607 and an increase to the General Fund Beginning Fund Balance of the same amount.

The tables below summarize the net position and fund balance beginning balance restatements:

			Governmental Funds	
	Governmental Activities	Business-Type Activities	General Fund	Nonmajor Governmental
Net Position and Fund Balances as of June 30, 2013, as Previously Reported	$ 4,628,301	$ 4,113,010	$ 222,498	$ 1,047,633
1 GASB Statement No. 65 Adjustment for bond issuance costs, excluding prepaid insurance	(5,637)	(10,528)	-	-
2 Reclassification of Workers' Compensation Balances	25,655	(25,655)	39,692	-
3 Reclassification of Public Liability Balances	-	-	57,123	-
4 Consolidation of Certain Special Revenue Funds with the General Fund	-	-	17,864	(17,864)
5 Correction of accrued neighborhood services expense/expenditure	9,607	-	9,607	-
Net Position and Fund Balances as of June 30, 2013, as Restated	$ 4,657,926	$ 4,076,827	$ 346,784	$ 1,029,769

	Proprietary Funds			
	Sewer Utility	Water Utility	Other Enterprise	Internal Service
Net Position as of June 30, 2013, as Previously Reported	$ 2,290,918	$ 1,652,310	$ 176,312	$ 32,211
1 GASB Statement No. 65 Adjustment for bond issuance costs, excluding prepaid insurance	(5,564)	(4,964)	-	-
2 Reclassification of Workers' Compensation Balances	(9,931)	(8,929)	(6,795)	160,658
3 Reclassification of Public Liability Balances	-	-	-	(24,276)
Net Position and Fund Balances as of June 30, 2013, as Restated	$ 2,275,423	$ 1,638,417	$ 169,517	$ 168,593

	Fiduciary Funds		Component Unit
	Pension	Private-Purpose Trust	SDHC
Net Position as of June 30, 2013, as Previously Reported	$ 6,204,043	$ (537,744)	$ 444,054
1 GASB Statement No. 65 Adjustment for bond issuance costs, excluding prepaid insurance	-	(4,384)	-
2 GASB Statement No. 67 Adjustment to reclassify DROP liability as Net Position	490,931	-	-
3 Addition of SDHC Discretely Presented Component Units	-	-	1,956
Net Position as of June 30, 2013, as Restated	$ 6,694,974	$ (542,128)	$ 446,010

24. SUBSEQUENT EVENTS (Dollars in Thousands)

The following information describes certain events that occurred after the end of the fiscal year.

San Diego Convention Center Expansion

For the past several years, the City has been seeking to expand the San Diego Convention Center. In 2012, the City Council approved the formation of the Convention Center Facilities District (CCFD) as a mechanism to finance the expansion. The CCFD is a special tax district that would levy a tax on all hotel properties within the City. The special tax proceeds would be used to support bonds, the proceeds of which would be used to fund the construction of the expansion in conjunction with lease revenue bonds supported by the General Fund. In August 2014, the Court of Appeals invalidated the formation of the CCFD as violating the California Constitution and the City Charter. The CCFD never levied any special tax and there is no financial impact resulting from the invalidation. As part of the expansion plan, SDCCC purchased the right to build the expansion on a leasehold interest owned by Fifth Avenue Landing, LLC (FAL). This purchase was secured by a $12,500 non-recourse promissory note given to FAL by SDCCC. Unless SDCCC renegotiates the note, without the Convention Center expansion financing, it is expected that SDCCC will default on the note when it comes due on May 6, 2015. If SDCCC defaults on the note, the leasehold will revert back to FAL and SDCCC will have no further obligation to FAL. At this time, the City has no approved plan to move forward with the Convention Center expansion.

Loan Agreements

On August 4, 2014, the City received an additional $1,079 disbursement from a $29,961 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 September 30, 2014, the City received $3,112 disbursement from a $11,571 State Revolving Fund Loan agreement with the California Department of Public Health for the Harbor Drive Project. The interest rate on the loan is 2.093% and the repayment period for the loan is 20 years, beginning one year after completion of the construction project.

In February, 2014, the City Council authorized the issuance of PFFA lease revenue bonds in an amount of approximately $120,000 for various General Fund capital improvements. The issuance of these bonds was delayed due to litigation challenging the bond financing structure. On November 3, 2014, the Superior Court ruled in favor of the bond issuance. The City expects to issue the PFFA lease revenue bonds in calendar year 2015.

Changes in Other Postemployment Benefit Actuarial Assumptions

The City pre-funds future defined benefit postemployment healthcare benefits for active members through the California Employers' Retiree Benefit Trust (CERBT), administered by CalPERS. On September 17, 2014, the CalPERS Board of Administration approved a change to the expected long-term rate of return for the investment strategy selected by the City under the CERBT, from 6.81% to 6.73%, beginning with the June, 30, 2015 valuation. The OPEB actuarial valuation assumes a discount rate based on the expected long-term rate of return of the investment strategy selected by the City under the CERBT. If all other assumptions remain constant, a decrease in the assumed discount rate on investments increased the City's OPEB Actuarial Accrued Liability. The City funds its OPEB Plan pursuant to a 15 year Postemployment Health Benefit Memorandum of Understanding. The City's total retiree

healthcare payment is not required to exceed $57,782 annually for fiscal years 2013-15, with an annual escalator of 2.5% thereafter, which is allocated to the various components of the OPEB plan, including the defined benefit plan's ARC.

Reinstatement of Redevelopment Interfund Loans

On September 19, 2014, the California Department of Finance (DOF) disallowed the reinstatement of the Naval Training Center loan between the City and the former RDA, stating that the loan was not valid because the June 2000 agreement conveyed the property to the former RDA but no money was actually borrowed (see Note 18(i)).

On October 28, 2014, the DOF also disallowed the reinstatement of 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. The DOF stated that the loan was not valid because the department could not determine if there was an actual exchange of monies, or if any exchange of monies were legally required to be repaid (see Note 18(j)).

San Vicente Dam and Reservoir

On September 25, 2014, the City assumed the maintenance and operation responsibilities of the San Vicente Dam and Reservoir. The San Diego County Water Authority raised San Vicente Dam by 117 feet, which more than doubled the reservoir's capacity. The cost of the expansion was approximately $280,770. Upon completion, the City assumed ownership and will share maintenance and operating costs of the expanded dam and reservoir. Fiscal year 2015 operating costs of $840 are budgeted in the Water Utility Fund. The book value of the asset at the time of conveyance, including the expansion, was $281,450.

Dissolution of the City of San Diego/Metropolitan Transit Development Board Authority (City/MTDB Authority)

On October 2, 2014, a Council resolution was passed authorizing and directing the City Comptroller to take appropriate measures to terminate the City of San Diego/Metropolitan Transit Development Board Authority (City/MTDB Authority). All related funds and accounts have been closed and the filing of dissolution with the Secretary of the State to fully dissolve the entity was completed on October 31, 2014.

Litigation - De Anza Cove Homeowners Association, Inc. et al. v. City of San Diego et al.

A class action suit for relocation benefits was filed by residents of the De Anza Cove Mobilehome Park, which sits on City-owned property. The suit was filed against the City on November 18, 2003, alleging the City was required to prepare a tenant impact report and pay relocation benefits to the residents prior to park closure pursuant to the Mobilehome Residency Law ("MRL") and Government Code. This case has now settled. On October 24, 2014, the plaintiffs accepted the City's offer to accept the terms of the Amended Judgment, which require the City to pay $32,042. This amount has been accrued in the government-wide financial statements.

Council District 6 Election

On November 4, 2014, the City held a General Election for Council District No. 6 between candidates Chris Cate and Carol Kim. Preliminary results report candidate Chris Cate receiving a majority of the votes cast and is expected to be sworn into office on December 10, 2014.

Issuer Rating Upgrade

On November 12, 2014, Moody's Investors Service upgraded the City's issuer rating to Aa2 from Aa3 and upgraded the City's outstanding Lease Revenue Bonds to A1 from A2. Moody's outlook on the ratings is stable.

Modified Permit Renewal Application for the Point Loma Wastewater Treatment Plant

On November 18, 2014, the City Council passed a resolution approving the application to renew the National Pollutant Discharge Elimination System (NPDES) permit for the Point Loma Wastewater Treatment Plant. As part of the application, the City will commit to starting the design and environmental review of the first phase of the potable water program, referred to as Pure Water San Diego. The total capital cost of the potable water program is estimated to be between $2,500,000 and $3,000,000, not including financing costs.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

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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; 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.

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. The City administers certain of these funds as separate budgetary entities. The budgeted funds are listed below.

- Concourse and Parking Garages Operating Fund
- Environmental Growth One Third Fund
- Environmental Growth Two Thirds Fund
- Fire and Lifeguard Facilities Fund
- Fire Emergency Medical Services Transport Program Fund
- Gas Tax Fund
- Geographic Information System (GIS) Fund
- Information Technology Fund
- OneSD Support Fund
- Police Decentralization Fund
- Public Safety Needs and Debt Service Fund
- Storm Drain Fund
- Wireless Communications Technology Fund

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2014
(Dollars in Thousands)

	General Fund [1]			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	$ 408,003	$ 443,930	$ 460,592	$ 16,662
Sales Taxes	248,139	248,139	245,932	(2,207)
Transient Occupancy Taxes	87,858	87,858	89,673	1,815
Other Local Taxes	75,457	75,458	80,262	4,804
Licenses and Permits	31,827	31,837	34,952	3,115
Fines, Forfeitures and Penalties	29,350	29,350	30,327	977
Revenue from Use of Money and Property	47,255	47,254	48,952	1,698
Revenue from Federal Agencies	2,975	2,975	302	(2,673)
Revenue from Other Agencies	5,873	5,873	8,120	2,247
Revenue from Private Sources	2,069	2,069	2,645	576
Charges for Current Services	176,657	176,658	164,739	(11,919)
Other Revenue	2,753	2,753	5,170	2,417
TOTAL REVENUES	1,118,216	1,154,154	1,171,666	17,512
EXPENDITURES				
Current:				
General Government and Support	226,386	261,221	248,164	13,057
Public Safety - Police	404,846	417,333	416,956	377
Public Safety - Fire and Life Safety and Homeland Security	215,958	219,548	218,906	642
Parks, Recreation, Culture and Leisure	131,293	133,094	132,968	126
Transportation	65,273	62,830	62,166	664
Sanitation and Health	69,878	69,445	68,110	1,335
Neighborhod Services	25,199	25,604	23,832	1,772
Capital Outlay	-	3,056	3,022	34
Principal Retirement	3,564	2,980	2,784	196
Interest	3,858	3,859	1,193	2,666
TOTAL EXPENDITURES	1,146,255	1,198,970	1,178,101	20,869
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,039)	(44,816)	(6,435)	38,381
OTHER FINANCING SOURCES (USES)				
Transfers from Proprietary Funds	-	10,100	10,100	-
Transfers from Other Funds	87,464	83,243	94,619	11,376
Transfers to Proprietary Funds	(5,409)	(5,409)	(5,409)	-
Transfers to Other Funds	(76,457)	(67,883)	(67,881)	2
TOTAL OTHER FINANCING SOURCES (USES)	5,598	20,051	31,429	11,378
NET CHANGE IN FUND BALANCES	(22,441)	(24,765)	24,994	49,759
Fund Balances - Beginning	179,540	179,540	179,540	-
FUND BALANCES - ENDING	$ 157,099	$ 154,775	$ 204,534	$ 49,759

[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, 2014

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. 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, 2014 (dollars in thousands):

	General Fund
Net Change in Fund Balance - GAAP Basis	$ 3,330
Add (Deduct):	
Extraordinary Loss	21,067
Unrealized Gain, June 30, 2014	(321)
Unrealized Loss, June 30, 2013	(336)
Working Capital Advance, June 30, 2014	(1,248)
Working Capital Advance, June 30, 2013	1,593
Other Fund Activity [1]	909
Net Change in Fund Balance - Budgetary Basis	$ 24,994

[1] 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 special revenue funds, pursuant to GASB Statement No. 54. The City administers certain of these funds as separate budgetary entities.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. 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, except for encumbrances related to capital projects which are funded through current year appropriated budget that carries over to the following fiscal year. Encumbrances outstanding at year-end are disclosed as commitments since they will be honored through subsequent years' appropriations and are included within the Restricted, Committed and Assigned fund balance categories.

STATISTICAL SECTION
(UNAUDITED)

CITY OF SAN DIEGO
PLEDGED-REVENUE COVERAGE - SEWER BONDS (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
2005	$ 322,542	$ 204,163	$ 118,379	$ 26,120	$ 50,935	$ 77,055
2006	320,288	202,111	118,177	27,390	49,662	77,052
2007 [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

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.

Source: Comprehensive Annual Financial Reports

Table 14

Senior Debt Service Coverage	All Obligations [2] Total Debt Service	All Obligations [2] Aggregate Debt Service Coverage
1.54	$ 84,789	1.40
1.53	86,802	1.36
1.83	96,408	1.47
1.95	94,555	1.59
2.03	94,305	1.65
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

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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 2015 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2015 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 2015 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, and the 2015-1 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 and any Additional Bonds authorized and issued under the Indenture on a parity with the nonrefunded Series 2009A Bonds, the nonrefuned Series 2009B Bonds, the nonrefunded Series 2010A Bonds and the Series 2015 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 2015 Bonds, the City of San Diego Wastewater System Improvement Project Costs of Issuance Account—Series 2015 Bonds established under the Indenture for the payment of Costs of Issuance related to the Series 2015 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.

"*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, and the Third Supplemental Indenture, dated as of September 1, 2015, 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 2015 Bonds, each May 15 and November 15, commencing November 15, 2015, until the Series 2015 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 2015 Bonds and the refunding described in the 2015-1 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 2015 Bonds and the refunding described in the 2015-1 Supplement), and 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 2015 Bonds and the refunding described in the 2015-1 Supplement).

"*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 2015 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 2015 Bonds.

"*Representative*" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, 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 Outstanding Series 2009A Bonds, the Outstanding Series 2009B Bonds, the Outstanding Series 2010A Bonds, any Outstanding Additional

Bonds issued prior to the Amendment Effective Date and any all of other series of Outstanding 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 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.

"*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.

"*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.

"*Third Supplemental Indenture*" means the Third Supplemental Indenture, dated as of September 1, 2015, by and between the Authority and the Trustee.

"*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 Closing Date*" means September 24, 2015.

"*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.

"*Underwriters*" means, collectively, the underwriters listed in the bond purchase agreement pursuant to which the Series 2015 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 2015 Closing Date, or such earlier date on which the City informs the Trustee in writing that all Costs of Issuance of the Series 2015 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 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 and the 2015-1 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, 2015-1 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 and the Series 2015 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 2015-1 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 2015 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 2015-1 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 2015-1 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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2015-1 SUPPLEMENT

The term "2015-1 Supplement" means the 2015-1 Supplement to the Master Installment Purchase Agreement, dated as of September 1, 2015, by and between the City and the Authority, supplementing and amending the Agreement. The 2015-1 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 2015-1 Supplement are summarized below.

Installment Payments. Pursuant to the 2015-1 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 2015 Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2015 BONDS" in the forepart of this Official Statement.

Tax Exemption. The City covenants in the 2015-1 Supplement as follows:

(a) The City will not directly or indirectly use or permit the use of any proceeds of the Series 2015 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 2015 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 2015 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 2015 Bonds or any other funds of the City, or take or omit to take any action, that would cause the Series 2015 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 2015 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 2015 Bonds from time to time. This covenant will survive payment in full or defeasance of the Series 2015 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 2015-1 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 2015 Bonds.

(d) Notwithstanding any provision of the tax covenants of the 2015-1 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 2015-1 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 2015 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 2015-1 Supplement will be deemed to be modified to that extent.

Continuing Disclosure. The City covenants and agrees in the 2015-1 Supplement that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the 2015-1 Supplement, failure of the City to comply with the Continuing Disclosure Certificate will not be considered a default of any kind under the 2015-1 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 2015 Bonds, will) or any Owner or Beneficial Owner of the Series 2015 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 2015-1 Supplement. For purposes of the 2015-1 Supplement, "Beneficial Owner" means any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2015 Bonds (including persons holding Series 2015 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 2015
(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 2015 (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) (the "Series 2015 Bonds"). The Series 2015 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, and as amended and supplemented by a Third Supplemental Indenture, dated as of September 1, 2015 (the "Third Supplemental Indenture," and collectively, with the Original Indenture, the First Supplemental Indenture and the Second Supplemental Indenture, the "Indenture"), by and between the Authority and the Trustee. Issuance of the Series 2015 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 2015 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 2015-1 Supplement to the Master Installment Purchase Agreement, dated as of September 1, 2015, by and between the Authority and the City (collectively, the "Installment Purchase Agreement"); (g) a executed copy of the Escrow Agreement, dated September 24, 2015 (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 2015 Bonds and other matters (the "Tax Certificate"); (j) certifications of the City, the Authority, the Trustee, the Escrow Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the underwriters of the Series 2015 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 2015 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 2015 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 _____, 2015, or any other offering material relating to the Series 2015 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 2015 Bonds have been duly authorized and all legal conditions precedent to the issuance and delivery of the Series 2015 Bonds have been fulfilled.

2. The Series 2015 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 2015 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 2015 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 2015 Bonds. The Authority has no power of taxation.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2015 Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2015 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 2015 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 2015 Bonds to be included in gross income retroactive to the date of issue of the Series 2015 Bonds. Although we are of the opinion that interest on the Series 2015 Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2015 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 2015 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 September 24, 2015 in connection with the issuance of $_____ Public Facilities 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) (the "Series 2015 Bonds"). The Series 2015 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, and a Third Supplemental Indenture, dated as of September 1, 2015 (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 2015 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 2015 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 2015 Bonds (including persons holding Series 2015 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2015 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 _____, 2015, prepared and distributed in connection with the initial sale of the Series 2015 Bonds.

"*Participating Underwriters*" means any of the original purchasers of the Series 2015 Bonds required to comply with the Rule in connection with offering of the Series 2015 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, 2015 (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 fiscal year most recently ended, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and reporting standards as set forth by the State Controller in "State of California Accounting Standards and Procedures for Counties." 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 2015 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 2015 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 2015 Bonds, or other events affecting the tax status of the Series 2015 Bonds;

(iii) modifications to rights of the holders of the Series 2015 Bonds;

(iv) bond calls**;

(v) release, substitution or sale of property securing repayment of the Series 2015 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 2015 Bonds.

** Any scheduled redemption of Series 2015 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 2015 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 2015 Bonds. If such termination occurs prior to the final maturity of the Series 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 (Payable Solely From Installment Payments Secured By Wastewater System Net Revenues) (the "Series 2015 Bonds").

Date of Issuance: September 24, 2015

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the Series 2015 Bonds as required by the Continuing Disclosure Certificate, dated September 24, 2015, with respect to the Series 2015 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 2015 Bonds, the Owners and Beneficial Owners of the Series 2015 Bonds are 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 2015 Bonds, the Owners and Beneficial Owners of the Series 2015 Bonds are 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 2015 Bonds (including the Series 2015 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 2015 Bonds, ___% of the Owners of the then-Outstanding Bonds (the unrefunded Series 2009A Bonds, the unrefunded Series 2009B Bonds, the unrefunded Series 2010A Bonds and the Series 2015 Bonds) will have consented to the Proposed Amendments. At this time there can be no assurance that the Proposed Amendments will become effective within any definite time frame.*

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 2015 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 2015 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 2015 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 2015 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2015 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

DTC will act as securities depository for the Series 2015 Bonds. The Series 2015 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 2015 Bond certificate will be issued for each maturity of the Series 2015 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 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2015 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 2015 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 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 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 2015 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 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 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 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2015 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Series 2015 Bond documents. For example, Beneficial Owners of Series 2015 Bonds may wish to ascertain that the nominee holding the Series 2015 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 2015 Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2015 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 2015 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 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2015 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 2015 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 2015 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 2015 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 2015 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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PUBLIC FACILITIES 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)

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