

**ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
RELATING TO**

**\$453,775,000**

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

**\$634,940,000**

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

**\$161,930,000**

**PUBLIC FACILITIES FINANCING AUTHORITY  
OF THE CITY OF SAN DIEGO  
SENIOR SEWER REVENUE REFUNDING BONDS, SERIES 2010A**

**(CUSIP Number 79730A)**

**Introduction**

The Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Bonds, Series 2009A (“2009A Bonds”), Senior Sewer Revenue Refunding Bonds, Series 2009B (“2009B Bonds”) and Senior Sewer Revenue Refunding Bonds, Series 2010A (“2010A Bonds”) are collectively referred to as the “Outstanding Sewer Bonds”.

This Annual Report for the Fiscal Year ended June 30, 2012 is provided by the City of San Diego (the “City”), on behalf of itself and the Public Facilities Financing Authority of the City of San Diego (the “Authority”), pursuant to the Continuing Disclosure Certificates (the “Certificates”) between the City and The Bank of New York Mellon Trust Company, as Trustee (the “Trustee”), relating to the Outstanding Sewer Bonds, entered into to allow the respective underwriters to comply with Securities and Exchange Commission Rule 15c2-12.

This Annual Report is being transmitted electronically by the City to the Electronic Municipal Market Access (“EMMA”) System of the Municipal Securities Rulemaking Board (“MSRB”). This Annual Report is provided in accordance with the terms of the Continuing Disclosure Certificates and does not purport to provide full and complete information on the terms of the above stated issuances. The filing of this Annual Report does not constitute or imply any representation that no changes, circumstances or events have occurred since the end of the Fiscal Year to which this Annual Report relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the security for the above stated issuances or an investor’s decision to buy, sell or hold the above-stated issuances. Certain information and data provided herein was obtained from sources other than the City (“Outside Information”), as indicated by the source citations. Although the information contained in this Annual Report has been obtained from sources that are believed to be reliable, the City has not independently verified such Outside Information, and the City cannot guarantee its completion or accuracy. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the City, the Authority, the Wastewater System or the Outstanding Sewer Bonds.

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

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

DATED: Mar 27, 2013

CITY OF SAN DIEGO

By:  \_\_\_\_\_  
Greg Bych  
Interim Chief Financial Officer

Distribution: Municipal Securities Rulemaking Board, Electronic Municipal Market Access System  
The Bank of New York Mellon Trust Company (Trustee)

## **FINANCIAL AND OPERATING DATA**

As required by the Continuing Disclosure Certificates of the Outstanding Sewer Bonds, below are updates for the Tables titled “Metropolitan Sub-System City and Participating Agencies Flow and Capacity Rights,” “Wastewater System Total Annual Flow,” “Wastewater System Historical Sources of Sewer Service Charge Revenues,” “Municipal Sub-System Ten Largest Customers,” “Approved Rate Increases for Single Family Residential, Multifamily and Commercial and Industrial Customers,” “Sewer Customer Accounts Receivable and Shut-Offs,” “Municipal Sub-System Sewer Revenue Fund Historical Capacity Charge Revenues,” “Rate History for Sewer Capacity Charges,” “Statements of Revenues, Expenses and Changes in Fund net Assets,” “Sewer Revenue Fund Reserves,” “Calculation of Historic Parity Debt Service Coverage,” “Liability Claims Budgeted and Expenditures,” “City of San Diego Pooled Investment Fund” and “City of San Diego Schedule of Funding Progress”.

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

The City of San Diego’s Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012 (“CAFR”), which includes the City’s Fiscal Year 2012 audited financial statements, was electronically transmitted to the Electronic Municipal Market Access (“EMMA”) System of the Municipal Securities Rulemaking Board (“MSRB”) on February 14, 2013.

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**METROPOLITAN SUB-SYSTEM  
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS  
Fiscal Year ended June 30, 2012  
(Unaudited)**

Participating Agencies	Estimated Population <sup>(1)</sup>	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd)	% of Total Average Flow
City of Chula Vista	251,749	20.864	8.182%	16.345	9.944%
City of Coronado	16,986	3.250	1.275%	1.713	1.042%
City of Del Mar	4,600	0.876	0.344%	0.582	0.354%
City of El Cajon	99,000	10.915	4.280%	7.323	4.455%
City of Imperial Beach	29,500	3.755	1.473%	2.187	1.330%
City of La Mesa	58,076	6.993	2.742%	4.559	2.773%
City of National City	57,800	7.488	2.936%	4.193	2.551%
City of Poway	42,862	5.894	2.312%	3.083	1.875%
County/Spring Valley Sanitation Districts <sup>(2)</sup>	141,939	17.504	6.863%	11.825	7.194%
Lemon Grove Sanitation District	25,390	3.027	1.187%	2.161	1.315%
Otay Water District	5,200	1.287	0.505%	0.587	0.357%
Padre Dam Municipal Water District	56,300	6.225	2.441%	2.058	1.252%
<b>SUBTOTAL</b>	<b>789,402</b>	<b>88.078</b>	<b>34.540%</b>	<b>56.616</b>	<b>34.442%</b>
City of San Diego	1,336,752	166.922	65.460%	107.763	65.558%
<b>TOTAL</b>	<b>2,126,154</b>	<b>255.000</b>	<b>100.000%</b>	<b>164.379</b> <sup>(3)</sup>	<b>100.000%</b>

(1) Participating Agencies provided population figures for their respective agencies. Population served by the Metropolitan System is from the latest SANDAG information.

(2) This agency uses the San Diego County Facility Plan for their population figures, and reflects the newly combined East Otay, Lakeside-Alpine, Wintergardens, and Spring Valley Sanitation Districts in FY2012.

(3) Excludes flow through plants that are not part of the Metropolitan Sub-System - Escondido Plant and Solana Beach (served by the San Elijo Plant), and flow of reclaimed water through the North City Plant.

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

**WASTEWATER SYSTEM  
TOTAL ANNUAL FLOW <sup>(1)</sup>  
(In Million Gallons)**

**Fiscal Year ended June 30, 2003 through Fiscal Year ended June 30, 2012  
(Unaudited)**

<b>Fiscal Year Ended June 30</b>	<b>City Flow Through Point Loma Plant</b>	<b>Participating Agency Flow Through Point Loma Plant</b>	<b>City Flow Through Escondido Plant <sup>(2)</sup></b>	<b>City Flow Through San Elijo Plant <sup>(2)</sup></b>	<b>Reclaimed Water Through North City Plant</b>	<b>City Flow Through South Bay Plant</b>	<b>Total System Flow</b>	<b>Average MGD For The Year</b>
2003	42,567	22,188	1,353	0	1,201	1,637	68,946	189
2004	40,665	21,688	1,342	32	1,182	1,702	66,611	182
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

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

(2) The City does not treat flows through the Escondido Plant or the San Elijo Plant.

Source: Public Utilities Department, City of San Diego.

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**WASTEWATER SYSTEM**  
**HISTORICAL SOURCES OF SEWER SERVICE CHARGE REVENUES <sup>(1)</sup>**  
**Fiscal Years Ending June 30, 2008 through June 30, 2012**  
**(\$ In Thousands)**  
**(Unaudited)**

<u>Sources</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Single Family Domestic	\$104,565	\$112,564	\$125,924 <sup>(4)</sup>	\$119,482	\$112,996
Other Domestic	77,921	88,426	94,101	90,221	90,069
Commercial	71,376	68,640	70,908	68,198	89,677 <sup>(5)</sup>
Industrial	6,171	6,866	8,172	7,050	0 <sup>(5)</sup>
Treatment Plant Service for Others <sup>(2)</sup>	<u>65,015</u>	<u>41,978</u> <sup>(3)</sup>	<u>77,298</u>	<u>66,943</u>	<u>71,366</u>
<b>TOTAL</b>	<b><u>\$325,048</u></b>	<b><u>\$318,474</u></b>	<b><u>\$376,403</u></b>	<b><u>\$351,894</u></b>	<b><u>\$364,108</u></b>

- (1) Constitutes a component of System Revenues; does not include capacity charges or other operating revenues which are included in calculating Net System Revenues.
- (2) Includes sewer service charge revenues from Participating Agencies, the United States Navy and other agencies.
- (3) Reflects cumulative credits from prior years due to Participating Agencies.
- (4) Last year of a multi-year rate increase (see "Wastewater System Approved Rate Increases for Single Family Residential, Multifamily and Commercial and Industrial Customers" table); no future approved rate increases in place.
- (5) Fiscal Year 2012 "Commercial" and "Industrial" have been 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.

Sources: CAFRs for Fiscal Years 2008 and 2009 "Total" line items, Comptroller's Office for Fiscal Years 2010 through 2012 "Total" line item, and for all other Items.

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**MUNICIPAL SUB-SYSTEM  
TEN LARGEST CUSTOMERS <sup>(1)</sup>  
Fiscal Year Ended June 30, 2012  
(Unaudited)**

	Sewer Billings	Percent of Total Operating Revenues <sup>(2)</sup>
U.S. Navy	\$12,487,779	3.37%
C.P. Kelco	4,150,046	1.12%
University of California, San Diego	3,701,727	1.00%
Federal Government <sup>(3)</sup>	1,779,384	0.48%
R.J. Donovan Correctional Facility	1,520,307	0.41%
City of San Diego	1,437,447	0.39%
San Diego Unified School District	1,087,848	0.29%
County of San Diego	1,036,698	0.28%
San Diego State University	901,449	0.24%
Garden Communities	886,132	0.24%
<b>TOTAL <sup>(4)</sup></b>	<b>\$28,988,817</b>	<b>7.82%</b>

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

(2) Reflects percentage of total operating revenues of the Municipal Sub-System; includes revenues from Participating Agencies. See the line item entitled "Total Operating Revenues" in "Statement of Revenues, Expenses and Changes in Fund Net Assets" herein.

(3) Excludes the United States Navy.

(4) Amounts may not total due to rounding.

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

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**WASTEWATER SYSTEM**  
**APPROVED RATE INCREASES FOR SINGLE FAMILY RESIDENTIAL,**  
**MULTIFAMILY AND COMMERCIAL AND INDUSTRIAL CUSTOMERS**  
**Through Fiscal Year Ending June 30, 2012**  
**(Unaudited)**

<u>Effective Date</u>	<u>Single Family Domestic</u> <sup>(1)</sup>	<u>All Classes % Rate Increase</u>	<u>Uniform Base Fee</u>	<u>Single Family Residential \$/HCF water</u>	<u>Multifamily (Other Domestic) Usage Fee \$/HCF water</u>	<u>Commercial &amp; Industrial Customers</u>		
						<u>\$/HCF Monthly Wastewater Flow</u>	<u>\$/LB Total Suspended Solids</u>	<u>\$/LB Chemical Oxygen Demand</u>
May 1, 2007	\$38.32	8.75%	\$12.31	\$2.890	\$4.038	\$3.0257	\$0.4431	\$0.1801
November 1, 2007 <sup>(2)</sup>	\$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 <sup>(2)</sup>	\$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 <sup>(2)</sup>	\$47.71	-5.83%	\$15.33	\$3.598	\$5.028	\$3.7672	\$0.5517	\$0.2242

(1) Represents the average monthly amount and new customer amount.

(2) Shames Settlement Agreement started November 2007 and sunset March 2012.

Source: Public Utilities Department, City of San Diego.

**WASTEWATER CUSTOMER ACCOUNTS RECEIVABLE AND SHUT-OFFS**  
**For Fiscal Years Ending June 30, 2008 to 2012**  
**(\$ In Thousands)**  
**(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Sewer Service Charge Revenue	\$325,048	\$318,474	\$376,403	\$351,894	\$364,108
Accounts Receivable <sup>(1)</sup>	\$21,101	\$20,112	\$23,024	\$15,547	\$20,042
Accounts Receivable Over 120 Days <sup>(1)(2)</sup>	\$2,193	\$2,567	\$2,985	\$3,115	\$4,607
Number of Shut-Offs <sup>(3)</sup>	22,420	23,650	26,875	23,271	22,203

(1) Excludes amounts payable by Participating Agencies.

(2) Estimated.

(3) Information provided by the Customer Care Solutions system does not differentiate between water and sewer shut-offs. Therefore, such numbers may not reflect the actual number of sewer shut-offs.

Sources: CAFRs for Sewer Service Charge Revenue, Fiscal Years 2008-2009; Comptroller's Office for Fiscal Years 2010-2012 Sewer Service Charge Revenue; Public Utilities Department, City of San Diego, for all other line items.

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**MUNICIPAL SUB-SYSTEM  
SEWER UTILITY FUND  
HISTORICAL CAPACITY CHARGE REVENUES  
Fiscal Years Ending June 30, 2008 through June 30, 2012  
(\$ In Thousands)  
(Unaudited)**

Fiscal Year	Equivalent Dwelling Units	Capacity Charge Revenues <sup>(1)</sup>
2008	3,492	\$11,851
2009 <sup>(2)</sup>	2,651	\$10,361
2010	1,230	\$5,068
2011	2,245 <sup>(3)</sup>	\$9,256
2012	2,228	\$9,290

(1) Unaudited supplemental information provided by the Comptroller's Office, City of San Diego.

(2) Amount for Fiscal Year 2009 includes a one-time payment for 1,432 EDUs resulting in Capacity Charge revenues of \$5.9 million from the City's General Fund in connection with the City's Convention Center dewatering project.

(3) Revised from 2,474 subsequent to the issue of the FY2011 Annual Report.

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

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## RATE HISTORY FOR SEWER CAPACITY CHARGES

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

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

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

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

Source: Public Utilities Department, City of San Diego.

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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS <sup>(1)</sup>**  
**(\$ In Thousands)**  
**Fiscal Years Ending June 30, 2008 through June 30, 2012**  
**(Audited, except as otherwise noted)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>OPERATING REVENUES</b>					
Sewer Service Charges:					
Inside City:					
Domestic <sup>(2)</sup>	\$ 182,486	\$ 200,990	\$ 220,025	\$ 209,703	\$ 203,065
Commercial and Industrial <sup>(2)</sup>	77,547	75,506	79,080	75,248	89,677
Outside City:					
Treatment Plant Service for Others <sup>(2)</sup>	65,015	41,978 <sup>(3)</sup>	77,298	66,943	71,366
Subtotal: Sewer Service Charges <sup>(4)</sup>	<u>\$ 325,048</u>	<u>\$ 318,474</u>	<u>\$ 376,403</u>	<u>\$ 351,894</u>	<u>\$ 364,108</u>
Services provided to City departments <sup>(2) (5)</sup>	-	-	2,237	2,189	1,779
Total Charges for Services <sup>(5)</sup>	\$ 325,048	\$ 318,474	\$ 378,640	\$ 354,083	\$ 365,887
Other Operating Revenues <sup>(5)</sup>	3,071	4,097	3,485	3,648	4,412
<b>TOTAL OPERATING REVENUES</b>	<b><u>\$ 328,119</u></b>	<b><u>\$ 322,571</u></b>	<b><u>\$ 382,125</u></b>	<b><u>\$ 357,731</u></b>	<b><u>\$ 370,299</u></b>
<b>OPERATING EXPENSES</b>					
Maintenance and Operations	\$ 110,492	\$ 119,470	\$ 136,820	\$ 134,696	\$ 129,343
Administration	91,158	71,300	80,879	63,875	65,191
Depreciation	71,138	76,554	66,523	63,488	65,186
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 272,788</u></b>	<b><u>\$ 267,324</u></b>	<b><u>\$ 284,222</u></b>	<b><u>\$ 262,059</u></b>	<b><u>\$ 259,720</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b><u>\$ 55,331</u></b>	<b><u>\$ 55,247</u></b>	<b><u>\$ 97,903</u></b>	<b><u>\$ 95,672</u></b>	<b><u>\$ 110,579</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Earnings on Investments	\$17,757	\$13,454	\$10,612	\$7,454	\$6,266
Federal Grant Assistance	134	-	175	380	336
Other Agency Grant Assistance	-	167	165	-	-
Gain (Loss) on Sale / Retirement of Capital Assets	(2,057)	(3,525)	(558)	(1,961)	(1,387)
Debt Service Interest Expense	(48,571)	(46,151)	(53,348)	(51,112)	(49,586)
Other	4,524	5,244	7,750	6,404	5,116
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b><u>\$ (28,213)</u></b>	<b><u>\$ (30,811)</u></b>	<b><u>\$ (35,204)</u></b>	<b><u>\$ (38,835)</u></b>	<b><u>\$ (39,255)</u></b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>					
Capital Contributions	\$ 27,118	\$ 24,436	\$ 62,699	\$ 56,837	\$ 71,324
Transfers In	25,359	28,780	21,346	12,345 <sup>(6)</sup>	17,883
Transfers from Governmental Funds	714	616	316	147	130
Transfers Out	9	1,238	-	-	-
Transfers to Governmental Funds	(1,214)	(59)	(119)	(10)	(1,103)
Extraordinary Gains	(5,585)	(3,550)	(883)	(192)	(6,495)
					1,180 <sup>(7)</sup>
<b>CHANGE IN NET ASSETS</b>	<b><u>\$ 46,401</u></b>	<b><u>\$ 51,461</u></b>	<b><u>\$ 83,359</u></b>	<b><u>\$ 69,127</u></b>	<b><u>\$ 82,919</u></b>
Net Assets at Beginning of Year	\$1,893,578	\$1,939,979	\$1,991,440	\$2,074,799	\$2,143,926
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$1,939,979</u></b>	<b><u>\$1,991,440</u></b>	<b><u>\$2,074,799</u></b>	<b><u>\$2,143,926</u></b>	<b><u>\$2,226,845</u></b>

Source: Comprehensive Annual Financial Reports for Fiscal Years 2008 through 2012

- (1) Terms used in this table are derived from the City's CAFR for the indicated year. Certain terms included in this table do not have the meanings ascribed to them in the Installment Purchase Agreement. Also, amounts included in this table reflect the application of generally accepted accounting principles ("GAAP") and, as such, do not match tables in the Official Statement that were not prepared in accordance with GAAP.
- (2) Unaudited.
- (3) Reflects cumulative credits from prior years due to Participating Agencies.
- (4) Fiscal Years 2008 - 2009 Audited; Fiscal Years 2010 - 2012 Unaudited.
- (5) Commencing Fiscal Year 2010, charges for services provided to City departments are included in the "Charges for Services" line item; in prior years, such charges were included under "Other Operating Revenues" line item.
- (6) Reflects fewer developer contributed infrastructure asset installations and related capacity fee receipts.
- (7) Extraordinary Gain resulting from the dissolution of the Redevelopment Agency.

Source of Footnotes: Public Utilities Department, Unaudited

**SEWER UTILITY FUND RESERVES**  
**Fiscal Year Ended June 30, 2012**  
**(\$ In Thousands)**  
**(Unaudited)**

<b><u>Fund</u></b>	<b><u>Reserve Amount</u></b>
Rate Stabilization Fund	\$21,300
Operating Reserve	35,250
Capital Reserve	5,000
Appropriated Reserve	3,500
Dedicated Reserve for Efficiencies and Savings	<u>28,681</u>
Total	<u>\$93,731</u>

Source: Public Utilities Department, City of San Diego.

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**CALCULATION OF HISTORIC SENIOR AND AGGREGATE DEBT SERVICE COVERAGE**

**Fiscal Years 2008 through 2012  
(\$ In Thousands)  
(Unaudited)**

<b>Fiscal Year Ended June 30</b>	<b>Total System Revenues<sup>(2)</sup></b>	<b>Total Maintenance and Operations Costs (Excludes Depreciation)<sup>(3)</sup></b>	<b>Net System Revenues</b>	<b><u>Senior Debt Service</u></b>			<b><u>All Obligations<sup>(1)</sup></u></b>		
				<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>	<b><u>Senior Debt Service Coverage</u></b>	<b><u>Total Debt Service</u></b>	<b><u>Aggregate Debt Service Coverage</u></b>
2008	\$361,511	\$211,449	\$150,062	\$30,250	\$46,805	\$77,055	1.95	\$94,555	1.59
2009	\$353,447	\$197,380	\$156,067	\$31,700	\$45,356	\$77,056	2.03	\$94,305	1.65
2010	\$406,076	\$220,701	\$185,375	\$43,320	\$59,909	\$103,229	1.80	\$109,288	1.70
2011	\$380,575	\$198,773	\$181,802	\$42,620	\$59,868	\$102,488	1.77	\$108,547	1.67
2012	\$391,587	\$202,132	\$189,455	\$44,230	\$58,253	\$102,483	1.85	\$108,542	1.75

Source: Statistical Section (Unaudited) of Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012

- (1) All Obligations include Senior Obligations, Subordinated Obligations and the Existing State Revolving Fund Loans.
- (2) System Revenues as defined in the legal documents for the Outstanding Sewer Bonds 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.
- (3) Total Maintenance and Operations Costs as defined in the legal documents for the Outstanding Sewer Bonds include expenses related to maintenance and operations, administration, and transfers to other funds (including Governmental Funds, Rate Stabilization Fund, and other Funds).

Source of Footnotes: Public Utilities Department, Unaudited

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## Investment of Funds (As of June 30, 2012)

Refer to Note 3, “Cash and Investments,” to the Fiscal Year 2012 CAFR for information regarding Investment of Funds as of June 30, 2012.

## Investment of Funds (As of January 31, 2013)

### 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 January 31, 2013, approximately 11% of the pool investments mature within 62 days, 14% within 92 days, 28% within 184 days, 40% within 1 year, 74% within 2 years, 97% within 3 years, and 100% within 5 years (on a cumulative basis). As of January 31, 2013, the City Treasurer’s Pooled Investment Fund had a weighted average maturity of 1.39 years (507 days) and its weighted average yield was 0.47%. 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 0.34 years and the Core portfolio had a duration of 1.67 years as of January 31, 2013. 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 0.34% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.67% 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.

**CITY TREASURER’S POOLED INVESTMENT FUND**  
**At January 31, 2013**  
**(\$ In Thousands)**  
**(Unaudited)**

<b>Investment Instrument</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Percent of Total<sup>(1)</sup></b>
U.S. Treasury Notes	\$ 1,049,734	\$ 1,051,383	45.65%
Agency Discount Notes	49,911	49,978	2.17
Agency Notes & Bonds	634,747	635,728	27.60
Commercial Paper	124,751	124,861	5.42
Corporate Notes & Bonds	85,665	85,973	3.73
Local Agency Investment Fund	49,604	49,604	2.16
Repurchase Agreement	71,000	71,000	3.09
Negotiable Certificates of Deposit	150,000	150,051	6.52
Certificates of Deposit (CDARS)	10,000	10,000	0.43
Asset Backed Securities	74,317	74,423	3.23
<b>TOTAL INVESTMENTS</b>	<b>\$2,299,729</b>	<b>\$2,303,001</b>	<b>100.00%</b>

<sup>(1)</sup> Based on book value.

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

## **Labor Relations**

### **General**

The City has five labor organizations which represent classified employees. They are the Municipal Employees Association (MEA), the American Federation of State, County, and Municipal Employees Local 127 (Local 127), the Police Officers Association (POA), the International Association of Firefighters Local 145 (Local 145), and the California Teamsters Local 911 (Local 911) who represent lifeguards. A sixth labor organization, the Deputy City Attorneys Association (DCAA) represents unclassified deputy city attorneys. Certain City employees are unrepresented.

As of July 1, 2012, there were 866.0 regular full time employees of the Public Utilities Department (Wastewater Branch), of which 501.9 were represented by the MEA, and 318.6 were represented by AFSCME Local 127. The remaining 45.5 employees were unrepresented. The two bargaining units represent approximately 95% of the Public Utilities Department's employees (Wastewater Branch).

### **Contracts for Fiscal Years 2010 through 2013**

Beginning in Fiscal Year 2010, the City either negotiated or imposed a general salary freeze and 6% reduction in overall compensation for all labor organizations and virtually all unrepresented employees. The salary freeze and 6% reduction is in place through Fiscal Year 2013. The various labor organizations and unrepresented employees implemented the 6% reduction in overall compensation in different ways as described below:

*MEA:* MEA implemented its 6% reduction through a 52 hour mandatory furlough and a 3% salary reduction.

*Local 127:* Local 127 implemented its 6% reduction principally through the elimination of a 5.4% retirement offset contribution.

*POA:* POA implemented its 6% reduction principally through the elimination of a 4.1% retirement offset contribution and a 1.5% salary reduction.

*Local 145:* Local 145 implemented its 6% reduction principally through the elimination of a 4.3% retirement offset contribution.

*Teamsters Local 911:* Teamsters Local 911 implemented its 6% reduction principally through a 52 hour mandatory furlough and a 3% reduction of the retirement offset contribution.

*DCAA:* DCAA implemented its 6% reduction principally through a 32 hour mandatory furlough and the elimination of a 3.2% retirement offset contribution.

*Unrepresented:* For unrepresented employees the 6% reduction was principally implemented through eliminated retirement offset contributions and salary reductions.

## Insurance and Liability Claims

The City does not maintain casualty insurance on the pipelines of the Wastewater System because such insurance is not commercially available.

The table below sets forth the budget and expenditures for liability claims of the Wastewater System for Fiscal Years 2008 through 2012.

**LIABILITY CLAIMS BUDGET AND EXPENDITURES**  
**Fiscal Years Ending June 30, 2008 through June 30, 2012**  
**(Unaudited)**

<u>Fiscal Year</u>	<u>Budget</u>	<u>Expenditures</u> <sup>(1)</sup>
2008	\$1,283,412	\$1,612,392
2009	\$1,283,412	\$884,769
2010	\$900,202	\$1,339,687
2011	\$1,001,422	\$2,016,934
2012	\$851,702	\$2,562,934

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(1) Over-budget expenditures are paid from Sewer Revenue Fund balance available for appropriation.

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

***In addition, see Note 15 “Risk Management” in the City’s Fiscal Year 2012 CAFR.***

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## Pension Plan

The Table below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2002 through 2012. In addition, refer to Note 12, "Pension Plans," in the Fiscal Year 2012 CAFR.

**CITY OF SAN DIEGO**  
**SCHEDULE OF FUNDING PROGRESS**  
**Fiscal Years 2003 through 2012**  
**(\$ In Thousands)**  
**(Unaudited)**

<b>Valuation Date (June 30)</b>	<b>Actuarial Value of Assets</b>	<b>Market Value of Assets</b>	<b>AAL</b>	<b>Funded Ratio (Actuarial)</b>	<b>Funded Ratio (Market)</b>	<b>UAAL (Actuarial)</b>	<b>AAL less Market Value of Assets</b>	<b>Covered Payroll<sup>(5)</sup></b>	<b>UAAL to Covered Payroll</b>
2003	\$2,375,431	\$2,780,080	\$3,532,626	67.2%	78.7%	\$1,157,195	\$752,546	\$533,595	216.9%
2004 <sup>(1)</sup>	\$2,628,680	\$2,847,479	\$3,997,328	65.8%	71.2%	\$1,368,648	\$1,149,849	\$540,181	253.4%
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 <sup>(2)</sup>	\$3,981,932	\$3,981,932	\$4,982,699	79.9%	79.9%	\$1,000,767	\$1,000,767	\$534,103	187.4%
2007 <sup>(3)</sup>	\$4,413,411	\$4,641,341	\$5,597,653	78.8%	82.9%	\$1,184,242	\$956,312	\$512,440	231.1%
2008 <sup>(1)</sup>	\$4,660,346	\$4,408,719	\$5,963,550	78.2%	73.9%	\$1,303,204	\$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 <sup>(4)</sup>	\$4,739,399	\$4,848,054	\$6,917,175	68.5%	70.1%	\$2,177,776	\$2,069,363	\$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%

(1) Reflects revised actuarial assumptions.

(2) Reflects revised actuarial methodologies.

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

(4) Reflects revised actuarial methodologies and assumptions.

(5) Covered payroll includes all elements of compensation paid to active City employees on which contributions to the pension plan are based.

Source: Fiscal Years 2003-2011 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego; Cheiron Actuarial Valuation as of June 30, 2012.

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## Wastewater System Share of Contribution to Pension System

The Table below sets forth the City's ARC and pension payments for Fiscal Years 2009 through 2013, as well as the amounts related specifically to the Wastewater System. In addition, refer to Note 12, "Pension Plans," to the Fiscal Year 2012 CAFR.

### WASTEWATER SYSTEM PENSION CONTRIBUTION Fiscal Years 2009 through 2013<sup>(1)</sup> (\$ In Thousands)

<b>Fiscal Year Ended June 30</b>	<b>Pension Plan ARC</b>	<b>Preservation of Benefits Plan ARC</b>	<b>Total ARC <sup>(2)</sup></b>	<b>Total Pension Contribution</b>	<b>Additional Contribution (underfunding)</b>	<b>Sewer System Contribution</b>	<b>Sewer System Contribution % of O&amp;M</b>
2009	\$161,700	\$4,004	\$165,704	\$163,614	(\$2,090)	\$7,633	2.9%
2010	\$154,200	\$1,000	\$155,200	\$193,880	\$38,680	\$11,655 <sup>(3)</sup>	4.1%
2011	\$229,100	\$1,817	\$230,917	\$230,423	(\$494)	\$15,455 <sup>(3)</sup>	5.9%
2012	\$231,200	\$1,269	\$232,469	\$232,828	\$359	\$14,198	5.5%
2013	\$231,100	\$1,314	\$232,414	\$232,800	\$386	\$15,185	4.4%

(1) Fiscal Years 2009 – 2012: Actuals; Fiscal Year 2013: Estimates.

(2) Includes core pension ARC and Preservation of Benefits (POB) Plan ARC. See Note 12 in City's Fiscal Year 2012 CAFR for more information on Pension Plan ARC and POB Plan ARC. Per IRS guidelines, the City may not pre-fund the POB Plan. Therefore, plan contributions may differ from the Total ARC in any given year.

(3) Revised as of December 2012.

Source: City of San Diego Comprehensive Annual Financial Reports; Cheiron Actuarial Valuations; Department of Financial Management; Office of the City Comptroller and Public Utilities Department.

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## **Pension Reform Ballot Initiative**

An initiative entitled “Comprehensive Pension Reform for San Diego” (Proposition B) was approved by voters on June 5, 2012. Generally, the measure amends 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 the City’s pension costs for existing employees by directing the City Council to seek, through labor negotiations, to limit City employees’ compensation used to calculate pension benefits through Fiscal Year 2019, a term of approximately 6 years. 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 defined benefit plan.

Proposition B is the subject of ongoing litigation before the California Public Employment Relations Board (PERB). On February 11, 2012, 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. This litigation may delay or preclude the implementation of some or all of the Proposition B amendments to the City Charter.

Notwithstanding the Proposition B litigation, the Fiscal Year 2012 Actuarial Valuation prepared by Cheiron, the SDCERS actuary, assumes the validity of Proposition B. As a result of Proposition B, the City’s annual required contribution (ARC) for Fiscal Year 2014 is approximately \$27 million higher than it would have been had Proposition B not passed.

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## **Other Postemployment Healthcare Benefits**

The Table below sets forth the City's OPEB ARC and City's contributions for Fiscal Years 2009 through 2013, as well as the amounts related specifically to the Wastewater System.

In Fiscal Year 2012, the City negotiated certain changes to the retiree healthcare benefits available to its health-eligible employees, generally those hired prior to July 1, 2005. Certain eligible employees, generally, were able to choose between remaining in the defined benefit OPEB plan and opting for a defined contribution plan. Deferred terminated employees (former City employees who qualify for retiree health benefits but are not yet age-eligible) were moved into the defined contribution plan. As a result of those elections, and other factors, the City's unfunded actuarial liability for OPEB was significantly reduced beginning in Fiscal Year 2012 because there is no GASB 45 liability for the defined contribution plan. The City has also made certain modifications to the following tables to reflect City payments related to the various OPEB funding mechanisms. Additionally, the City's negotiated agreements set the City's OPEB contributions at \$57.8 million annually starting in Fiscal Year 2012 through Fiscal Year 2015, with annual increases of up to 2.5% thereafter. The terms discussed above may not be renegotiated until Fiscal Year 2015 at the earliest. The 2009 Retiree Medical Trust shown in the following table is a defined contribution plan available to employees hired on or after July 1, 2009 and contributions to the 2009 Retiree Medical Trust are separate from the \$57.8 million negotiated contributions associated with the City's health-eligible employees hired prior to July 1, 2005. Employees hired after July 1, 2005 and before July 1, 2009 are not eligible for City retiree health benefits.

In addition, refer to Note 13, "Other Postemployment Benefits," in the Fiscal Year 2012 CAFR.

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**WASTEWATER SYSTEM  
RETIREE HEALTH CONTRIBUTION  
ALL PLANS  
Fiscal Years 2009 through 2013  
(\$ In Thousands)**

Fiscal Year	Defined Benefit Plans (DB)			Defined Contribution Plans (DC)		Total City Retiree Health Contribution	Sewer Fund Retiree Health Contribution	Sewer Fund Contribution % of O&M
	DB OPEB ARC	Citywide CERBT Contribution	City Paygo	2009 Retiree Medical Trust Contribution <sup>(1)</sup>	DC Plan Contribution			
2009	\$104,475	\$23,911	\$25,587	--	--	\$49,498	\$3,891	1.5%
2010	\$113,426	\$25,000	\$31,689	\$33	--	\$56,722	\$4,532 <sup>(2)</sup>	1.6%
2011	\$120,324	\$25,000	\$33,868	\$30	--	\$58,898	\$5,285 <sup>(2)</sup>	2.0%
2012 <sup>(3)</sup>	\$49,061	\$0	\$23,857	\$52	\$34,424	\$58,333	\$7,057	2.7%
2013 <sup>(4)</sup>	\$51,269	--	--	--	--	\$57,833	\$5,106	1.5%

- (1) Contributions to the Retiree Medical Trust are the City's employer match of 0.025% of employee salary for certain employees hired after July 1, 2009.
- (2) Revised as of December 2012.
- (3) In Fiscal Year 2012, in addition to the City's Paygo funding of \$23.8 million, \$13.8 million was contributed by drawing from the Calpers Employers Retirement Benefits Trust (CERBT) to fund the City's total Paygo cost of \$37.6 million.
- (4) Data for Fiscal Year 2013 is budgeted. All other data is actual. The City's total budgeted payment in Fiscal Year 2013 is approximately \$57.8 million. This amount will be allocated between City Paygo and the Defined Benefit Plans. Any excess will be contributed to the CERBT.

Source: City of San Diego Comprehensive Annual Financial Reports; Department of Financial Management; Office of the City Comptroller and the Public Utilities Department.