

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

**IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A
SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:**

Issuer's Name (please include name of state where Issuer is located):

CITY OF SAN DIEGO (STATE: CALIFORNIA)

**CITY OF SAN DIEGO REASSESSMENT DISTRICT NO. 2003-1 LIMITED OBLIGATION
REFUNDING BONDS**

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: **797283**

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

Electronic

Paper (no. of pages attached)

If information is also available on the Internet, give URL: NOT AVAILABLE

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. Annual Reports for the Fiscal Years Ended June 30, 2005 and June 30, 2004
(Financial information and operating data should not be filed with the MSRB.)

B. Financial Statements or CAFR pursuant to Rule 15c2-12

C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|---|---|
| 1. Principal and interest payment delinquencies | 6. Adverse tax opinions or events affecting the tax-exempt status of the security |
| 2. Non-payment related defaults | 7. Modifications to the rights of security holders |
| 3. Unscheduled draws on debt service reserves reflecting financial difficulties | 8. Bond calls |
| 4. Unscheduled draws on credit enhancements reflecting financial difficulties | 9. Defeasances |
| 5. Substitution of credit or liquidity providers, or their failure to perform | 10. Release, substitution, or sale of property securing repayment of the securities |
| | 11. Rating changes |

D. Notice of Failure to Provide Annual Financial Information as Required

See the Annual Reports, Section 1.

E. Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name: **JAY M. GOLDSTONE**

Title: **CHIEF FINANCIAL OFFICER**

Employer: **CITY OF SAN DIEGO**

Address: **202 C STREET, MAIL STATION 9B**

City: **SAN DIEGO** State: **CA** Zip Code: **92101**

Dissemination Agent Contact, if any:

Name: **JAY M. GOLDSTONE**

Title: **CHIEF FINANCIAL OFFICER**

Employer: **CITY OF SAN DIEGO**

Address: **202 C STREET, MAIL STATION 9B**

City: **SAN DIEGO** State: **CA** Zip Code: **92101**

Relationship to Issuer: **DISSEMINATION AGENT**

Investor Relations Contact, if any:

Name: **JAY M. GOLDSTONE**

Title: **CHIEF FINANCIAL OFFICER**

Telephone: **(619) 236-5941**

Email Address: **JGoldstone@sandiego.gov**

ANNUAL REPORTS FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2005

**RELATING TO
\$8,850,000
CITY OF SAN DIEGO
Reassessment District No. 2003-1
Limited Obligation Refunding Bonds**

(CUSIP Number 797283)

The following two separate Annual Reports are being provided by the City of San Diego (the "City") for the above stated issue (the "Bonds"), pursuant to the Continuing Disclosure Certificate requirements and in compliance with Securities and Exchange Commission Rule 15c2-12 for the fiscal years ended June 30, 2005 (the "2005 Report") and June 30, 2004 (the "2004 Report" and collectively with the 2005 Report, the "Annual Reports"). Information provided in the 2004 Report generally relates to the 2004 calendar year or 2003-04 fiscal year period. New or updated information may appear in the 2005 Report that was not included in the 2004 Report.

The Annual Reports, including any amendment or supplement hereto, will be electronically transmitted to the CENTRAL POST OFFICE by the Dissemination Agent for retransmission by the CENTRAL POST OFFICE to each of the Nationally Recognized Municipal Securities Information Repositories (the "NRMSIRs"), approved by the Securities and Exchange Commission, set forth in Exhibit A and with the Participating Underwriter, set forth in Exhibit B.

The Annual Reports are provided in accordance with the terms of the Continuing Disclosure Certificate, and does not purport to provide full and complete information on the terms of the Bonds. The filing of the Annual Reports does not constitute or imply any representation that no changes, circumstances or events have occurred since the end of the fiscal year to which the Annual Reports relate (other than as contained in the Annual Reports), or that no other information exists which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell or hold the Bonds. Certain information and data provided herein was obtained from sources other than the City (the "Outside Information"), as indicated by the source citations. Although the information contained in the Annual Reports has been obtained from sources which are believed to be reliable, the City has not independently verified such Outside Information, and the City cannot guarantee its completeness or accuracy. No statements in this annual report should be construed as a prediction or representation about future financial performance of the City or Reassessment District 2003-1.

The Assessment District Funds are considered part of the City's reporting entity and can be found in the fund level financial statements in the Nonmajor Governmental Funds – Capital Projects (Other Construction) and Nonmajor Governmental funds - Debt Service (Other Special Assessments) of the City of San Diego's Comprehensive Annual Financial Report. However the Annual Reports do not include the audited financial statements of the City for the fiscal year ended June 30, 2003, June 30, 2004 and June 30, 2005, because such audits are not yet complete.

In addition, in light of certain errors with respect to the audited financial statements of the City for the fiscal year ended June 30, 2002, which were reported to the Nationally Recognized Municipal Securities Information Repositories on January 27, 2004 and March 12, 2004, the City has determined that it would not be prudent to file unaudited financials at this time.

The City is acting as the Dissemination Agent for the above stated issue. The City does not have any obligation to update these reports other than as expressly provided in the Continuing Disclosure Certificate.

Any statements regarding the above stated issue, other than a statement made by the City in an official release or subsequent notice or annual report, published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board or the NRMSIRs, are not authorized by the City. The City shall not be responsible for the accuracy, completeness or fairness of any such unauthorized statement.

DATED: April 1, 2006

CITY OF SAN DIEGO

By:


Jay M. Goldstone
Chief Financial Officer

Distribution: US Bank Trust National Association (Fiscal Agent)
Stone & Youngberg LLC (Participating Underwriter)

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

FT Interactive Data

Attn:NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: 212-771-6999; 800-689-8466
Fax: 212-771-7390
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.

55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

EXHIBIT B

Participating Underwriter

Stone & Youngberg LLC
One Ferry Building
San Francisco, California 94111
Attn: Municipal Research Department

**CITY OF SAN DIEGO
REASSESSMENT DISTRICT NO. 2003-1
LIMITED OBLIGATION REFUNDING BONDS**

**Annual Report Under the Continuing Disclosure Certificate
June 30, 2005**

1. This Annual Report includes information required by the Continuing Disclosure Certificate for City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds, except for the Comprehensive Annual Financial Report of the City of San Diego (the “CAFR”) for the Fiscal Year ended June 30, 2005 (see item (a) below):
 - (a) The Assessment District Funds are considered part of the City’s reporting entity and can be found in the fund level financial statements in the Nonmajor Governmental Funds – Capital Projects (Other Construction) and Nonmajor Governmental funds - Debt Service (Other Special Assessments) of the City of San Diego’s Comprehensive Annual Financial Report. However this Annual Report does not include the audited financial statements of the City for the fiscal year ended June 30, 2003, June 30, 2004 or June 30, 2005, because such audits are not yet complete. In addition, in light of certain errors with respect to the audited financial statements of the City for the fiscal year ended June 30, 2002, which were reported to the Nationally Recognized Municipal Securities Information Repositories on January 27, 2004 and March 12, 2004, the City has determined that it would not be prudent to file unaudited financials at this time.

Source: City Treasurer, City Auditor and Comptroller

2. Other financial information and operating data relating to the District contained in the Official Statement for the Bonds:

2.1 Principal amount of bonds outstanding (as of December 31, 2005): \$7,905,000

Source: City Treasurer - Special Districts Administration

2.2 Balance in Redemption Fund (as of December 31, 2005): \$ 83,582

Source: US Bank Fiscal Agent Statements, City Treasurer - Special Districts Administration

2.3 Balance in the Reserve Fund (as of December 31, 2005): \$ 896,279

Source: US Bank Fiscal Agent Statements, City Treasurer - Special Districts Administration

Reserve Requirement: \$885,191.76

Equal to the least of:

- (i) Maximum Annual Debt Service for the Bonds,
- (ii) One hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or
- (iii) Ten percent (10%) of the original principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

Source: City Treasurer - Special Districts Administration (Bond Indenture)

2.4 Updates of the following tables in the Official Statement are attached:

Table 2 - Development Status and Land Use Summary

Source: Dick Jacobs Associates, San Diego County Assessor, City Treasurer - Special Districts Administration

Table 4 - Assessed Value-To-Lien Ratio Ranges

Source: Dick Jacobs Associates, San Diego County Assessor, City Treasurer - Special Districts Administration

Table 6 - Appraised Value-To-Lien Ratios by Property Owner (excluding the columns headed "Appraised Value" and "Appraised Value-To-Lien Ratio")

Source: Dick Jacobs Associates, San Diego County Assessor, City Treasurer - Special Districts Administration

Table 11 - Delinquency History

Source: San Diego County Delinquency Reports, City Treasurer - Special Districts Administration

3. The following is an update of certain information originally presented in the Official Statement for the Bonds regarding litigation:

Border Business Park, Inc. (aka De La Fuente Business Park, Inc.) v. City of San Diego ("Border")

On January 2, 2001, a San Diego County Superior Court jury returned a special verdict in the amount of \$94.5 million against the City. The jury award consisted of three parts: \$29.2 million for breach of a development agreement; \$25.5 million for inverse condemnation relating to planning of a regional airport; and \$39.8 million for inverse condemnation relating to excessive traffic. Claims for interest, costs, and attorneys' fees could bring the total judgment to more than \$200 million.

The lawsuit arises out of a 1986 development agreement (the “Development Agreement”) between the City and Border Business Park, Inc., relating to the development of a 312-acre industrial park in Otay Mesa, a community within the boundaries of the City and just north of the United States-Mexican border. Plaintiff alleges the City engaged in a pattern of conduct aimed at thwarting the developer’s rights under the Development Agreement, which resulted in breaches of the Development Agreement, damage to plaintiff and its property, nuisance and unconstitutional “takings” of private property for public use. Specifically, plaintiff claimed the City “took” plaintiff’s property by: (i) publicly discussing a proposal to build an international airport in the Otay Mesa region; and (ii) diverting commercial truck traffic onto public streets adjacent to plaintiff’s property.

Following the special verdict and a series of post-trial motions and hearings, the Court granted the City a new trial on one legal theory, which vacated the entire judgment as a matter of law. The ruling, however, effectively leaves intact the jury verdict of a damages award owed by the City to the plaintiff of \$65.3 million, with pre-judgment interest of \$26.4 million.

Appellate counsel for the City has advised that the City should have no obligation to pay these amounts until the appellate review process is concluded, which may occur any time between April 2006 and August 2007. The City will also be responsible for any post-trial interest, which will accrue at the rate of approximately 7.0% per annum, until any judgment is paid.

The City has at least partial coverage for its legal defense costs and may have coverage for indemnity costs and damages under its policies of insurance but the total amount and scope of the coverage is not currently known. A number of insurers whose policies may cover defense costs and any judgment have sued the City contending that such insurers are not obligated to defend or indemnify the City for any liability in this case. The City has prevailed on some aspects of the defense costs question, with the coverage litigation ongoing. (See “**Insurance Coverage Issues**” below).

Despite the denial of certain of the post-trial motions, the City believes it has sound legal theories for its appeal in *Border*; however, no assurance can be given that the City’s pursuit of this challenge will be successful. In addition, the plaintiff has filed a cross-appeal seeking to have the order granting a new trial set aside by the Court of Appeal. In the event that the City is not successful on appeal, and on retrial, if any, the judgment, including any interest, will have to be paid from the City’s treasury, most likely over a period of ten years with additional interest during that period, to the extent that there is not insurance coverage or there is a shortfall in coverage. The current judgment, as entered by the Superior Court and now being reviewed by the Court of Appeal, does not provide for any interim or partial payment prior to the completion of the retrial of the breach of contract claims. It is anticipated that the plaintiff will continue to seek, over the City’s objection, to have this judgment modified by the Court of Appeal or the Superior Court to provide for payment or deposit of funds prior to the completion of the retrial. (On November 7, 2001, the plaintiff filed a motion with the trial court asking

that the City deposit in trust into the court, the amount of \$92.4 million, pending the City's appeal. The court denied the plaintiff's motion.) However, if the current judgment is upheld and not modified by the Court of Appeal as a result of either the City's appeal or the cross-appeal, then no amount will be due from the City until after the retrial of the breach of contract claims. It is not expected that the retrial would be completed until Fiscal Year 2008.

Because there is no final judgment at this time, and given the Court's partial grant of the City's new trial motion, the City had not included any moneys for the payment of any judgment in this case in its budget for Fiscal Year 2006 and has not included any moneys in its budget for Fiscal Year 2007. Settlement discussions have occurred from time to time and are continuing. The City does not believe that it will be obligated to make payments in connection with this matter in Fiscal Year 2006. However, the City cannot predict the timing or cost of the ultimate resolution of this case.

The City has also been sued by other entities owning property in Border Business Park, *National Enterprises, Inc. v. City of San Diego* and *Otay Acquisitions LLC v. City of San Diego*. These lawsuits allege identical and similar theories of liability to the *Border* lawsuit and have been brought by entities owned or controlled by the same individual who controls the plaintiff in *Border*. The City's outside counsel believes that these new lawsuits should be barred in total or in part by the ultimate judgment in *Border*, but these lawsuits seek damages of at least \$100 million in addition to the *Border* verdict, and the effect of *Border* on these lawsuits is currently unknown. These lawsuits are pending in San Diego Superior Court and have been stayed until the *Border* appeal is resolved. The City cannot predict the timing or cost of the ultimate resolution of these cases.

Insurance Coverage Issues

On April 9, 2002, three of the City's general liability insurers filed a federal court lawsuit against the City in the Southern District of California, *Insurance Company of the State of Pennsylvania, et al. v. City of San Diego*, Case No. 02 CV 0693 JM (RBB). These insurers provide coverage to the City for the years 1991 to 2001, and they collectively insure the City for policy limits of \$25 million per occurrence per year (less the City's self-insured retention, which ranges from \$1 million to \$3 million). The insurers' lawsuit seeks a declaration that the insurers are not obligated to defend or indemnify the City for any liability it may suffer in the *Border* matter and the related actions (collectively the "*De La Fuente* cases"). (See "*Border Business Park v. City of San Diego*" above).

Two of the City's other liability insurers did not join in this lawsuit, although they may not be precluded from joining in this lawsuit or filing a separate lawsuit. The non-suing liability insurers issued coverage to the City for the 1990-91 policy year, with collective limits of \$17 million per occurrence (subject to a \$5 million self-insured retention). One of them has paid the City policy limits of \$2 million for one

occurrence, while reserving its rights to dispute more than one occurrence and other issues.

The suing insurers are disputing coverage in the *De La Fuente* cases on the ground that the City allegedly provided late notice of the claims against it, that the claims purportedly are not covered property damage or personal injury, and based upon alleged policy exclusions for breach of contract and inverse condemnation claims. If the insurers were to prevail on this complaint, the City would lose insurance coverage from them for its future attorneys' fees and costs incurred in defending the *De La Fuente* matter, and for any damages ultimately awarded in those cases, from these insurers. In the opinion of outside counsel, the City would not owe any damages to the insurance companies, even if it lost coverage, except in the event that the Court ordered the City to reimburse suing insurer(s) for past defense costs it has paid to the City, a prospect that is remote given subsequent rulings discussed below.

On May 7, 2002, the City filed an answer and counterclaim in the lawsuit. The City sought a determination that one of the suing insurers is obligated to defend the City in the *De La Fuente* cases. In addition, the City's counterclaim seeks to recover damages for breach of contract and bad faith.

On October 20, 2003, the Court denied the City's Motion seeking summary judgment of one of the insurer's duty to defend. The Court found that there was a duty to defend under the insurance policies, but the *De La Fuente* cases did not allege "personal injury" or "property damage" potentially within the policies' coverage. The City filed a motion for reconsideration of that ruling which was denied on January 13, 2004.

The City appealed those rulings to the Ninth Circuit Court of Appeals. On March 18, 2005, the Ninth Circuit issued a judgment reversing the district court and finding that the insurer has a duty to pay the City's defense costs in the *De La Fuente* cases under two insurance policies.

On remand to the district court, the insurer filed its own motion for partial summary judgment seeking a determination that it did not have an immediate duty to pay the City's defense costs despite the Ninth Circuit judgment. The insurer asserted that it had conclusive defenses to coverage and had paid policy limits thereby exhausting one policy. On March 21, 2006, the district court denied the insurer's motion and granted partial summary judgment for the City. The Court held that the insurer has a duty to defend the City in all three *De La Fuente* cases under two policies, and that policy limits under one policy apply on a yearly basis (instead of a single limit for a four year policy), thereby increasing the City's potential coverage by at least \$6 million, and possibly much more. The Court reserved until it considers whether the insurer acted in bad faith the questions of (1) the City's right to recover its attorneys' fees from the coverage litigation; and (2) the amount of defense costs that must be paid by the insurer.

The insurer may seek to appeal its duty to defend, and the precise dollar

amount of defense coverage has not been resolved, but the City has a judgment that that the insurer has a duty to defend. If the City ultimately has to pay damages in the *De La Fuente* cases, the City is optimistic that there should be at least some indemnity coverage under these policies (depending on the ultimate basis for and amount of the City's liability, if any), and the City is pursuing its claim for bad faith damages against one insurer for its failure to defend; however, no prediction can be made as to the outcome of this litigation.

Source: City Attorney

4. The City filed with the Nationally Recognized Municipal Securities Information Repositories a Voluntary Report of Information, dated February 24, 2006, "Relating to Certain Parcels within Reassessment District 2003-1 and Published Reports Pertaining to the Discovery of a Drug Smuggling Tunnel". Reference is made to that filing for further information.

Table 2
City of San Diego Reassessment District No. 2003-1
Development Status and Land Use Summary

Land Uses	Number of Parcels	2005/06 Assessed		Remaining Lien	Percentages		Assessed Value-to-Lien
		Value			Parcels	Liens	
Developed	68	\$ 100,114,479	\$	4,941,816	56.2%	62.5%	20.26
Federal (1)	2	-		46,274	1.7%	0.6%	N/A
Under Construction	1	612,000		69,154	0.8%	0.9%	8.85
Undeveloped	50	17,037,977		2,847,756	41.3%	36.0%	5.98
Grand Total	121	\$ 117,764,456	\$	7,905,000	100.0%	100.0%	14.90

⁽¹⁾ Two properties owned by the United States of America with a zero assessed value.

Source: Assessed Values - 2005/06 San Diego County Secured Property Tax Roll.

Dick Jacobs Associates, Assessment Engineer

Table 4
City of San Diego Reassessment District No. 2003-1
Assessed Value-to-Lien Ratio Ranges

Assessed Value-to-Lien Range	Number of Parcels	2005/06 Assessed Values			Aggregate Remaining Lien	Assessed Value-to-Lien Ratio	% of Lien
		Land	Improvement	Total			
20:1 and Above	43	\$ 19,834,938	\$ 54,498,418	\$ 74,333,356	\$ 2,481,153	29.96	31.39%
10:1 to 19.99:1	18	13,696,373	10,231,677	23,928,050	1,758,046	13.61	22.24%
5:1 to 9.99:1	33	13,497,818	1,099,638	14,597,456	1,999,518	7.30	25.29%
3:1 to 4.99:1	21	3,578,110	0	3,578,110	924,967	3.87	11.70%
2:1 to 2.99:1	2	559,797	0	559,797	255,782	2.19	3.24%
1:1 to 1.99:1	2	767,687	0	767,687	439,260	1.75	5.56%
Less Than 1:1 (1)	2	0	0	0	46,274	-	0.59%
Grand Total	121	\$ 51,934,723	\$ 65,829,733	\$ 117,764,456	\$ 7,905,000	14.90	100.00%

(1) Includes two parcels owned by the United States of America with a zero assessed value.

Source: Assessed Values - 2005/06 San Diego County Secured Property Tax Roll.

Dick Jacobs Associates, Assessment Engineer

Table 6
City of San Diego Reassessment District No. 2003-1
Appraised Value-to-Lien Ratios by Owner

Owner	No. of Parcels	Remaining Lien	% of Total Lien (1)	2005/06 Assessed Value	Assessed Value-to- Lien
GARCIA PRODUCE L L C	1	\$ 52,811	0.67%	\$ 184,729	3.50
LOPEZ ALEX & ROSE	1	27,990	0.35%	265,200	9.47
O M C PROPERTIES L L C	1	234,446	2.97%	503,599	2.15
OTAY ACQUISITIONS LP	2	85,635	1.08%	298,839	3.49
OTAY MESA PROPERTY L P	7	595,265	7.53%	1,287,203	2.16
UNITED STATES OF AMERICA	2	46,274	0.59%	-	-
Total	14	\$ 1,042,420	13.19%	\$ 2,539,570	2.44

(1) Total Remaining Lien is \$7,905,000

Source: Owner and Assessed Values - 2005/06 San Diego County Secured Property Tax Roll.

Note: Certain Parcels within the 14 Appraised Parcels changed ownership.

Dick Jacobs Associates, Assessment Engineer

Table 11
City of San Diego Reassessment District No. 2003-1
Delinquency History

<u>Fiscal Year</u>	<u>Number of Parcels Assessed</u>	<u>Total Levy</u>	<u>Delinquent Installments (1)</u>	<u>Percent Delinquent</u>	<u>Amount Remaining Delinquent As of 01/6/06</u>	<u>Percent Remaining Delinquent As of 01/6/06</u>
2004-2005	111	\$938,337	\$19,765	2.11%	\$17,696	1.89%
2003-2004	121	\$991,921	\$17,272	1.74%	\$5,828	0.59%
2002-2003	129	\$1,195,333	\$22,899	1.92%	\$6,399	0.54%
2001-2002	127	\$1,232,834	\$36,527	2.96%	\$6,622	0.54%
2000-2001	124	\$1,217,147	\$132,693	10.90%	\$6,680	0.55%
1999-2000	128	\$1,230,942	\$42,374	3.44%	\$6,661	0.54%
1998-1999	128	\$1,218,615	\$162,818	13.36%	\$6,534	0.54%
1997-1998	128	\$1,300,675	\$173,160	13.31%	\$6,814	0.52%
1996-1997	128	\$1,322,290	\$565,183	42.74%	\$7,027	0.53%
1995-1996	128	\$1,335,556	\$512,919	38.40%	\$6,951	0.52%
1994-1995	128	\$1,327,174	\$225,939	17.02%	\$6,783	0.51%
1993-1994	128	\$1,340,212	\$725,682	54.15%	\$6,760	0.50%
1992-1993	128	\$1,343,293	\$722,398	53.78%	\$3,551	0.26%
1991-1992	77	\$778,067	\$34,516	4.44%	\$0	0.00%
1990-1991	61	\$409,345	\$11,967	2.92%	\$0	0.00%
1989-1990	61	\$472,094	\$5,425	1.15%	\$0	0.00%
					\$94,305	

(1) Does not include penalties and interest.

Source: San Diego County Delinquency Reports ST280190 and ST28-0090-02; City Treasurer - Special Districts Administration

**CITY OF SAN DIEGO
REASSESSMENT DISTRICT NO. 2003-1
LIMITED OBLIGATION REFUNDING BONDS**

**Annual Report Under the Continuing Disclosure Certificate
June 30, 2004**

1. This Annual Report includes information required by the Continuing Disclosure Certificate for City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds, except for the Comprehensive Annual Financial Report of the City of San Diego (the “CAFR”) for the Fiscal Year ended June 30, 2004 (see item (a) below):
 - (a) The Assessment District Funds are considered part of the City’s reporting entity and can be found in the fund level financial statements in the Nonmajor Governmental Funds – Capital Projects (Other Construction) and Nonmajor Governmental funds - Debt Service (Other Special Assessments) of the City of San Diego’s Comprehensive Annual Financial Report. However this Annual Report does not include the audited financial statements of the City for the fiscal year ended June 30, 2003, or for the fiscal year ended June 30, 2004, because such audits are not yet complete. In addition, in light of certain errors with respect to the audited financial statements of the City for the fiscal year ended June 30, 2002, which were reported to the Nationally Recognized Municipal Securities Information Repositories on January 27, 2004 and March 12, 2004, the City has determined that it would not be prudent to file unaudited financials at this time.

Source: City Treasurer, City Auditor and Comptroller

2. Other financial information and operating data relating to the District contained in the Official Statement for the Bonds:

2.1 Principal amount of bonds outstanding (as of December 31, 2004): \$8,380,000

Source: City Treasurer - Special Districts Administration

2.2 Balance in Redemption Fund (as of December 31, 2004): \$ 116,086

Source: US Bank Fiscal Agent Statements, City Treasurer - Special Districts Administration

2.3 Balance in the Reserve Fund (as of December 31, 2004): \$ 888,802

Source: US Bank Fiscal Agent Statements, City Treasurer - Special Districts Administration

Reserve Requirement: \$885,191.76

Equal to the least of:

- (i) Maximum Annual Debt Service for the Bonds,
- (ii) One hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or
- (iii) Ten percent (10%) of the original principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

Source: City Treasurer - Special Districts Administration (Bond Indenture)

2.4 Updates of the following tables in the Official Statement are attached:

Table 2 - Development Status and Land Use Summary

Source: Dick Jacobs Associates, San Diego County Assessor, City Treasurer - Special Districts Administration

Table 4 - Assessed Value-To-Lien Ratio Ranges

Source: Dick Jacobs Associates, San Diego County Assessor, City Treasurer - Special Districts Administration

Table 6 - Appraised Value-To-Lien Ratios by Property Owner (excluding the columns headed "Appraised Value" and "Appraised Value-To-Lien Ratio")

Source: Dick Jacobs Associates, San Diego County Assessor, City Treasurer - Special Districts Administration

Table 11 - Delinquency History

Source: San Diego County Delinquency Reports, City Treasurer - Special Districts Administration

3. The following is an update of certain information originally presented in the Official Statement for the Bonds regarding litigation:

Border Business Park, Inc. (aka De La Fuente Business Park, Inc.) v. City of San Diego ("Border")

On January 2, 2001, a San Diego County Superior Court jury returned a special verdict in the amount of \$94.5 million against the City. The jury award consisted of three parts: \$29.2 million for breach of a development agreement; \$25.5 million for inverse condemnation relating to planning of a regional airport; and \$39.8 million for inverse condemnation relating to excessive traffic. Claims for interest, costs, and attorneys' fees could bring the total judgment to more than \$200 million.

The lawsuit arises out of a 1986 development agreement (the “Development Agreement”) between the City and Border Business Park, Inc., relating to the development of a 312-acre industrial park in Otay Mesa, a community within the boundaries of the City and just north of the United States-Mexican border. Plaintiff alleges the City engaged in a pattern of conduct aimed at thwarting the developer’s rights under the Development Agreement, which resulted in breaches of the Development Agreement, damage to plaintiff and its property, nuisance and unconstitutional “takings” of private property for public use. Specifically, plaintiff claimed the City “took” plaintiff’s property by: (i) publicly discussing a proposal to build an international airport in the Otay Mesa region; and (ii) diverting commercial truck traffic onto public streets adjacent to plaintiff’s property.

Following the special verdict and a series of post-trial motions and hearings, the Court granted the City a new trial on one legal theory, which vacated the entire judgment as a matter of law. The ruling, however, effectively leaves intact the jury verdict of a damages award owed by the City to the plaintiff of \$65.3 million, with pre-judgment interest of \$26.4 million.

Appellate counsel for the City has advised that the City should have no obligation to pay these amounts until the appellate review process is concluded, which may occur any time between April 2006 and August 2007. The City will also be responsible for any post-trial interest, which will accrue at the rate of approximately 7.0% per annum, until any judgment is paid.

The City has at least partial coverage for its legal defense costs and may have coverage for indemnity costs and damages under its policies of insurance but the total amount and scope of the coverage is not currently known. A number of insurers whose policies may cover defense costs and any judgment have sued the City contending that such insurers are not obligated to defend or indemnify the City for any liability in this case. The City has prevailed on some aspects of the defense costs question, with the coverage litigation ongoing. (See “**Insurance Coverage Issues**” below).

Despite the denial of certain of the post-trial motions, the City believes it has sound legal theories for its appeal in *Border*; however, no assurance can be given that the City’s pursuit of this challenge will be successful. In addition, the plaintiff has filed a cross-appeal seeking to have the order granting a new trial set aside by the Court of Appeal. In the event that the City is not successful on appeal, and on retrial, if any, the judgment, including any interest, will have to be paid from the City’s treasury, most likely over a period of ten years with additional interest during that period, to the extent that there is not insurance coverage or there is a shortfall in coverage. The current judgment, as entered by the Superior Court and now being reviewed by the Court of Appeal, does not provide for any interim or partial payment prior to the completion of the retrial of the breach of contract claims. It is anticipated that the plaintiff will continue to seek, over the City’s objection, to have this judgment modified by the Court of Appeal or the Superior Court to provide for payment or deposit of funds prior to the completion of the retrial. (On November 7, 2001, the plaintiff filed a motion with the trial court asking

that the City deposit in trust into the court, the amount of \$92.4 million, pending the City's appeal. The court denied the plaintiff's motion.) However, if the current judgment is upheld and not modified by the Court of Appeal as a result of either the City's appeal or the cross-appeal, then no amount will be due from the City until after the retrial of the breach of contract claims. It is not expected that the retrial would be completed until Fiscal Year 2008.

Because there is no final judgment at this time, and given the Court's partial grant of the City's new trial motion, the City had not included any moneys for the payment of any judgment in this case in its budget for Fiscal Year 2006 and has not included any moneys in its budget for Fiscal Year 2007. Settlement discussions have occurred from time to time and are continuing. The City does not believe that it will be obligated to make payments in connection with this matter in Fiscal Year 2006. However, the City cannot predict the timing or cost of the ultimate resolution of this case.

The City has also been sued by other entities owning property in Border Business Park, *National Enterprises, Inc. v. City of San Diego* and *Otay Acquisitions LLC v. City of San Diego*. These lawsuits allege identical and similar theories of liability to the *Border* lawsuit and have been brought by entities owned or controlled by the same individual who controls the plaintiff in *Border*. The City's outside counsel believes that these new lawsuits should be barred in total or in part by the ultimate judgment in *Border*, but these lawsuits seek damages of at least \$100 million in addition to the *Border* verdict, and the effect of *Border* on these lawsuits is currently unknown. These lawsuits are pending in San Diego Superior Court and have been stayed until the *Border* appeal is resolved. The City cannot predict the timing or cost of the ultimate resolution of these cases.

Insurance Coverage Issues

On April 9, 2002, three of the City's general liability insurers filed a federal court lawsuit against the City in the Southern District of California, *Insurance Company of the State of Pennsylvania, et al. v. City of San Diego*, Case No. 02 CV 0693 JM (RBB). These insurers provide coverage to the City for the years 1991 to 2001, and they collectively insure the City for policy limits of \$25 million per occurrence per year (less the City's self-insured retention, which ranges from \$1 million to \$3 million). The insurers' lawsuit seeks a declaration that the insurers are not obligated to defend or indemnify the City for any liability it may suffer in the *Border* matter and the related actions (collectively the "*De La Fuente* cases"). (See "*Border Business Park v. City of San Diego*" above).

Two of the City's other liability insurers did not join in this lawsuit, although they may not be precluded from joining in this lawsuit or filing a separate lawsuit. The non-suing liability insurers issued coverage to the City for the 1990-91 policy year, with collective limits of \$17 million per occurrence (subject to a \$5 million self-insured retention). One of them has paid the City policy limits of \$2 million for one

occurrence, while reserving its rights to dispute more than one occurrence and other issues.

The suing insurers are disputing coverage in the *De La Fuente* cases on the ground that the City allegedly provided late notice of the claims against it, that the claims purportedly are not covered property damage or personal injury, and based upon alleged policy exclusions for breach of contract and inverse condemnation claims. If the insurers were to prevail on this complaint, the City would lose insurance coverage from them for its future attorneys' fees and costs incurred in defending the *De La Fuente* matter, and for any damages ultimately awarded in those cases, from these insurers. In the opinion of outside counsel, the City would not owe any damages to the insurance companies, even if it lost coverage, except in the event that the Court ordered the City to reimburse suing insurer(s) for past defense costs it has paid to the City, a prospect that is remote given subsequent rulings discussed below.

On May 7, 2002, the City filed an answer and counterclaim in the lawsuit. The City sought a determination that one of the suing insurers is obligated to defend the City in the *De La Fuente* cases. In addition, the City's counterclaim seeks to recover damages for breach of contract and bad faith.

On October 20, 2003, the Court denied the City's Motion seeking summary judgment of one of the insurer's duty to defend. The Court found that there was a duty to defend under the insurance policies, but the *De La Fuente* cases did not allege "personal injury" or "property damage" potentially within the policies' coverage. The City filed a motion for reconsideration of that ruling which was denied on January 13, 2004.

The City appealed those rulings to the Ninth Circuit Court of Appeals. On March 18, 2005, the Ninth Circuit issued a judgment reversing the district court and finding that the insurer has a duty to pay the City's defense costs in the *De La Fuente* cases under two insurance policies.

On remand to the district court, the insurer filed its own motion for partial summary judgment seeking a determination that it did not have an immediate duty to pay the City's defense costs despite the Ninth Circuit judgment. The insurer asserted that it had conclusive defenses to coverage and had paid policy limits thereby exhausting one policy. On March 21, 2006, the district court denied the insurer's motion and granted partial summary judgment for the City. The Court held that the insurer has a duty to defend the City in all three *De La Fuente* cases under two policies, and that policy limits under one policy apply on a yearly basis (instead of a single limit for a four year policy), thereby increasing the City's potential coverage by at least \$6 million, and possibly much more. The Court reserved until it considers whether the insurer acted in bad faith the questions of (1) the City's right to recover its attorneys' fees from the coverage litigation; and (2) the amount of defense costs that must be paid by the insurer.

The insurer may seek to appeal its duty to defend, and the precise dollar amount of defense coverage has not been resolved, but the City has a judgment that that the insurer has a duty to defend. If the City ultimately has to pay damages in the *De La Fuente* cases, the City is optimistic that there should be at least some indemnity coverage under these policies (depending on the ultimate basis for and amount of the City's liability, if any), and the City is pursuing its claim for bad faith damages against one insurer for its failure to defend; however, no prediction can be made as to the outcome of this litigation.

Source: City Attorney

Table 2
City of San Diego Reassessment District No. 2003-1
Development Status and Land Use Summary

Land Uses	Number of Parcels	2004/05 Assessed Value	Remaining Lien	Percentages		Assessed Value-to- Lien
				Parcels	Liens	
Developed	55	\$ 92,104,531	\$ 5,148,735	49.5%	61.4%	17.89
Federal (1)	2	-	49,054	1.8%	0.6%	N/A
Under Construction	2	1,469,206	105,035	1.8%	1.3%	13.99
Undeveloped	52	16,142,553	3,077,175	46.8%	36.7%	5.25
Grand Total	111	\$ 109,716,290	\$ 8,380,000	100.0%	100.0%	13.09

⁽¹⁾ Two properties owned by the United States of America with a zero assessed value.

Source: Assessed Values - 2004/05 San Diego County Secured Property Tax Roll.

Dick Jacobs Associates, Assessment Engineer

Table 4
City of San Diego Reassessment District No. 2003-1
Assessed Value-to-Lien Ratio Ranges

Assessed Value-to-Lien Range	Number of Parcels	2004/05 Assessed Values			Aggregate Remaining Lien	Assessed Value-to-Lien Ratio	% of Lien
		Land	Improvement	Total			
20:1 and Above	27	\$ 14,675,658	\$ 45,621,371	\$ 60,297,029	\$ 2,131,641	28.29	25.44%
10:1 to 19.99:1	15	12,840,987	14,483,254	27,324,241	2,030,270	13.46	24.23%
5:1 to 9.99:1	40	14,433,580	1,944,880	16,378,460	2,388,185	6.86	28.50%
3:1 to 4.99:1	23	4,006,168	-	4,006,168	1,089,554	3.68	13.00%
2:1 to 2.99:1	3	1,493,945	-	1,493,945	581,104	2.57	6.93%
1:1 to 1.99:1	1	216,447	-	216,447	110,191	1.96	1.31%
Less Than 1:1 (1)	2	-	-	-	49,054	-	0.59%
Grand Total	111	\$ 47,666,785	\$ 62,049,505	\$ 109,716,290	\$ 8,380,000	13.09	100.00%

(1) Includes two parcels owned by the United States of America with a zero assessed value.

Source: Assessed Values - 2004/05 San Diego County Secured Property Tax Roll.

Dick Jacobs Associates, Assessment Engineer

Table 6
City of San Diego Reassessment District No. 2003-1
Assessed Value-to-Lien Ratios by Owner

Owner	No. of Parcels	Remaining Lien	% of Total Lien ⁽¹⁾	2004/05 Assessed Value	Assessed Value-to-Lien
OTAY MESA PROPERTY L P	6	\$631,033	7.53%	\$1,853,323	2.94
O M C PROPERTIES L L C	2	248,533	2.97%	493,725	1.99
OTAY ACQUISITIONS L P	2	90,781	1.08%	292,980	3.23
GARCIA PRODUCE L L C	1	55,984	0.67%	181,107	3.23
LOPEZ ALEX & ROSE	1	29,672	0.35%	260,000	8.76
UNITED STATES OF AMERICA	2	49,054	0.59%	0	-
Total	14	\$1,105,058	13.19%	\$3,081,135	2.79

⁽¹⁾ Total Remaining Lien is \$8,380,000

Source: Owner and Assessed Values - 2004/05 San Diego County Secured Property Tax Roll.

Dick Jacobs Associates, Assessment Engineer

Table 11
City of San Diego Reassessment District No. 2003-1
Delinquency History

<u>Fiscal Year</u>	<u>Number of Parcels Assessed</u>	<u>Total Levy</u>	<u>Delinquent Installments (1)</u>	<u>Percent Delinquent</u>	<u>Amount Remaining Delinquent As of 01/25/05</u>	<u>Percent Remaining Delinquent As of 01/25/05</u>
2003-2004	121	\$991,921	\$17,272	1.74%	\$9,933	1.00%
2002-2003	129	\$1,195,333	\$22,899	1.92%	\$6,399	0.54%
2001-2002	127	\$1,232,834	\$36,527	2.96%	\$6,622	0.54%
2000-2001	124	\$1,217,147	\$132,693	10.90%	\$6,680	0.55%
1999-2000	128	\$1,230,942	\$42,374	3.44%	\$6,661	0.54%
1998-1999	128	\$1,218,615	\$162,818	13.36%	\$6,534	0.54%
1997-1998	128	\$1,300,675	\$173,160	13.31%	\$6,814	0.52%
1996-1997	128	\$1,322,290	\$565,183	42.74%	\$7,027	0.53%
1995-1996	128	\$1,335,556	\$512,919	38.40%	\$6,951	0.52%
1994-1995	128	\$1,327,174	\$225,939	17.02%	\$6,783	0.51%
1993-1994	128	\$1,340,212	\$725,682	54.15%	\$6,760	0.50%
1992-1993	128	\$1,343,293	\$722,398	53.78%	\$3,551	0.26%
1991-1992	77	\$778,067	\$34,516	4.44%	\$0	0.00%
1990-1991	61	\$409,345	\$11,967	2.92%	\$0	0.00%
1989-1990	61	\$472,094	\$5,425	1.15%	\$0	0.00%
					\$80,714	

(1) Does not include penalties and interest.

Source: San Diego County Delinquency Reports ST280190 and ST28-0090-02; City Treasurer - Special Districts Administration