This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without any notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the 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 MAY 30, 2012

NEW ISSUE — FULL BOOK-ENTRY-ONLY

Fitch: A+
S&P: A+
See "RATINGS"

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2012A Bonds is exempt from State of California personal income taxes. Interest on the Series 2012A Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

$140,000,000*

CONVENTION CENTER EXPANSION FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2012A

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

This cover contains certain information for general reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision, including "THE CITY" and "CERTAIN RISK FACTORS."

The Convention Center Expansion Financing Authority (the "*Authority*") is issuing $140,000,000* aggregate principal amount of its Lease Revenue Refunding Bonds, Series 2012A (the "*Series 2012A Bonds*") pursuant to the Indenture, dated as of June 1, 2012 (as amended or supplemented, the "*Indenture*"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "*Trustee*").

The Series 2012A Bonds are being issued to (i) refund all of the Authority's outstanding Lease Revenue Bonds, Series 1998A; and (ii) pay costs of issuance incurred in connection with the issuance of the Series 2012A Bonds. See "PLAN OF REFUNDING."

The Series 2012A Bonds are being issued as fully registered bonds, without coupons, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("*DTC*"). Individual purchases of the Series 2012A Bonds will be made in book-entry form only in the principal amount of $5,000 or any multiple thereof. Interest on the Series 2012A Bonds will be payable on April 15 and October 15 of each year, commencing October 15, 2012*.

The Series 2012A Bonds are payable from revenues derived from Base Rental Payments paid by the City of San Diego (the "*City*") for the use and occupancy of the Leased Property (as defined in the Lease (defined below)) as long as the City has such use and occupancy of the Leased Property, and amounts on deposit in certain funds, accounts and subaccounts established under the Indenture, all as set forth in the Indenture. The Authority has leased the Leased Property to the City pursuant to the Facilities Lease, dated as of June 1, 2012 (as amended or supplemented, the "*Lease*"). The Series 2012A Bonds are also payable from insurance or condemnation awards, if any, arising under the Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS" and "CERTAIN RISK FACTORS."

The Series 2012A Bonds are subject to optional, mandatory sinking fund, and special mandatory redemption as more fully set forth herein. See "THE SERIES 2012A BONDS – Redemption Provisions."

THE SERIES 2012A BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY SECURED SOLELY BY THE BASE RENTAL PAYMENTS OF THE CITY PAYABLE UNDER THE LEASE AND CERTAIN FUNDS HELD UNDER THE INDENTURE, AND ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE FAITH AND CREDIT OF THE CITY NOR THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2012A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE SERIES 2012A BONDS DO NOT CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION WITH RESPECT TO THE CITY OR ANY OTHER POLITICAL SUBDIVISION OR GOVERNMENTAL ENTITY.

The Series 2012A Bonds are offered when, as and if issued, subject to the opinion on certain legal matters relating to their issuance of Squire Sanders (US) LLP, Bond Counsel and Disclosure Counsel to the City. Certain additional legal matters will be passed upon for the City and the Authority by Jan I. Goldsmith, Esq., City Attorney, and for the Underwriters by Nixon Peabody LLP, as counsel for the Underwriters. It is anticipated that the Series 2012A Bonds will be available for delivery through the facilities of DTC in book-entry form on or about June __, 2012.

Stone & Youngberg,
a Division of Stifel Nicolaus

Barclays

Loop Capital Markets

Southwest Securities

Dated: _____, 2012

* Preliminary, subject to change.

Maturity Schedule*

$140,000,000*
Convention Center Expansion Financing Authority
Lease Revenue Refunding Bonds, Series 2012A
(Base CUSIP Number: 79727L)[1]

Date	Principal Amount	Interest Rate	Price or Yield[2]	CUSIP[1]
April 15, 2013	$ 7,445,000			
April 15, 2014	6,445,000			
April 15, 2015	6,640,000			
April 15, 2016	6,905,000			
April 15, 2017	7,180,000			
April 15, 2018	7,465,000			
April 15, 2019	7,770,000			
April 15, 2020	8,155,000			
April 15, 2021	8,565,000			
April 15, 2022	8,995,000			
April 15, 2023	9,440,000			
April 15, 2024	9,910,000			
April 15, 2025	10,410,000			
April 15, 2026	10,930,000			
April 15, 2027	11,475,000			
April 15, 2028	12,050,000			

$_____ _____% Term Bond due _____ 1, 20__, Yield[2]: _____%, CUSIP[1]: 79727L-___

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* Preliminary, subject to change.

1 Copyright 2012, American Bankers Association. CUSIP numbers herein are provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association, and are set forth herein for the convenience of reference only. None of the City, the Authority, Bond Counsel, Disclosure Counsel, the Underwriters or the Financial Advisor assume any responsibility for the accuracy of such numbers.

2 Reoffering yields/prices are furnished by the Underwriters. Neither the Authority not the City take any responsibility for the accuracy thereof.

CITY OF SAN DIEGO

MAYOR
Jerry Sanders

City Council

Sherri S. Lightner (*District 1*)
Kevin Faulconer, City Council President *Pro Tem* (*District 2*)
Todd Gloria (*District 3*)
Tony Young, City Council President (*District 4*)
Carl DeMaio (*District 5*)
Lorie Zapf (*District 6*)
Marti Emerald (*District 7*)
David Alvarez (*District 8*)

CITY ATTORNEY
Jan I. Goldsmith

CITY OFFICIALS
Jay M. Goldstone, *Chief Operating Officer*
Gail R. Granewich, *City Treasurer*
Eduardo Luna, *City Auditor*
Kenton C. Whitfield, *City Comptroller*
Andrea Tevlin, *Independent Budget Analyst*
Elizabeth Maland, *City Clerk*

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

BOARD OF COMMISSIONERS
Mayor Jerry Sanders, *Chair*
Jay M. Goldstone, *Vice Chair*
Wayne Darbeau, *Secretary*
Lou Smith, *Member*

BOND COUNSEL/DISCLOSURE COUNSEL
Squire Sanders (US) LLP

FINANCIAL ADVISOR
KNN Public Finance, A Division of Zions First National Bank

TRUSTEE
The Bank of New York Mellon Trust Company, N.A.

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representations other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the City. 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 2012A 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 to be construed as a contract with the purchasers of the Series 2012A 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 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 a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information in APPENDIX E — "DTC AND THE BOOK-ENTRY-ONLY SYSTEM" attached hereto has been furnished by The Depository Trust Company and no representation has been made by the Authority or the City or the Underwriters as to the accuracy or completeness of such information.

The information set forth herein other than that provided by the City, although obtained from sources which are believed by the City to be reliable, is not guaranteed by the City or the Authority as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither 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 since the date thereof. This Official Statement is submitted with respect to the sale of the Series 2012A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2012A BONDS AT LEVELS 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 2012A BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER OR YIELDS HIGHER THAN THE PUBLIC OFFERING PRICES OR YIELDS STATED ON THE INSIDE FRONT COVER HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

A wide variety of other information, including financial information, concerning the City, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

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OFFICIAL STATEMENT

$140,000,000*

CONVENTION CENTER EXPANSION FINANCING AUTHORITY

LEASE REVENUE REFUNDING BONDS, SERIES 2012A

INTRODUCTION

This Introduction contains only a brief summary of certain of the terms of the Series 2012A Bonds being offered hereby, and a brief description of the Official Statement. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement, including the Appendices. References to, and summaries of, provisions of the City Charter, the Constitution and 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. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

GENERAL

This INTRODUCTION is not intended to be a complete statement of the terms and provisions of the Series 2012A Bonds and is qualified by the more detailed information contained elsewhere in this Official Statement. This Official Statement, which includes the cover page, inside cover page, and appendices hereto (the "*Official Statement*"), is provided for the purpose of setting forth information concerning the issuance and sale by the Convention Center Expansion Financing Authority (the "*Authority*") of $140,000,000* aggregate principal amount of its Lease Revenue Refunding Bonds, Series 2012A (the "*Series 2012A Bonds*"). The Series 2012A Bonds and any Additional Bonds (hereinafter defined) issued under the Indenture (hereinafter defined) are collectively referred to herein as the *"Bonds."* Capitalized terms not otherwise defined herein have the meanings given in the Indenture and the Lease (hereinafter defined) or in APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS."

AUTHORITY; PURPOSE FOR ISSUANCE

The Series 2012A Bonds are authorized under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "*Act*") and the laws of the State of California. The Series 2012A Bonds are being issued pursuant to the Indenture, dated as of June 1, 2012 (as amended or supplemented, the "*Indenture*"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "*Trustee*").

The Series 2012A Bonds are being issued to: (i) refund all of the Authority's $205,000,000 Lease Revenue Bonds, Series 1998A, of which $150,720,000 are currently outstanding (the

* Preliminary, subject to change.

"*Bonds Being Refunded*"); and (ii) pay costs of issuance incurred in connection with the issuance of the Series 2012A Bonds. See "PLAN OF REFUNDING."

THE LEASE PAYMENTS AND THE LEASED PROPERTY

The City of San Diego (the *"City"*), exercising its powers under the City Charter (the "*Charter*") to convey and lease property, will sublease from the Authority, pursuant to the Facility Lease, dated as of June 1, 2012 (as amended or supplemented, the "*Lease*"), between the City and the Authority, certain real property which is owned by the San Diego Unified Port District (the "*District*"), together with the buildings and other improvements thereon which were financed with the Bonds Being Refunded (the "*1998 Expansion,*" collectively with the land, the "*Leased Property*"). See "THE LEASED PROPERTY." The District has leased the Leased Property to the Authority pursuant to the Expansion Lease, dated as of September 1, 1998, as amended and restated as of June 1, 2012 (the "*Expansion Lease*"). The term of the Lease and Expansion Lease ends May 1, 2028 unless all Bonds have not been paid as of that date, in which case such terms are extended until all Bonds have been paid, but in no event beyond April 1, 2033.

On or before each Lease Payment Date (on April 10 and October 10 of each year, commencing October 10, 2012) during the term of the Lease, the City is required to pay to the Trustee the Base Rental Payments (*"Base Rental Payments"*) due on such Lease Payment Date from the City's General Fund, or from other legally available sources. The Trustee, as assignee of the Authority, will receive the Base Rental Payments for the benefit of the Owners of the Bonds and credit such Base Rental Payments to the Revenue Fund established pursuant to the Indenture. Under the Lease, the City covenants to take such action as may be necessary to include all Base Rental Payments payable under the Lease in its operating budget for each fiscal year and make the necessary annual appropriations therefor. The Lease provides that such covenants of the City are deemed by the City to be and will be construed to be ministerial duties imposed by law. The Bonds are not secured by any security interest in or mortgage on the Leased Property or any other property.

During any period in which material damage, destruction, title defect or condemnation of all or a portion of the Leased Property or other event results in substantial interference with the use and occupancy of the Leased Property or any portion thereof, all or a portion of the Base Rental Payments due under the Lease will be abated such that the remaining Base Rental Payments due under the Lease represent fair rental for the use of the portion of the Leased Property not affected. In the event of any such interruption of use and occupancy, the Lease will continue in full force and effect and proceeds of use and occupancy insurance, if any, will be used to pay Base Rental Payments that would otherwise be abated. See "SECURITY AND SOURCES OF PAYMENT — Abatement of Rental Payments" and APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Rental Abatement."

INDENTURE AND SECURITY FOR THE BONDS

The Bonds will be secured under the Indenture solely by a pledge of Revenues (the "*Revenues*") and moneys held in certain funds, accounts or subaccounts held under the Indenture that are pledged to the payment of the Bonds. The Revenues consist of (a) all Base Rental Payments, prepayments, insurance proceeds, condemnation proceeds and the money, if any, in the Loss of Use and Occupancy Fund created under the Lease; and (b) the Revenue Fund and all interest and other income deposited, pursuant to the Indenture, in the Revenue Fund.

ADDITIONAL BONDS

The Authority may at any time issue Additional Bonds pursuant to a Supplemental Indenture, payable from and secured by a pledge of and charge and lien upon the Revenues, as provided in the Indenture, equal to the pledge, charge and lien securing the Series 2012A Bonds, subject to the conditions precedent set forth in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS – Additional Bonds."

BONDHOLDERS' RISKS

There are a number of risks associated with the purchase of the Series 2012A Bonds. See "CERTAIN RISK FACTORS" for a discussion of certain of these risks.

CAUTIONARY STATEMENT REGARDING 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 believed by the City to be reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. Neither the Authority nor the City is obligated to issue any updates or revisions to the forward-looking statements if or when expectations, events, conditions or circumstances on which such statements are based do or do not occur.

The presentation of information in APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION," including tables of receipt of revenues, is intended to show recent historical information, except for the budget for Fiscal Year 2012, the proposed budget for Fiscal Year 2013 and certain other future statements and projections, and the City disclaims any representations that any of such information may indicate future or continuing trends in the financial condition, results of operations or any other affairs of the City. No representation is made that past experience, results of operations or financial condition, as it might be shown by

such financial and other information, will continue or be repeated in the future. (For ease of reference, references in this Official Statement to any particular Fiscal Year (e.g., Fiscal Year 2012) shall mean the Fiscal Year ending June 30 of the referenced year.)

OTHER INFORMATION IN THIS OFFICIAL STATEMENT

For important information regarding the City's budget and finances, see APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION." In addition, certain demographic, financial and other information with respect to or affecting the City is contained elsewhere in APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION," in APPENDIX B — "DEMOGRAPHIC AND OTHER INFORMATION REGARDING THE CITY," and in the City's Comprehensive Annual Financial Report (*"CAFR"*) for Fiscal Year 2011, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2011. The CAFR is made available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (*"EMMA"*) at http://emma.msrb.org/EA478541-EA371040-EA767857.pdf and through the City's website at http://www.sandiego.gov/comptroller/reports/pdf/120131cafr2011.pdf. The City's CAFR is incorporated herein, but no other information from the City's website is so incorporated.

Brief descriptions of the Series 2012A Bonds, the Indenture, the Lease, the Expansion Lease and other documents and information are included in this Official Statement, including the Appendices hereto. Such descriptions and information do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to statutes and to the documents summarized, copies of which may be obtained upon request to The Bank of New York Mellon Trust Company, N.A., 700 South Flower Street, 5th Floor, Los Angeles, CA 90017, Attention: Corporate Trust Department, Phone: (213) 630-6404, Fax: (213) 630-6210.

THE SERIES 2012A BONDS

GENERAL TERMS

The Series 2012A Bonds will be dated, and accrue interest from, the date of their delivery and will bear interest at the rates per annum and mature in the amounts and on the dates shown on the inside cover page of this Official Statement. The Series 2012A Bonds will be issued as fully registered bonds, without coupons, registered in the name of Cede & Co., as nominee of DTC. Individual purchase of the Series 2012A Bonds will be made in book-entry form only in the principal amount of $5,000 or any multiple thereof. Interest on the Series 2012A Bonds will be payable on April 15 and October 15 of each year (each, an "*Interest Payment Date*"), commencing October 15, 2012.* The Trustee will make payments of the principal and interest on the Series 2012A Bonds directly to DTC, or its nominee, currently Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Series 2012A Bonds. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

* Preliminary, subject to change.

Except as otherwise provided in the Indenture, interest on the Series 2012A Bonds will be payable semiannually on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed on such Interest Payment Date by first class mail to the Owners at the respective addresses of such Owners as they appear on the Registration Books; provided however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Series 2012A Bonds in the aggregate principal amount of $1,000,000 or more who furnishes written wire instructions to the Trustee at least five (5) days before the applicable Record Date. Principal of the Series 2012A Bonds upon maturity or earlier redemption of such Series 2012A Bonds will be paid by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee. Principal of and interest and premium (if any) on the Bonds will be payable in lawful money of the United States of America. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

REDEMPTION PROVISIONS

Optional Redemption. The Series 2012A Bonds maturing on or before _____, 20__ are not subject to optional redemption prior to their respective stated maturities. The Series 2012A Bonds maturing on or after _____, 20__, shall be subject to optional redemption, in whole or in part, on any date, upon forty-five (45) days written notice to the Trustee by the City (unless such notice is waived by Trustee) of its intention to optionally prepay all or a portion of the Lease Payments, on any date on or after _____, 20__, from any available source of funds of the City, at a redemption price equal to the principal amount of the Series 2012A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium. Any such redemption will be in such order of maturity as the City will designate in a written notice (and, if no specific order of redemption is designated by the City, pro rata among maturities).

Special Mandatory Redemption. The Series 2012A Bonds will also be subject to redemption as a whole or in part on any date, to the extent the Trustee has received property or title insurance proceeds or condemnation proceeds not used to repair or replace any portion of the Leased Property damaged, destroyed or taken and elected by the City to be used for such purpose as provided in the Indenture, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2012A Bonds maturing on _____, 20__ are also subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Series 2012A Bonds Sinking Account, on each principal payment date commencing _____, 20__ from sinking fund payments derived from scheduled Base Rental Payments made by the City at a redemption price equal to the principal amount thereof to be redeemed and interest accrued thereon to the dates fixed for mandatory redemption, without premium, according to the following schedule:

DATE	PRINCIPAL AMOUNT TO BE REDEEMED

†Maturity

The Series 2012A Bonds maturing on _____, 20__ are also subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Series 2012A Bonds Sinking Account, on each semi-annual principal payment date commencing _____, 20__ from sinking fund payments derived from scheduled Base Rental Payments made by the City at a redemption price equal to the principal amount thereof to be redeemed and interest accrued thereon to the dates fixed for mandatory redemption, without premium, according to the following schedule:

DATE	PRINCIPAL AMOUNT TO BE REDEEMED

†Maturity

Provided, however, that if some but not all of the Series 2012A Bonds maturing on or after _____, 20__ ("*Term Bonds*") have been optionally redeemed as described above, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of Term Bonds so redeemed, to be allocated among the sinking fund payments as are thereafter payable on a pro rata basis in integral multiples of $5,000 to the extent possible and in inverse order thereafter.

The City will have the option, in lieu of sinking fund redemption of any Term Bonds, to direct the Trustee to use and withdraw amounts on deposit as sinking fund payments for the Series 2012A Bonds, at any time for the purchase by the City (or the Trustee on behalf of the City) of Term Bonds otherwise required to be redeemed on the following sinking fund redemption date, at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the City may in its discretion determine. The par amount of any of Term Bonds so purchased by the City and surrendered to the Trustee for cancellation in any six-month period ending on the 35th day preceding the sinking fund redemption date will be credited towards and will reduce the par amount of such Term Bonds otherwise required to be redeemed on such following sinking fund redemption date pursuant to mandatory sinking fund redemption, as set forth in the Indenture.

The City will also have the option to deliver for cancellation to the Trustee Term Bonds in any aggregate principal amount, and to receive a credit therefore against the mandatory sinking fund payment set forth above. This option will be exercised by the City on or before the 35th day preceding the applicable mandatory sinking fund redemption date, by furnishing to the Trustee a written certificate setting forth: (A) the dollar amount of the credit to be applied with respect to the mandatory sinking fund payment for Term Bonds; and (B) against which annual sinking fund payment(s) such credit is to be applied. If the written certificate is not furnished timely to the Trustee, no credit will be made against the next mandatory sinking fund payment, although credits may be available against subsequent mandatory sinking fund payments.

If any Term Bonds have been redeemed other than through the operation of mandatory sinking fund payment, the City shall specify in a written request how such redeemed Term Bond shall be credited against annual sinking fund payment(s) for such Term Bond which occurs at least 35 days after the receipt of the City's written request.

If the City fails to specify in any written request against which annual sinking fund payment(s) the credit shall be applied, then the Trustee shall apply such credit against the sinking fund payment(s) occurring at least 35 days after the receipt of the City's written request.

Each Term Bond so delivered, redeemed previously, or purchased and cancelled, will be credited by the Trustee at 100 percent of the principal amount thereof against the mandatory sinking fund payment, subject to the completion of the procedures described above.

Selection for Redemption. If less than all of the Series 2012A Bonds of a particular maturity are to be redeemed, the Trustee will select the Series 2012A Bonds to be redeemed from all Series 2012A Bonds of such maturity or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion will deem appropriate. For purposes of such selection, the Trustee will treat each Series 2012A Bond as consisting of separate $5,000 portions and each such portion will be subject to redemption as if such portion were a separate Series 2012A Bond. If less than all Outstanding Bonds are called for redemption from proceeds of eminent domain or insurance at any one time, the Authority will designate the maturity or maturities of the Bonds to be redeemed, which, to the extent practicable, results in approximately equal annual debt service on the Bonds Outstanding following such redemption.

Notice of Redemption. Notice of redemption will be mailed by the Trustee by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to the respective Owners of any Series 2012A Bonds designated for redemption at their addresses appearing on the Registration Books. Each notice of redemption will state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Series 2012A Bonds (or all Series 2012A Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Series 2012A Bonds within a maturity are called for redemption) bond numbers of the Series 2012A Bonds to be redeemed, the maturity or maturities of the Series 2012A Bonds to be redeemed and in the case of Series

2012A 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 the redemption date there will become due and payable on each of said Series 2012A Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Series 2012A Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date.

Notwithstanding the foregoing, in the case of any optional redemption of the Series 2012A Bonds, the notice of redemption will state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the Series 2012A Bonds on the anticipated redemption date, and that the optional redemption will not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Series 2012A Bonds have not been deposited with the Trustee. In the event that the Trustee does not receive sufficient funds by the scheduled optional redemption date to so redeem the Series 2012A Bonds, such event will not constitute an Event of Default, the Trustee will send written notice to the Owners, to the effect that the redemption did not occur as anticipated, and the Series 2012A Bonds for which notice of optional redemption was given will remain Outstanding.

The City will have the right to rescind any optional or special mandatory redemption by written notice to the Trustee on or prior to the date fixed for redemption. The Trustee will mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Purchase in Lieu of Redemption. Purchase in lieu of redemption will be available to all Series 2012A Bonds called for optional redemption or for such lesser portion of such Series 2012A Bonds as constitute authorized denominations. In a written certificate, the City may direct the Trustee (or another agent appointed by the City to make such purchase upon behalf of the City), to purchase all or such lesser portion of the Series 2012A Bonds called for optional redemption at the optional redemption price.

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York ("*DTC*"), will act as securities depository for the Series 2012A Bonds. The Series 2012A Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee), and will be available to ultimate purchasers only under the book-entry system maintained by DTC in the denomination of $5,000 or any integral multiple thereof. Ultimate purchasers of Series 2012A Bonds (the *"Beneficial Owners"*) will not receive physical certificates representing their interest in the Series 2012A Bonds. So long as the Series 2012A Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners of the Series 2012A Bonds will mean Cede & Co., and will not mean the ultimate purchasers of the Series 2012A Bonds. Payments by the Trustee of the principal of and interest on the Series 2012A Bonds and any notice with respect to any Series 2012A Bond will be sent directly to DTC, or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered

owner of the Series 2012A Bonds. Disbursements of such payments and delivery of such notices to DTC's Participants are the responsibility of DTC and disbursements of such payments and delivery of such notices to the Beneficial Owners are the responsibility of DTC's Participants and Indirect Participants. See APPENDIX E — "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

THE LEASED PROPERTY

The District owns the Leased Property. In connection with issuance in 1998 of the Bonds Being Refunded, (a) the District leased the Leased Property to the Authority, pursuant to the initial Expansion Lease, and (b) the Authority subleased the Leased Property to the City. In connection with issuance of the Series 2012A Bonds, (i) the District will lease the Leased Property to the Authority pursuant to the Expansion Lease; and (ii) the Authority will sublease the Leased Property to the City pursuant to the Lease. The Series 2012A Bonds are not secured by, and the Owners do not have any, pledge of, security interest in or mortgage on the Leased Property.

The Leased Property includes the site of the 1998 Expansion to the San Diego Convention Center, located on 14.42 acres along San Diego Bay in downtown San Diego, at 111 West Harbor Drive. This real property, together with the improvement's thereon, will be leased to the Authority by the District pursuant to the Expansion Lease, and subleased from the Authority to the City pursuant to the Lease. The 1998 Expansion was financed, in part, with the proceeds of the Bonds Being Refunded and was completed in 2001. The 1998 Expansion improvements that are part of the Leased Property include a free standing, two-story plus mezzanine building of approximately 831,957 square feet of interior space, 70,633 square feet of upper level open-air terrace and skywalks, a 23 bay dock-high truck loading area, passenger drop-off lane and a 2.23 acre public plaza with architectural features. Within the main building are 276,363 square feet of exhibit hall, 59,627 square feet of meeting rooms, a 40,706 square foot ballroom, a full service kitchen, show and administrative offices, and "pre-function" and lobby space. The 1998 Expansion improvements are contiguous to the original Convention Center and situated along Harbor Drive approximately between the base of 5th and 8th Streets.

The original Convention Center is not part of the Leased Property. The original Convention Center is located west of the 1998 Expansion along Harbor Drive approximately between the base of 1st and 5th Streets and consists of approximately 931,919 square feet of interior space, 113,881 square feet of outdoor terrace space and 27 truck loading docks. Within the original Convention Center are 249,338 square feet of exhibit halls, a 90,000 square foot special events area, 63,781 square feet of meeting rooms, a 40,000 square foot ballroom, a full service kitchen, administrative offices and pre-function and lobby space. Together, the entire Convention Center, including the 1998 Expansion, has approximately 1,763,876 square feet of interior space, 184,514 square feet of exterior space and 50 truck loading docks. Within the entire Convention Center are 525,701 square feet of exhibit halls, a 90,000 square foot special events area, 123,408 square feet of meeting rooms and 80,706 square feet of ballroom space.

The Leased Property has been valued by a third-party appraisal company, subject to the limitations stated in its report to the City, at approximately $340,000,000 as of February 17, 2012.

The Base Rental Payments to be made by the City are obligations of the City payable from its General Fund and any other legally available funds of the City. The City has not pledged any revenues it receives from or related to the Convention Center to pay the Base Rental Payments which secure the Series 2012A Bonds.

Pursuant to the Lease, the Authority acknowledges existing encumbrances on the Leased Property, including, but not limited to, the Lease. See APPENDIX C—"SUMMARY OF LEGAL DOCUMENTS—THE FACILITY LEASE—Lease of the Leased Property."

THE AUTHORITY

The Authority is a joint powers authority established under a Joint Exercise of Powers Agreement, effective April 23, 1996 (the "*JPA Agreement*"), by and between the City and the District, and under the provisions of Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "*Act*"). The Authority was established to assist the City and the District with respect to the financing, acquisition and construction of the 1998 Expansion to the City's convention facilities.

Except for the assignment of the Authority's rights (excluding its rights to indemnification) under the Lease to the Trustee, no property of the Authority secures the Series 2012A Bonds. The Authority has no obligation to pay principal and interest payments with respect to the Series 2012A Bonds except from Revenues. The Authority has no taxing powers.

THE CITY

APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION" and APPENDIX B — "DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY" set forth important information prepared by the City for inclusion in this Official Statement regarding its finances and operations and certain demographic and economic information concerning the City. *Investors are advised to carefully consider the information presented below, together with other information presented in Appendix A, Appendix B and elsewhere in this Official Statement, to make an informed investment decision.*

PLAN OF REFUNDING

Concurrently with the issuance of the Series 2012A Bonds, the City will deposit with the 1998A Trustee in an escrow fund a portion of the proceeds of the Series 2012A Bonds, together with other available funds, in an amount sufficient to refund, on a current basis, the Bonds Being Refunded, at their redemption price on their redemption date, plus all interest due to such redemption date, as follows:

Maturity Date (April 15)	Principal Amount	Redemption Price	Redemption Date	CUSIP
2013	$ 6,380,000	100%	June __, 2012	79727LAM1
2014	6,715,000	100%	June __, 2012	79727LAN9
2015	7,070,000	100%	June __, 2012	79727LAP4
2016	7,440,000	100%	June __, 2012	79727LAQ2
2017	7,830,000	100%	June __, 2012	79727LAR0
2018	8,210,000	100%	June __, 2012	79727LAS8
2028	107,075,000	100%	June __, 2012	79727LAT6

Upon such deposit, the Bonds Being Refunded will be defeased and considered no longer outstanding under the terms of the indenture under which they were issued.

ESTIMATED SOURCES AND USES OF FUNDS

The sources of funds to be received from the sale of the Series 2012A Bonds and the proposed uses of the Series 2012A Bond proceeds are estimated to be in the amounts shown below.

SOURCES OF FUNDS	
Principal Amount of Series 2012A Bonds	
[Plus / Less] [Net] Original Issue [Premium / Discount]	
Total Sources	
USES OF FUNDS	
Deposit to the Escrow Fund	
Costs of Issuance [1]	
Total Uses	

(1) Includes fees and costs associated with the issuance of the Series 2012A Bonds, including, but not limited to, trustee fees, underwriters' discount, financial advisor fees and expenses, bond counsel fees and expenses, disclosure counsel fees and expenses, rating agency fees, title insurance costs, appraisal fees, printing costs, and eligible City staff costs.

DEBT SERVICE SCHEDULE

DATE	SERIES 2012A PRINCIPAL	SERIES 2012A INTEREST	AGGREGATE DEBT SERVICE(1)
TOTAL			

(1) Represents total debt service on the Series 2012A Bonds, but does not include any payments on any other outstanding bonds or outstanding lease obligations of the City or the Authority, which, like the Series 2012A Bonds, are payable from lease payments by the City made from its General Fund. See APPENDIX A — "CITY OF SAN DIEGO GOVERNMENT AND FINANCIAL INFORMATION — BONDED AND OTHER INDEBTEDNESS — Long Term Obligations" and "-- Other Obligations" for a description of City's other outstanding lease obligations.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS

GENERAL

The Series 2012A Bonds will be secured solely by a pledge of Revenues and certain moneys, funds and accounts pledged to the payment of the Bonds under the Indenture. The Revenues consist of (a) all Base Rental Payments (described below), prepayments, insurance proceeds, and condemnation proceeds with respect to the Leased Property and the money, if any, in the Loss of Use and Occupancy Fund created under the Lease, and (b) the Revenue Fund and all interest and other income deposited in the Revenue Fund.

The Base Rental Payments will be paid by the City, from the City's General Fund or from other legally available sources, to the Trustee on each Lease Payment Date in an amount sufficient to pay the principal of and interest on the Bonds on each Interest Payment Date and redemption date. The Authority may, from time to time, enter into supplemental indentures without the consent of the owners of the Series 2012A Bonds for the purpose of issuing Additional Bonds payable from and secured by a pledge of such Revenues, as provided in the Indenture, equal to the pledge securing the outstanding Series 2012A Bonds, subject to certain specific conditions set forth in the Indenture. See "— ADDITIONAL BONDS."

BASE RENTAL PAYMENTS; ADDITIONAL PAYMENTS

On or before each Lease Payment Date (on April 10 and October 10 of each year, commencing October 10, 2012) during the term of the Lease, the City is required to pay to the Trustee the Base Rental Payments due on such date from the City's General Fund, or from other legally available sources, subject to abatement, discussed under "-Abatement of Lease Payments" below. The Trustee, as assignee of the Authority, will receive the Base Rental Payments for the benefit of the Owners of the Bonds and credit such Base Rental Payments to the Revenue Fund established pursuant to the Indenture. The Trustee will apply the Revenues held in the Revenue Fund on each Interest Payment Date to pay principal and interest due on such date on the Bonds.

Under the Lease, in addition to the Base Rental Payments payable thereunder, the City has agreed to pay Additional Payments consisting of such amounts, if any, in each year as will be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property and indemnification of the Trustee. The Base Rental Payments and Additional Payments, collectively, constitute the "*Lease Payments*."

Under the Lease, such payments of Base Rental Payments and Additional Payments for each Lease Year or portion thereof during the term of the Lease will constitute the total rental for such Lease Year or portion thereof and will be paid or payable by the City from funds of the City lawfully available therefor for and in consideration of the right of the use and occupancy

of, and the continued quiet use and enjoyment of, the Leased Property by the City for and during such Lease Year.

COVENANT TO BUDGET

The City has covenanted in the Lease to take such action as may be necessary to include all Lease Payments payable by the City thereunder in its operating budget for each Fiscal Year and to make the necessary annual appropriations for all such Lease Payments. The Lease provides that such covenants on the part of the City are deemed to be and will be construed to be ministerial duties imposed by law, and it will be the duty of the applicable officials of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants and agreements in the Lease.

As required by the Charter, the City Council adopts the annual budget by June 15 of each Fiscal Year. The Charter provides for continuing appropriation of the prior year's appropriations (including for the City's payment of rent for the Leased Property) in the event of a late budget, which would apply to all Base Rental Payments from and after October 10, 2012. For a discussion of financial and budgetary information relating to the City's General Fund, see APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION."

LIMITED OBLIGATION

The obligation of the City to make Base Rental Payments under the Lease does not constitute an obligation to levy or pledge, or for which the City has levied or pledged, any form of taxation. Neither the Series 2012A Bonds nor the obligation of the City to make Base Rental Payments or Additional Payments constitutes indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. See "CERTAIN RISK FACTORS — Limited Obligations of the City.

ABATEMENT OF LEASE PAYMENTS

During any period in which material damage, destruction, title defect or condemnation of all or a portion of the Leased Property or other event results in substantial interference with the use and occupancy of the Leased Property or any portion thereof, all or a portion of the Lease Payments due under the Lease will be abated such that the remaining Lease Payments due under the Lease represent fair rental for the use of the portion of the Leased Property not affected. In the event of any such interruption of use and occupancy, the Lease will continue in full force and effect and proceeds of use and occupancy insurance, if any, will be used to pay Base Rental Payments that would otherwise be abated. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Rental Payments — Rental Abatement."

In order to help mitigate the risk that an abatement event will cause a disruption in payment of Lease Payments, the Lease requires the City to maintain use and occupancy

insurance against loss of use caused by hazards covered by property insurance required by the Lease (see "— Fire and Extended Coverage Insurance" below) in an amount sufficient to pay the Base Rental Payments attributable to the Leased Property for a twenty-four month period; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments. See "—Use and Occupancy Insurance" below. During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the use and occupancy insurance to make payments of principal and interest represented by the Bonds. In lieu of abatement of Lease Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the substitution provisions of the Lease. See "— Substitution, Removal or Addition of Leased Property" below.

The City has a separate, standalone "All Risk" property insurance policy for the Leased Property. The City also has terrorism insurance for the Leased Property. **The City is not required to provide flood, terrorism or earthquake insurance for the Leased Property pursuant to the Lease, and the City, in its discretion, may decide at any time to modify or delete such coverage for the Leased Property.**

NO RESERVE FUND

The City will not establish or maintain a reserve fund for the Series 2012A Bonds. Amounts held or to be held in a reserve fund or account established for any other obligations payable from the City's General Fund may not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the Series 2012A Bonds.

ADDITIONAL BONDS

The Indenture provides that the Authority and the City may, at any time, determine to issue and deliver Additional Bonds without the consent of the Owners of Series 2012A Bonds, payable from and secured by a pledge of the Revenues, as provided in the Indenture, equal to the pledge securing the Outstanding Series 2012A Bonds, subject to satisfying certain terms and conditions set forth in the Indenture. The conditions for the issuance of Additional Bonds include:

(1) No Event of Default or abatement of Base Rental Payments will be continuing under the Indenture after giving effect to the issuance of the Additional Bonds and the application of the proceeds thereof.

(2) The Supplemental Indenture will require that the proceeds of such Additional Bonds will be applied to finance or refinance capital improvements, or for the refunding or repayment of any Outstanding Bonds or other obligations of the City issued to finance or refinance capital improvements permitted under the JPA Agreement, including payment of the interest to become due on said Additional Bonds during the estimated period of any construction and for a period of not to exceed 12 months thereafter.

(3) The Lease will be amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year will at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(4) If the additional facilities, if any, to be leased in connection with the issuance of such Additional Bonds are not part of, or included in, the Leased Property described in the Lease and the Expansion Lease, then the Lease and Expansion Lease will be amended to include such additional facilities in the definition of Leased Property. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE INDENTURE — Conditions for the Issuance of Additional Bonds."

Nothing in the Indenture prevents payment of Debt Service on any Series of Additional Bonds from being secured and payable from sources or funds, or by property, instruments or documents, not applicable to the Series 2012A Bonds or any one or more Series of Additional Bonds.

See "CERTAIN RISK FACTORS – No Limitation on Incurring Additional Obligations."

REPAIR AND MAINTENANCE; TAXES AND ASSESSMENTS; SUBLEASE OF THE LEASED PROPERTY

During the term of the Lease, the City will, at its own cost and expense (or will require tenants of the City, at their cost and expense) to, maintain, preserve and keep the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority will have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

The City and the Authority will not create, or suffer to be created, any mortgage, pledge, lien, charge or other encumbrance upon the Leased Property, except Permitted Encumbrances. The City and the Authority will not sell or otherwise dispose of the Leased Property or any property essential to the proper operation of the Leased Property, except as provided in the Lease.

Notwithstanding anything to the contrary contained in the Lease, but subject to the rights of the City described above, the City may assign, transfer or sublease any and all of the Leased Property or its other rights under the Lease, provided that: (i) the rights of any assignee, transferee or sublessee will be subordinate to all rights of the Authority and Trustee under the Lease; (ii) no such assignment, transfer or sublease will relieve the City of any of its obligations under the Lease; (iii) the assignment, transfer or sublease will not result in a breach of any covenant of the City contained in the Lease; (iv) any such assignment, transfer or sublease will by its terms expressly provide that the fair rental value of the Leased Property for all purposes shall be first allocated to the Lease, as the same may be amended from time to time before or after any such assignment, transfer or sublease; and (v) no such assignment, transfer or sublease

will confer upon the parties thereto (other than the City) any remedy which allows reentry upon the Leased Property.

In the event that the use, possession or acquisition by the City or the Authority of the Leased Property is found to be subject to taxation in any form, the City will pay or cause to be paid during the term of the Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; provided, however, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City will be obligated to pay only such installments as are accrued during such time as the Lease is in effect.

SUBSTITUTION, REMOVAL OR ADDITION OF LEASED PROPERTY; MODIFICATIONS

Pursuant to the Lease, the City and the Authority may amend the Lease and Expansion Lease to (i) substitute real property and/or improvements (the "*Substitution*") for all or a portion of the existing Leased Property; (ii) remove all or a portion of real property (including undivided interests therein) or improvements ("*Removal*") from the definition of Leased Property; or (iii) to add real property and/or improvements (the "*Additional Leased Property*") to the Leased Property, upon compliance with all of the applicable conditions set forth in the Lease. After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected will be released from the leasehold under the Lease and under the Expansion Lease. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Substitution, Removal or Addition of Leased Property."

Pursuant to the Lease, the City can make improvements to the Leased Property so long as full rental value of the Leased Property is not thereby reduced. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Additions and Improvements to Leased Property; Mechanic Liens."

FIRE AND EXTENDED COVERAGE INSURANCE

The City is required by the Lease to procure and maintain, or cause to be procured and maintained, throughout the term of the Lease, insurance against loss or damage to the Leased Property caused by fire and lightning, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss, but excluding coverage for flood, terrorism and earthquake. Such insurance will be in an amount equal to the lesser of (a) the replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property; or (b) the remaining unpaid principal amount of Bonds Outstanding, plus the amount of use and occupancy insurance coverage (described below), except that such insurance may be subject to deductible clauses of

not to exceed the first one hundred thousand dollars ($100,000) of the amount of any one loss. Fire and extended coverage insurance and use and occupancy insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property insured by the City; provided that the amount of coverage available thereunder will be at least equal to the cumulative replacement values of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("*Financed Property*") for which bonds, certificates of participation or other obligations will have been issued ("*Obligations*") plus the amount of use and occupancy insurance coverage required by the Lease. In the event the City elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds will be used first to rebuild or repair the Leased Property or to repay the Bonds. Such insurance may be part of a joint-purchase insurance program. The provider of such insurance will be rated at least "A-" by A.M. Best & Company. As an alternative to providing the fire and extended coverage insurance required by the Lease, or any portion thereof, the City may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection will afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State other than the City. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Maintenance; Taxes; Insurance and Other Charges." The City has a separate, standalone "All Risk" property insurance policy for the Leased Property. The City also has terrorism insurance for the Leased Property. The City is not required to provide flood, terrorism or earthquake insurance for the Leased Property pursuant to the Lease, and the City at its discretion, may decide at any time to modify or delete such coverage for the Leased Property.

USE AND OCCUPANCY INSURANCE

The City is required by the Lease to procure and maintain use and occupancy insurance against loss, total or partial, of the use and occupancy of the Leased Property against loss of use caused by hazards covered by property insurance required by the Lease (see "—Fire and Extended Coverage Insurance" above), in an amount sufficient to pay the Base Rental Payments attributable to the Leased Property for a 24 month period; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments; provided further, that such insurance may be part of a policy of fire and extended coverage insurance permitted by the Lease; provided further, the City may obtain use and occupancy insurance covering the Leased Property as well as other parcels of property owned by the City, so long as the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by the Lease with respect to the Leased Property and any agreements relating to Financed Property in respect of which Obligations are outstanding. In the event the City elects to obtain use and occupancy insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the loss of use and occupancy of all such properties, then any such proceeds will be used first to rebuild or repair the Leased Property or to repay the Bonds. Any proceeds of such insurance will be payable to and used by the Trustee as

provided in the Indenture to pay principal of and interest on the Bonds for a period of time during which the payment of rental under this Lease is abated. Such insurance may be subject to a deductible clause of not to exceed one hundred thousand dollars ($100,000). Such insurance may be part of a joint-purchase insurance program. The provider of such insurance will be rated, at time of purchase, at least "A-" by A.M. Best & Company. Pursuant to the Lease, use and occupancy insurance cannot be provided by self-insurance.

As an alternative to purchasing use and occupancy insurance, the Lease permits the City to deposit cash in a special Loss of Use and Occupancy Fund held by the Trustee in an amount sufficient to pay Base Rental Payments for a 24 month period, as described under APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — LEASE — Maintenance; Taxes; Insurance and Other Charges."

TITLE INSURANCE

In connection with the issuance of the 2012A Bonds, the City will obtain, at its own expense, on or after the Closing Date for the Series 2012A Bonds, one or more California Land Title Association (CLTA) leasehold policy or policies (no survey required) with respect to the Leased Property with liability in the aggregate amount at least equal to the principal amount of the Series 2012A Bonds. Such policy or policies, when issued, will name the Trustee as the insured and will insure the leasehold estate of the Authority under the Leased Property, subject only to Permitted Encumbrances.

EMINENT DOMAIN

If title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the City or the Authority in the Leased Property or any portion thereof is taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority will cause the Net Proceeds of any condemnation award to be transferred to the Trustee for deposit in the Insurance and Condemnation Fund and applied as described in the Indenture and APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE LEASE – Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds."

INVESTMENT OF FUNDS UNDER THE INDENTURE

Money held by the Trustee under any fund or account held under the Indenture will be invested by the Trustee at the direction of the City solely in Permitted Investments, pending application as provided in the Indenture. Unless otherwise provided in a Supplemental Indenture, all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except any Costs of Issuance Fund and Rebate Fund) will be deposited in the Revenue Fund. Interest or gain derived from the investment of the amount in any Costs of Issuance Fund or Rebate Fund, will be retained therein.

CERTAIN RISK FACTORS

The following risk factors should be considered by potential investors, along with all other information in this Official Statement, in evaluating the risks inherent in the purchase of the Series 2012A Bonds. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Series 2012A Bonds. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the Series 2012A Bonds or default by the City in paying Base Rental Payments. There can be no assurance that other risk factors not discussed herein will not become material in the future.

LIMITED OBLIGATIONS OF THE CITY

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. THE SERIES 2012A BONDS AND THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE AUTHORITY HAS NO TAXING POWER.

The Series 2012A Bonds are special, limited obligations of the Authority and are payable solely from Base Rental Payments made by the City pursuant to the Lease and certain funds held under the Indenture, subject to the provisions of the Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth therein. Neither the City nor any of its officers will incur any liability or any other obligation with respect to the payment of the Series 2012A Bonds other than the obligation of the City to make Base Rental Payments under the Lease.

Nothing within this Official Statement is intended to imply that there exists any cross-application or cross-collateralization, including, without limitation, any cross-defaults between the Indenture or any other indenture related to other bonds or obligations issued by the City or the Authority.

ABATEMENT

Except to the extent of (i) amounts held by the Trustee under the Indenture in the Interest Account and Principal Account of the Revenue Fund, (ii) amounts received in respect of use and occupancy insurance or from the Loss of Use and Occupancy Fund, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and occupancy by the City of any portion of the Leased Property, rental payments due under the Lease with respect to the Leased Property will be

abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Payments, in which case rental payments will be abated only by an amount equal to the difference. See APPENDIX C — SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Rental Payments — Rental Abatement."

In the case of abatement relating to the Leased Property, the amount of annual rental abatement will be such that the resulting Base Rental Payments in any Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value for each Lease Year of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of an Authorized Representative of the City. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of title defect or substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned, but in no event beyond April 1, 2033 which is the latest date to which the term of the Lease can be extended if Bonds remain Outstanding on April 1, 2028 (the stated termination date of the Lease).

The obligation of the City under the Lease to make Base Rental Payments is in consideration for the right to use and occupy the Leased Property, and is absolute and unconditional without any right of set-off or counterclaim, except as to amounts which may be credited to such payment under the Lease, and except as such obligation may be abated as described herein.

It is not possible to predict the circumstances under which an abatement of Base Rental Payments may occur. In addition, there is no statute, judicial decision or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the Lease or at the time of the abatement or may be adjusted during an event of abatement. Upon abatement, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of execution and delivery of the Series 2012A Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2012A Bonds.

During any period in which material damage, destruction, title defect or condemnation of all or a portion of the Leased Property or other event results in substantial interference with the use and occupancy of the Leased Property or any portion thereof, all or a portion of the Base Rental Payments due under the Lease will be abated such that the remaining Base Rental Payments due under the Lease represent fair rental for the use of the portion of the Leased Property not affected. In the event of any such interruption of use and occupancy, the Lease will continue in full force and effect and the proceeds of use and occupancy insurance, if any, will be used to pay Base Rental Payments that would otherwise be abated. See "SECURITY AND SOURCES OF PAYMENT — Abatement of Rental Payments" and APPENDIX C —

"SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Rental Abatement." In the event that such funds are insufficient to make all payments with respect to the Series 2012A Bonds during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease or Indenture for nonpayment under such circumstances. **Failure to pay principal, premium, if any, or interest on to the Series 2012A Bonds as a result of abatement of the City's obligation to make Rental Payments under the Lease is not an event of default under the Indenture or the Lease**. In the event that Base Rental Payments are abated due to damage caused by earthquake, terrorism or flood, such abatement may continue indefinitely, as no insurance for such damages is required under the Lease and the City cannot be compelled to repair or replace the damaged Leased Property or to redeem the Bonds. See "SECURITY AND SOURCES OF PAYMENT — Abatement of Rental Payments"

Notwithstanding the provisions of the Lease and the Indenture specifying the extent of abatement of Base Rental and the application of other funds in the event of the City's failure to have use and occupancy of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental Payments of the City may not be sufficient to pay all of the remaining principal and interest represented by the Series 2012A Bonds.

NO LIMITATION ON INCURRING ADDITIONAL OBLIGATIONS

Neither the Lease nor the Indenture contains any legal limitations on the ability of the City to enter into other obligations, without the consent of the Owners of the Series 2012A Bonds, which may constitute additional obligations payable from its General Fund. To the extent that the City incurs such additional obligations, the City's funds available to make Base Rental Payments may be decreased. The City is currently liable on other obligations payable from General Fund revenues and is currently contemplating entering into other such obligations. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION – Bonded and Other Indebtedness."

EARTHQUAKE AND SEISMIC CONDITIONS

According to the County of San Diego Office of Emergency Services, every year approximately 500 earthquakes occur in the State of California that are large enough to be felt. San Diego County, in comparison to other southern California areas, has sparse seismicity. However, since 1984, earthquake activity in San Diego County has doubled over that of the preceding 50 years.

A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. If an earthquake were to substantially damage or destroy taxable property within the City, a reduction in taxable values of property in the City and a reduction in revenues available to the General Fund to make Lease Payments would be likely to occur. Seismic activity may also affect the use and occupancy of the Leased Property.

There is no assurance that, in the event of a natural disaster, sufficient City reserves or Federal Emergency Management Agency assistance would be available for the repair or replacement of any Leased Property. The Lease does not require the City to repair or restore the Leased Property if damaged by earthquake or to maintain earthquake insurance coverage. The City has a separate, standalone "Difference in Conditions" (DIC) policy is in place for the Leased Property which provides limited coverage for earthquakes. The City is not required to provide earthquake insurance for the Leased Property pursuant to the Lease, and the City, in its discretion, may decide at any time to modify or delete such DIC coverage for the Leased Property.

The Lease provides that, in the event that rental is abated, in whole or in part, pursuant due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the Net Proceeds, if any, of insurance or eminent domain, the City will apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

RISKS OF FLOOD AND TERRORISM

The Lease does not require the City to maintain insurance coverage insuring against loss or damage due to flood or terrorism. The City has a separate, standalone "All Risk" property insurance policy for the Leased Property which includes flood coverage. The City also has terrorism insurance for the Leased Property. The City is not required to provide flood or terrorism insurance for the Leased Property pursuant to the Lease, and the City, in its discretion, may decide at any time to modify or delete such coverage for the Leased Property.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON INCREASE OF REVENUES

Article XIII A (Limitation on Ad Valorem Tax), Article XIII B (Government Spending Limitation), Article XIII C (Voter Approval for Local Tax Levies) and Article XIII D (Assessment and Property Related Fee Reform) of the Constitution of the State of California were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures may be adopted, which may affect the City's revenues and its ability to expend its revenues. The above mentioned measures and any future measures could restrict the City's ability to raise additional funds for its General Fund. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION — LIMITATIONS ON TAXES AND APPROPRIATIONS."

LIMITED RECOURSE ON DEFAULT; RE-LETTING OF LEASED PROPERTY

In the event of non-payment by the City of the Lease Payments, or other default by the City under the Lease, the enforcement of any remedies provided in the Indenture and in the Lease by or on behalf of Owners of the Series 2012A Bonds could prove both expensive and time consuming. Although the Indenture and the Lease provide that if there is a default by the

City under the Lease, the Trustee may terminate the Lease and re-let the Leased Property, such Leased Property may not be easily re-leased and any re-letting of the Leased Property could result in lease payments that would be substantially less than the Lease Payments payable by the City under the Lease. Furthermore, due to the nature of the governmental function of certain of the Leased Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect to any or all of such Leased Property. The Trustee may exercise any and all remedies available pursuant to the City Charter and other applicable law or the Lease, but the Lease provides that there will be no right under any circumstances to accelerate the Lease Payments not then in default to be immediately due and payable. The Lease also provides that, notwithstanding anything to the contrary contained in the Lease, the Trustee will not re-enter or re-let the Leased Property upon an Event of Default unless the Trustee or its sublessee agrees to perform the City's obligations under any then existing leases, sublease, license, management contract, or other agreement substantially relating to the Leased Property and such reletting does not violate the City's covenants under the City's Tax Agreement to preserve the tax-exempt status of the Series 2012A Bonds, unless waived by a majority of such Bondholders.

ENFORCEMENT OF REMEDIES

The enforcement of any remedies provided in the Lease and the Indenture are subject to provisions of law and may not violate the City's Tax Agreement (unless waived by Owners of a majority in aggregate principal amount of Bonds Outstanding) and could prove both expensive and time consuming. The rights and remedies provided in the Lease and the Indenture may be limited by and are subject to the limitations on legal remedies against cities, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect (see "-Bankruptcy" below); 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 cities 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 2012A 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.

The legal opinions to be delivered concurrently with the delivery of the Series 2012A Bonds (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the Series 2012A Bonds, the Indenture, the Expansion Lease, the Lease and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of

equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitation on legal remedies against cities in the State. See "—Bankruptcy."

NO ACCELERATION ON DEFAULT

In the event of a default under the Indenture or the Lease, there is no remedy of acceleration of the Base Rental Payments. Owners of the Series 2012A Bonds would have to sue for payment of unpaid Base Rental Payments in each rental period as and when it becomes due. Any suit for money damages would be subject to the legal limitations on remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

RISK MANAGEMENT AND INSURANCE

The Lease obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property caused by certain hazards. The City is also required to maintain use and occupancy insurance as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Use and Occupancy Insurance" above. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy required under the Lease and no assurance can be given as to adequacy of any such insurance to fund necessary repair or replacement or to pay principal and interest with respect to the Series 2012A Bonds.

The Lease allows the City to self-insure against any or all risks, except use and occupancy and title defects, and to fund with cash a special Loss of Use and Occupancy Fund held by the Trustee as an alternative to maintaining policies of commercial insurance against loss of use and occupancy. See APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS — THE LEASE — Maintenance; Taxes; Insurance and other Charges."

ENVIRONMENTAL CONCERNS

Owners or operators of real property, including the City, may be required by law to remedy conditions of a property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response Compensation and Liability Act of 1980 or the "Superfund Act" is the most widely applicable of these laws but California laws with regard to hazardous substances are also stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition on the property whether or not the owner or operator created the hazardous substance condition. The City is aware of certain environmental conditions on the Leased Property, including gas and diesel storage at the site and the former use of the site as a dump for burn ash, which could cause loss and damage to the Leased Property, potentially affecting the City's use and occupancy of the Leased Property and/or requiring the City to expend funds to remediate such conditions.

CHANGE IN LAW

No assurance may be given that the State or the City electorate will not at some future time adopt initiatives or Charter amendments or that the State Legislature or the City Council will not enact legislation that will amend the laws of the State Constitution or the City's municipal code, respectively, in a manner that could result in a reduction of the City's General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental Payments.

BANKRUPTCY OF CITY

In addition to the limitations on remedies contained in the Indenture and the Lease, the rights and remedies in the Lease may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs bankruptcy proceedings of public entities such as the City, no involuntary bankruptcy petition may be filed against a public entity. However, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the City. The filing of a bankruptcy petition results in a stay against enforcement of certain remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the City could thus limit remedies under the Lease. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease. However, a debtor may not assume or reject executory contracts to loan money or to make a financial accommodation, such as the Indenture. In the event of rejection of a lease by a debtor lessee, the leased property is returned to the lessor and the lessor has a claim for a limited amount of the resulting damages.

Under the Indenture, the Trustee holds a security interest in the Revenues, including Base Rental Payments, for the benefit of the Owners of the Bonds, but such security interest arises only when the Base Rental Payments are actually received by the Trustee following payment by the City. The Leased Property itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a bankruptcy filed by the City and the subsequent rejection of the Lease by the City, the Authority would recover possession of the Leased Property and the Trustee, as assignee of the Authority, would have a claim for damages against the City. The Trustee's claim would constitute a secured claim only to the extent of Revenues in the possession of the Trustee; the balance of such claim would be unsecured.

STATE OF CALIFORNIA FINANCIAL CONDITION

The State is facing significant continuing financial and budget stress, which may result in future reductions or deferrals in amounts payable to the City. The State's financial condition and budget policies affect local public agencies throughout the State. To the extent that the

State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. For more information regarding the State's financial condition, see APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION — State Budget."

IMPACT OF CURRENT ECONOMIC CONDITIONS ON THE CITY

Since 2008, the United States financial markets have been experiencing volatility precipitated by major economic disruptions, including a severe economic recession and significant credit and liquidity problems. The City cannot predict the extent to which the fiscal problems will continue to be encountered in this and in any future Fiscal Years, and it is not clear what additional measures, if any, will be taken by the State or Federal government to address the economic recession and its associated impacts. Accordingly, the City cannot predict the final outcome of future State or Federal actions or the impact that such actions will have on the City's finances and operations. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION."

OTHER RISKS

There may be other risk factors inherent in ownership of the Series 2012A Bonds in addition to those described in this section.

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, annually certain information and notice of certain Notice Events (as described in the Continuing Disclosure Certificate) to the Municipal Securities Rulemaking Board in the manner prescribed by the Securities Exchange Commission (the *"SEC"*). The form of the Disclosure Certificate is attached hereto as APPENDIX F — "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 the SEC Rule 15c2-12(b)(5) (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 Lease.

The City is a party to a number of continuing disclosure undertakings with respect to securities secured by the City's General Fund, the Sewer Utility Fund, and the Water Utility Fund pursuant to the Rule. During the last five years, the City failed to provide when due annual reports for Fiscal Years 2006, 2007 and 2010. The audited financial statements for Fiscal Years 2006 and 2007 were delayed in principal part due to restatements of prior financial statements that resulted in the auditors undertaking additional procedures. Annual reports for Fiscal Years 2006 and 2007 were filed following the release of the audited financial statements for these fiscal years. The delay in releasing the audited financial statements for Fiscal Year 2010 was principally due to the implementation of an enterprise resource planning system for the City. With respect to Fiscal Year 2010, the City provided its annual reports in November 2011, and its audited financial statements on October 20, 2011, approximately seven

months following its respective annual reporting dates under its continuing disclosure undertakings. The City is in compliance with its continuing disclosure undertakings with respect to securities secured by the City's General Fund, the Sewer Utility Fund, and the Water Utility Fund.

FINANCIAL STATEMENTS FOR FISCAL YEAR 2011

The City's CAFR for Fiscal Year 2011, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2011, is made available through EMMA at http://emma.msrb.org/EA478541-EA371040-EA767857.pdf and through the City's website at http://www.sandiego.gov/comptroller/reports/pdf/120131cafr2011.pdf. The City's CAFR is incorporated herein, but no other information from the City's website is so incorporated.

The City's basic financial statements as of June 30, 2011 and for the year then ended have been audited by Macias Gini & O'Connell LLP as stated in its report appearing therewith. Macias Gini & O'Connell LLP as the independent auditors did not review this Official Statement. The City did not request the consent of the independent auditors to incorporate 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.

TAX MATTERS

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law: (i) interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "*Code*"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the Series 2012A Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2012A Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the City and Authority contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2012A Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the City's and the Authority's certifications and representations or the continuing compliance with the City's and the Authority's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Series 2012A Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal

Revenue Service ("*IRS*") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the City and the Authority may cause loss of such status and result in the interest on the Series 2012A Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2012A Bonds. The Authority and, subject to certain limitations, the City have each covenanted to take the actions required of it for the interest on the Series 2012A Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2012A Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2012A Bonds or the market value of the Series 2012A Bonds.

A portion of the interest on the Series 2012A Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2012A Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2012A Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2012A Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2012A Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series 2012A Bonds. There can be no assurance that legislation enacted or proposed, or actions by a

court, after the date of issuance of the Series 2012A Bonds will not have an adverse effect on the tax status of interest on the Series 2012A Bonds or the market value or marketability of the Series 2012A Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Series 2012A Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, both the American Jobs Act of 2011 proposed by President Obama on September 12, 2011, and introduced into the Senate on September 13, 2011, and the federal budget for fiscal year 2013 as proposed by President Obama on February 13, 2012, contain provisions that could, among other things, result in additional federal income tax for tax years beginning after 2012 on taxpayers that own tax-exempt obligations, including the Series 2012A Bonds, if they have incomes above certain thresholds.

Prospective purchasers of the Series 2012A Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Series 2012A Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Series 2012A Bonds ends with the issuance of the Series 2012A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City, the Authority or the owners of the Series 2012A Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2012A Bonds, under current IRS procedures, the IRS will treat the City as the taxpayer and the beneficial owners of the Series 2012A Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2012A Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2012A Bonds.

ORIGINAL ISSUE DISCOUNT AND ORIGINAL ISSUE PREMIUM

Certain of the Series 2012A Bonds ("*Discount Bonds*") as indicated on the inside cover of this Official Statement were offered and sold to the public at an original issue discount ("*OID*"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method,

compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2012A Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. The amount of OID that accrues each year to a corporate owner of a Discount Bond is taken into account in computing the corporation's liability for federal alternative minimum tax. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Series 2012A Bonds ("*Premium Bonds*") as indicated on the cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the issuance of the Series 2012A Bonds and with regard to the tax-exempt status of the interest on the Series 2012A Bonds (see "TAX MATTERS") are subject to the opinion of Squire Sanders (US) LLP, Bond Counsel to the City. The signed legal opinion of Bond Counsel, substantially in the form attached hereto as APPENDIX D, dated and

premised on law in effect on the date of issuance of the Series 2012A Bonds, will be delivered on the date of issuance of the Series 2012A Bonds.

The legal opinion to be delivered may vary that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distributions of it by recirculation of this Official Statement or otherwise will create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date. In rendering its opinion, Bond Counsel will rely upon certificates and representations of facts to be contained in the transcript of proceedings for the Series 2012A Bonds, which Bond Counsel will not have independently verified.

Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the City and the Authority by Squire Sanders (US) LLP, Disclosure Counsel, and by Jan I. Goldsmith, Esq. City Attorney. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP. Bond Counsel, Disclosure Counsel and Underwriters' Counsel will receive compensation contingent upon the sale and delivery of the Series 2012A Bonds.

Squire Sanders (US) LLP has served as Disclosure Counsel to the City and in such capacity has advised the City with respect to applicable securities laws and participated with responsible City officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement or omitted therefrom and has not undertaken to independently verify any of such statements or information. Rather, the City is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the delivery of the Series 2012A Bonds, Disclosure Counsel will deliver a letter to the City which advises the City, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of the attorneys at such firm rendering legal services in connection with such firm's role as Disclosure Counsel which caused them to believe that this Official Statement as of its date and as of the date of delivery of the Series 2012A Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Series 2012A Bonds, or other person or party other than the City, will be entitled to or may rely on such letter or Squire Sanders (US) LLP having acted in the role of Disclosure Counsel to the City.

The legal opinions and other letters of counsel to be delivered concurrently with the delivery of the Series 2012A Bonds express the professional judgment of the attorneys rendering the opinions or advice regarding the legal issues and other matters expressly addressed therein. By rendering a legal opinion or advice, the giver of such opinion or advice does not become an insurer or guarantor of the result indicated by that opinion, or the transaction on which the opinion or advice is rendered, or of the future performance of parties to the transaction. Nor

does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

LITIGATION

There is no controversy of any nature now pending against the City or the Authority or, to the knowledge of their respective responsible officers, threatened, seeking to restrain, or enjoin the issuance, sale, execution or delivery of the Series 2012A Bonds or financing documents, or in any way contesting or affecting the validity of the Series 2012A Bonds or financing documents, or any proceedings of the City or the Authority 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 2012A Bonds or the use of the Bond proceeds.

There are no pending lawsuits which, in the opinion of the City Attorney, challenge the validity of the Series 2012A Bonds or financing documents, the corporate existence of the City or the Authority, or the title of the executive officers thereof to their respective offices. See APPENDIX A — "CITY GOVERNMENT AND FINANCIAL INFORMATION — LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND."

RATINGS

Fitch Ratings ("*Fitch*") and Standard & Poor's Rating Services ("*S&P*"), a Standard and Poor's Financial Services LLC business, have assigned the ratings of "A+" with stable outlook, and "A+" with stable outlook, respectively, to the Series 2012A Bonds. The rating provided by each of the rating agencies reflects only the views of that organization and an explanation of the significance of such rating should be obtained from the particular rating agency furnishing same, at the following addresses: Fitch, at One State Street Plaza, New York, New York 10004; and S&P, at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007.

The City furnished to the rating agencies certain information, including information not included herein. 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. The City undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained, or other actions by a rating agency relating to its rating, may have an adverse effect on the market price and marketability of the Series 2012A Bonds.

The City expects to furnish to each rating agency such information and materials as it may request. The City, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 2012A Bonds. Any such

downward revision or withdrawal of any of such ratings may have an adverse effect on the market price and marketability of such Series 2012A Bonds.

UNDERWRITING

Pursuant to the terms and conditions of the Bond Purchase Agreement for the Series 2012A Bonds (the "*Bond Purchase Agreement*") among the City, the Authority and Stifel Nicolaus & Company Incorporated, DBA Stone & Youngberg, a Division of Stifel Nicolaus, as representative of itself and the firms named therein (collectively, the "*Underwriters*"), the Underwriters have agreed to purchase the Series 2012A Bonds from the City and the Authority at an aggregate purchase price of $_____ (consisting of the par amount of the Series 2012A Bonds, plus $_____ net original issue premium and less underwriters' discount of $_____).

The Bond Purchase Agreement provides, among other things, that the obligations of the Underwriters are subject to certain terms and conditions precedent, and that the Underwriters will be obligated to purchase all of the Series 2012A Bonds offered under the Bond Purchase Agreement, if any of the Series 2012A Bonds offered thereunder are purchased.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2012A Bonds to the public. The Underwriters may offer and sell the Series 2012A Bonds to certain dealers (including dealers depositing Series 2012A Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. After the initial public offering, the public offering prices of the Series 2012A Bonds may be changed from time to time by the Underwriters.

Loop Capital Markets LLC, one of the underwriters of the Series 2012A Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Series 2012A Bonds, at the original issue prices. Pursuant to the Distribution Agreement, Loop Capital Markets LLC will share a portion of its underwriting compensation with respect to the Series 2012A Bonds with UBS Financial Services Inc.

FINANCIAL ADVISOR

KNN Public Finance, a division of Zions First National Bank, has acted as Financial Advisor to the City in conjunction with the issuance of the Series 2012A Bonds. The Financial 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 2012A Bonds. The Financial Advisor will receive compensation contingent upon the sale and delivery of the Series 2012A Bonds.

The Financial Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other information related to

the City with respect to the accuracy or completeness of disclosure of such information. Because of this limited participation, the Financial 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.

MISCELLANEOUS

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

There are appended to this Official Statement a summary of certain provisions of the principal legal documents, the proposed form of opinion of Bond Counsel, a general description of the City and a description of DTC's 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 Owners of any of the Series 2012A 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 or the Authority since the date hereof.

CONVENTION CENTER EXPANSION
FINANCING AUTHORITY

By: _____
Chair

THE CITY OF SAN DIEGO

By: _____
Chief Operating Officer

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APPENDIX A

CITY GOVERNMENT AND FINANCIAL INFORMATION

This Appendix A to the Official Statement of the City of San Diego (the "City") covers general information about the City's governance structure, budget processes, property taxation system and other tax and revenue sources, City expenditures, including labor relations, employment benefits and retirement costs, and investments, bonds and other long-term obligations. The information and data within this Appendix A are the latest data available to the City; however, the current state of the economy at City, State of California (the "State") and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available. This information is provided as general background.

As explained under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS" in the front part of this Official Statement, the Series 2012A Bonds (as defined in this Official Statement) are payable solely from the Base Rental Payments to be made by the City under the Lease and certain other money held by the Trustee under the Indenture. The Series 2012A Bonds are not a debt of the City, the State, or any of its political subdivisions, and neither the City, the State nor any of its political subdivisions is liable thereon.

GENERAL

Profile of the City of San Diego

The City was incorporated in 1850. The City is comprised of 324 square miles and, as of January 1, 2012, the California Department of Finance estimates the population to be 1,321,315. The City, with approximately 10,051 employees as of June 30, 2011, provides a full range of governmental services which include police and fire protection, sanitation and health services, construction and maintenance of streets and infrastructure, recreational activities and cultural events, and maintenance and operation of the water and sewer utilities.

The General Fund is the principal operating fund of the City. Departments within the General Fund provide core community services, such as public safety (including police and fire protection), parks and recreation, library services, and refuse collection, as well as vital support functions such as finance, legal and human resources. These core services are primarily supported by major revenue sources that include property tax, sales tax, transient occupancy tax, and franchise fees.

Governing Structure

The City operates under and is governed by the laws of the State of California and the City Charter (the "*Charter*"), as periodically amended since its adoption by the electorate in 1931. The City is currently operating under a "Strong Mayor" form of government. The departure from the City's previous Council-Manager form of government was approved by a vote of the public and became effective January 1, 2006. The Mayor is elected at large to serve a four-year term and is limited to two consecutive terms. 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, Ethics Commission, City Attorney and City Auditor departments.

The City Council is currently composed of eight 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 City Council President, who is selected by a majority vote of the City Council. The Mayor presides over City Council in closed session meetings of the City Council. The City Council retains its 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 five votes. The City Attorney, who is elected for a four-year term, serves as the chief legal advisor of and attorney for the City and all departments.

During the City's primary election held on June 8, 2010, voters approved Measure D, which made permanent the Strong Mayor form of government. Additionally, Measure D increased the number of City Council districts from eight to nine, and, therefore, a corresponding increase of City Council votes required to override the Mayor's veto from five to six. The ninth council district will be added on December 3, 2012, when councilmembers elected in the November 6, 2012 General Election are sworn in.

Accounting Practices

The City's accounting policies conform to generally accepted accounting principles applicable to governmental entities. The City's Governmental Funds, including the General Fund, use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. Certain fines and forfeitures, however, are recorded when received, as they are not susceptible to accrual. Expenditures are recognized when the related liability is incurred except for (1) principal of and interest on general long-term debt, which are recognized when due, and (2) employee annual leave and claims and judgments for litigation and self-insurance, which are recorded in the period due and payable. Proprietary and Pension Trust Funds use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Agency Funds described in the City's Comprehensive Annual Financial Report ("*CAFR*") also use the accrual basis of accounting to recognize receivables and payables.

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The City's most recent financial statements for the Fiscal Year ended June 30, 2011 were audited by Macias Gini & O'Connell LLP, CPAs. (For ease of reference, references in this APPENDIX A to any particular Fiscal Year (e.g., Fiscal Year 2011) shall mean the Fiscal Year ending June 30 of the referenced year.)

CITY BUDGET AND RELATED MATTERS

Budget Process

Budget Development

The City's budgetary process begins with the development of the Five-Year Financial Outlook, which serves as a guiding document for long-range fiscal planning and provides the framework for the development of the City's annual budget. The Five-Year Financial Outlook incorporates a variety of economic assumptions and expenditure requirements that will likely influence projected revenues and appropriation needs over the next five years. The City's most recently published outlook is the Fiscal Year 2013-2017 Five-Year Financial Outlook (the "*Fiscal Year 2013-2017 Financial Outlook*"), which was released on October 12, 2011 and which is the basis for the Fiscal Year 2013 budget.

General Fund revenues and expenditures are then established and balanced through the budgeting process and any remaining changes to the non-general funds and capital improvement projects are made, resulting in the Mayor's Proposed Budget. The budget document is created, presented by the Mayor to the City Council, and made public by April 15 in compliance with the Charter. Set forth in the Mayor's Proposed Budget are the anticipated revenues and expenditures of the General Fund, certain special revenue funds, enterprise funds, and certain debt service funds for the ensuing Fiscal Year. Additionally, project-length financial plans are presented to and adopted by the City Council for the capital projects

funds. Budgets are prepared on the modified accrual basis of accounting, except that (1) encumbrances outstanding at year-end are considered expenditures and (2) the increase/decrease in reserve for advances and deposits 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, proceeds from capital leases and net income from joint ventures.

Budget Review

According to standard practice, the Mayor's Proposed Budget then goes through a process of review. During the month of May, the City Council holds a series of public budget hearings to obtain input from City residents on spending priorities. Council members use the information at these hearings to develop districts' priorities and to recommend changes. The Mayor then releases a May Revision to the proposed budget, which contains the Mayor's recommended changes to the budget based on up-to-date policy related issues and revised year-end expenditure and revenue projections.

Budget Adoption

As required by the Charter, the City Council adopts the annual budget by June 15 of each Fiscal Year. The City is not aware of the Council ever having failed to adopt an annual budget by June 15. Within five business days of City Council's approval, the Mayor has the discretion to line-item veto any budget modifications approved by the City Council. In turn the City Council, also within five business days, has the authority to override the Mayor's veto. The Appropriation Ordinance that enacts the budget into law is presented to the Budget and Finance Committee of the City Council for review. Thereafter, it is presented to the City Council for review and adoption in July, following two noticed public hearings as required by the Charter. All amendments to the adopted budget require City Council approval, except as delegated in the annual Appropriation Ordinance.

Budget Monitoring

The City's Financial Management Department and Comptroller's Office monitor fund balances, as well as revenue and expenditure projections, throughout the Fiscal Year. Variations from budget are generally addressed in a number of ways, including expenditure reductions. If revenues decline and/or expenditures increase, various alternatives are expected to be reviewed, including alternative funding sources, budget reductions or reallocations of funds between departments to support the ongoing activities of the City. If the City is not able to use other alternatives to offset the deficit, contingency plans that utilize the City's reserves (subject to City Council approval) may be implemented to maintain the funding levels that the City believes are necessary for department operations in accordance with the City's Reserve Policy. See "Reserves" below.

Five Year Summary of Financial Results

Tables A-1 and A-2 present the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance of the City's General Fund, respectively, for Fiscal Years 2007 through 2011.

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TABLE A-1
CITY OF SAN DIEGO
BALANCE SHEET FOR THE GENERAL FUND
Fiscal Years 2007 through 2011
(in thousands)
(audited)

ASSETS	**2007**	**2008**	**2009**	**2010**	**2011**
Cash or Equity in Pooled Cash & Investments[1]	$97,347	$91,439	$86,667	$101,059	$222,352
Receivables:					
Taxes – Net	73,296	76,527	69,438	67,070	66,170
Accounts – Net[1]	11,103	11,195	13,891	8,569	12,359
Claims – Net	88	78	130	214	214
Accrued Interest	3,466	2,395	906	493	498
Grants[1]	--	--	--	--	1
From Other Funds[2]	1,475	1,600	1,500	1,000	6,510
Investment in Joint Venture	2,097	1,981	1,824	1,688	2,055
Advances to Other Funds	300	--	--	--	--
Advances to Other Agencies	9	9	--	--	45
Land Held for Resale[1]	--	--	--	--	9,403
Prepaid Items[3]	81	82	886	--	--
Cash and Investments for TRANS Repayment[4]	142,000	116,383	--	--	--
Total Assets	**$331,262**	**$301,689**	**$175,242**	**$180,093**	**$319,607**
LIABILITIES					
Accounts Payable[5]	$9,112	$8,005	$3,789	$15,446	$16,765
Accrued Wages and Benefits[1]	23,881	22,265	27,642	27,469	36,475
Due to Other Funds[6]	--	2,479	2,095	220	--
Due to Other Agencies	--	--	--	17	26
Unearned Revenue[7]	903	784	663	--	2,563
Deferred Revenue	23,318	27,375	26,661	21,558	17,661
Contracts and Notes Payable[4]	142,000	116,000	--	360	369
Total Liabilities	**$199,214**	**$176,908**	**$60,850**	**$65,070**	**$73,859**
FUND EQUITY					
Post-GASB 54[1][8]					
Nonspendable					--
Restricted					$145,880
Committed					1,183
Assigned					38,153
Unassigned					60,532
Total Fund Equity					**$245,748**
Total Liabilities & Fund Equity					**$319,607**
Pre-GASB 54[9]					
Reserves:					
Reserved for Encumbrances[10]	$33,452	$43,853	$32,071	$6,307	
Reserved for Advances & Deposits	309	9	--	--	
Reserved for Investment in Joint Venture	2,097	1,981	1,824	1,689	
Unreserved:					
Designated for Unrealized Gains[11]	--	2,737	1,943	1,816	
Designated for Subsequent Years' Expenditures	1,159	862	207	197	
Undesignated[12]	95,031	75,339	78,347	105,014	
Total Fund Equity	**$132,048**	**$124,781**	**$114,392**	**$115,023**	
Total Liabilities & Fund Equity	**$331,262**	**$301,689**	**$175,242**	**$180,093**	

(footnotes (unaudited) to Table A-1 appear on next page)

(1) The increase in Fiscal Year 2011 is primarily due to the consolidation of previously reported special revenue funds with the General Fund, pursuant to Government Accounting Services Board Statement No. 54 ("*GASB 54*"). For comparison purposes, the following represents Fiscal Year 2011 balances (in thousands) had GASB 54 not been implemented: Assets ($186,344); Liabilities ($68,453); and Equity ($117,891).

(2) Due From Other Funds increased in Fiscal Year 2011 resulting from a loan to the TransNet fund. This loan was repaid in Fiscal Year 2012 and was executed to cover a negative cash balance resulting from the timing of TransNet receipts.

(3) Fiscal Year 2009 year-end Prepaid Items increased due to prepayment of July rents.

(4) Fiscal Years 2009, 2010, and 2011 tax and revenue anticipation notes (*"TRANs"*) were issued and repaid within the same Fiscal Year, while Fiscal Year 2007 and 2008 TRANs were 13 month notes.

(5) The increase to the Accounts Payable in Fiscal Years 2010 and 2011 is due to the implementation of an Enterprise Resource Planning (ERP) financial system, which automated the accounts payable accrual process. The ERP financial system was implemented in Fiscal Year 2010.

(6) In Fiscal Year 2010, Due to Other Funds decreased due to reclassification of the San Diego Data Processing Corporation ("*SDDPC*") accrual. The SDDPC accrual was recorded as Due to Other Funds in Fiscal Years 2008 and 2009; however, this accrual was recorded as an Account Payable in Fiscal Year 2010 due to a reconfiguration of the financial statement compilation process resulting from the new ERP implementation.

(7) In Fiscal Year 2011, the Redevelopment Agency transferred to the City an estimated amount of tax sharing payments due to the uncertainty of the California legislation with respect to the Redevelopment Agency. The payment was earned in Fiscal Year 2012.

(8) Due to the GASB 54 implementation, fund balances in Fiscal Year 2011 are reported in five classifications: Nonspendable, Restricted, Committed, Assigned and Unassigned.

(9) Pre-GASB 54, portions of fund equity of governmental funds were reserved for specific purposes: (1) to satisfy legal covenants that required a portion of the fund balance to be segregated or (2) to identify the portion of the fund balance that was not appropriable for future expenditures. Designated fund balance indicates that portion of fund equity for which the City made tentative plans. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods.

(10) In Fiscal Years 2009 and 2010, encumbrances decreased as a result of a new financial policy which required encumbrances greater than two years old to be released. Additionally, encumbrances which are carried forward from a prior Fiscal Year do not carry forward with budget appropriations; instead the current year budget is appropriated and expended.

(11) Beginning in Fiscal Year 2008, a decrease in interest rates led to an increase in the price of fixed income securities, which resulted in unrealized gains. In Fiscal Year 2009, a significant amount of the City's unrealized gains were realized through the City Pool's normal rebalancing process, resulting in an overall decrease in Designated for Unrealized Gains at year-end.

(12) The increase in Fiscal Year 2010 Undesignated Fund Balance results from a one-time decrease in encumbrances resulting from the implementation of the new financial policy concerning encumbrances. Also see footnote number 10 above.

Source: Table: Fiscal Years 2007 - 2011 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego.
Footnotes: Comptroller's Office, City of San Diego.

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TABLE A-2
CITY OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
Fiscal Years 2007 through 2011
(in thousands)
(audited)

	2007	2008	2009	2010	2011
REVENUES[1]					
Property Taxes[2]	$361,062	$384,273	$398,743	$391,382	$384,023
Sales Taxes[3]	233,385	235,579	212,918	192,650	215,873
Transient Occupancy Taxes[4]	80,703	83,730	73,765	65,222	73,399
Other Local Taxes	74,069	71,594	72,432	73,260	70,994
Licenses and Permits	31,475	33,815	31,249	28,024	28,621
Fines, Forfeitures and Penalties	40,346	31,083	32,467	30,179	31,598
Revenues from Federal Agencies[5]	5,066	4,086	4,268	2,859	1,431
Revenues from Other Agencies[6]	16,644	14,236	8,915	6,007	8,773
Revenues from Private Sources[7]	--	--	--	14	1,016
Revenues from Use of Money and Property[7]	42,157	44,577	41,461	40,615	49,923
Charges for Current Services[7]	85,026	87,263	133,117	127,536	181,006
Other Revenue[8]	2,730	3,297	5,296	7,859	4,505
Total Revenues	**$972,663**	**$993,533**	**$1,014,631**	**$965,607**	**$1,051,162**
EXPENDITURES[1]					
Current:					
General Government and Other Support Services[7]	$189,203	$225,570	$243,057	$230,270	$259,782
Neighborhood Services[7]	18,339	18,563	17,255	15,845	25,767
Public Safety	517,522	562,975	584,986	563,475	574,248
Parks, Recreation and Culture	112,967	119,125	116,391	121,269	114,375
Transportation[9]	59,516	66,162	72,635	62,884	42,704
Sanitation and Health	39,391	48,995	67,867	73,461	66,320
Capital Projects[10]	--	--	--	--	776
Debt Service:					
Principal Retirement[7]	2,604	2,204	818	2,640	10,391
Interest[7]	6,519	5,720	3,106	2,888	5,030
Total Expenditures	**$946,061**	**$1,049,314**	**$1,106,115**	**$1,072,732**	**$1,099,393**
EXCESS (DEFICIENCY) OF REVENUES (UNDER) OVER EXPENDITURES	(26,602)	(55,781)	(91,484)	(107,125)	(48,231)
OTHER FINANCING SOURCES (USES)[1]					
Transfers from Proprietary Funds[11]	4,181	5,896	6,267	5,723	1,983
Transfers from Other Funds[7][12]	86,980	94,562	105,059	140,595	158,874
Transfers to Proprietary Funds[13]	(1,373)	(5,358)	(4,043)	(10,157)	(2,852)
Transfers to Other Funds[7][14]	(46,018)	(46,470)	(26,031)	(28,426)	(22,601)
Net Income (Loss) from Joint Venture	35	(116)	(157)	--	--
Proceeds from the Sale of Capital Assets	--	--	--	21	--
TOTAL OTHER FINANCING SOURCES (USES)	**$43,805**	**$48,514**	**$81,095**	**$107,756**	**$135,404**
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	70,407	(7,267)	(10,389)	631	87,173
FUND BALANCE AT JULY 1[15]	**61,641**	**132,048**	**124,781**	**114,392**	**158,575**
FUND BALANCE AT FOLLOWING JUNE 30	**$132,048**	**$124,781**	**$114,392**	**$115,023**	**$245,748**

(footnotes (unaudited) to Table A-2 appear on next page)

(1) The increase in Fiscal Year 2011 is primarily due to the consolidation of previously reported special revenue funds with the General Fund, pursuant to GASB 54. For comparison purposes, the following represents Fiscal Year 2011 balances (in thousands) had GASB 54 not been implemented: Revenue ($1,010,187); Expenditures ($1,051,647); Transfers ($44,329).

(2) Does not include sales tax triple flip or vehicle license fees. For a discussion of sales tax triple flip, see "Major Revenue Sources – *Sales Tax*" below. Property Tax revenue decreased in Fiscal Year 2011 mainly due to the downturn in the real estate market.

(3) Includes Proposition 172 safety sales tax revenues and sales tax triple flip. Sales Tax revenue decreased by approximately $22.7 million in Fiscal Year 2009 and by approximately $20.3 million in Fiscal Year 2010 due to the economic downturn. Sales Tax revenue increased by approximately $23.2 million in Fiscal Year 2011 primarily due to an improvement in consumer spending.

(4) Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy) only; the balance (5.0% of the 10.5% levy) is allocated to Special Promotional Programs. Of this 5% balance, approximately 1% may be budgeted in the General Fund as discretionary revenue and for Special Promotional Programs in the General Fund. Transient Occupancy Tax revenue increased in Fiscal Year 2011 due to an improvement in the tourism market.

(5) The decrease in Revenues from Federal Agencies for Fiscal Year 2011 was primarily due to the timing of receiving money from the Federal Agencies.

(6) Revenue from Other Agencies decreased from Fiscal Year 2008 through Fiscal Year 2010 principally due to a decrease in revenue from California State Grants related to the 2007 October Wildfires.

(7) Due to the GASB 54 implementation, a group of special funds were consolidated with the General Fund Financial Statements in Fiscal Year 2011.

(8) Other Revenue increased due to a reimbursement from COPS grants for prior year Police expenditures. Other Revenue increased in Fiscal Year 2010 due to a reimbursement from Citizens Options for Public Safety grants for prior year Police expenditures in Fiscal Year 2009.

(9) Transportation expenditures decreased in Fiscal Year 2011 primarily due to a shift of non-contract street work expenditures. Typically the expenditures are funded by the General Fund and reimbursed by Gas Tax, but in Fiscal Year 2011 they were shifted to the Proposition 42 Fund. The shift was due to delays from the State; most of the Fiscal Year 2010 Proposition 42 transportation funding was received in the fourth quarter of Fiscal Year 2010. Proposition 42 funds must be spent by the end of the following fiscal year; leaving only 12 months to expend the funds before they expire. Transportation expenditures increased in Fiscal Year 2009 due to the consolidation of the Engineering & Capital Projects Department into the General Fund. In Fiscal Year 2010, the Streets Division had a decrease of $11.9 million in non-personnel expenditures.

(10) Capital expenditures (comprised of equipment purchased by several different departments) are shown separately from other operational expenditures in Fiscal Year 2011.

(11) Transfers from Proprietary Funds decreased in Fiscal Year 2011 primarily due to a decrease of interest transfers as well as to a decrease in self-insurance and miscellaneous internal service transfers.

(12) Increase in Transfers from Other Funds in Fiscal Year 2010 is primarily due to the McGuigan Loan Settlement Modification. The City executed an Agreement Regarding Purchase of McGuigan Judgment with Bank of America, N.A. (BANA) that allowed BANA to satisfy the remaining balance of $32.8 million from the William J. McGuigan Judgment by making a contribution to SDCERS, in the same amount, in excess of the ARC. The City was then obligated to repay BANA starting on July 1, 2011 and for the following three years.

(13) The variance between Fiscal Year 2010 and Fiscal Year 2011 in Transfers to Proprietary Funds is primarily due to the Public Liability Reserve transfer being reclassified as an expense, not a transfer.

(14) The majority of the variance between Fiscal Year 2009 and Fiscal Year 2008 in Transfers to Other Funds is due to the transfers in Fiscal Year 2008 to Capital Improvement Funds from the Storm Water Department and Streets Division. These transfers did not reoccur in Fiscal Year 2009.

(15) The beginning fund balance for Fiscal Year 2011 increased from the ending fund balance for Fiscal Year 2010 due to the consolidation of previously reported special revenue funds with the General Fund, pursuant to GASB 54.

Source: Table: Fiscal Years 2007 - 2011 Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego.
Footnotes: Comptroller's Office, City of San Diego.

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General Fund Operating Budget Summary

Set forth in Table A-3 below are the City's actual results on a budgetary basis for Fiscal Year 2011, the City's General Fund Fiscal Year 2012 Adopted Budget and its Fiscal Year 2013 Proposed Budget (not including adjustments made as a result of the Fiscal Year 2013 May Revision (as defined below)).

TABLE A-3
CITY OF SAN DIEGO
GENERAL FUND OPERATING BUDGET SUMMARY
Fiscal Years 2011 through 2013
(in thousands)

	Fiscal Year 2011 Actuals on a Budgetary Basis[1]	Fiscal Year 2012 Adopted Budget	Fiscal Year 2013 Proposed Budget
REVENUE SOURCES:			
Property Tax	$384,023	$380,909	$389,106
Sales Tax[2]	215,873	216,611	234,415
Property Transfer Tax	5,448	5,148	6,359
Transient Occupancy Tax[3]	73,399	74,787	80,464
Licenses and Permits	28,621	35,220	31,860
Fines, Forfeitures, and Penalties	31,598	37,675	31,085
Interest Earnings	2,362	1,888	1,354
Franchises	65,546	67,809	71,679
Other Rents and Concessions	41,873	39,164	41,216
Motor Vehicle License Fees	6,912	3,264	-
Revenue from Other Agencies	3,291	2,584	3,526
Charges for Current Services	147,324	157,838	180,410
Transfers from Other Funds[3][4]	75,487	100,886	71,698
Other Revenue	4,113	2,820	3,838
Total General Fund Revenues and Transfers[5][6]	**$1,085,870**	**$1,126,603**	**$1,147,010**
EXPENDITURES:			
Public Safety	$570,655	$580,569	$591,217
Parks, Recreation, Culture and Leisure	115,550	120,327	120,563
Sanitation and Health	66,390	67,072	67,313
Transportation	43,773	77,008	65,207
Neighborhood Services	16,578	18,564	18,638
General Government and Support	237,255	208,198	219,586
Capital Projects	473	-	-
Debt Service[7]	6,460	16,973	16,564
Transfers	31,158	39,677	51,089
Total General Fund Expenditures and Transfers[5][6][8]	**$1,088,292**	**$1,128,388**	**$1,150,177**

(1) Actuals on a budgetary basis are prepared using the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered expenditures, (2) the increase/decrease in reserve for advances and deposits are considered as additions/deductions of expenditures, and (3) unrealized gains/losses resulting from the change in fair value of investments, proceeds from capital leases, and net income from joint ventures are excluded.

(2) Fiscal Years 2011 and 2012 include Proposition 172 safety sales tax revenue of $6.8 million and $5.0 million respectively. Starting in Fiscal Year 2013, Proposition 172 General Fund portion of safety sales tax revenue ($6.2 million) is budgeted in the Transfers from Other Funds category.

(footnotes continued on next page)

(footnotes continued from previous page)

(3) Includes the General Fund portion of Transient Occupancy Tax (5.5% of the 10.5% levy) only. For Fiscal Year 2012, the remaining 5%, or $68.1 million, is budgeted in the Transient Occupancy Tax Fund, of which $28.4 million is budgeted as a transfer to the General Fund in the "Transfers from Other Funds" category. For Fiscal Year 2013, the remaining 5%, or $73.1 million, is budgeted in the Transient Occupancy Tax Fund, of which $35.1 million is budgeted as a transfer to the General Fund in the "Transfers from Other Funds" category.

(4) The increase in the "Transfer from Other Funds" category in the Fiscal Year 2012 Adopted Budget is primarily due to one-time revenues.

(5) In Fiscal Year 2011, the excess of budgetary expenditures over revenues is primarily the result of outstanding encumbrances as of June 30, 2011.

(6) The Fiscal Year 2012 Adopted General Fund expenditures budget does not match the General Fund revenue budget primarily due to the re-budget of Fiscal Year 2011 savings in City Council Offices for Fiscal Year 2012 Community Projects, Programs, and Services appropriations per Council Policy 100-06. The Fiscal Year 2011 savings fall to the General Fund ending balance and are used as a resource for the Fiscal Year 2012 appropriation.

(7) The increase in debt service budgeted in Fiscal Year 2012 is primarily due to the addition of $8.0 million of debt service for the General Fund's portion of the McGuigan settlement payment and the addition of $1.5 million of debt service for the 2011 Qualified Energy Conservation Bonds.

(8) The Fiscal Year 2013 Proposed General Fund expenditures budget does not match the General Fund revenue budget due to re-budgeting Fiscal Year 2012 savings in City Council Offices for Fiscal Year 2013 Community Projects, Programs, and Services appropriations per Council Policy 100-06; re-budgeting unused Fiscal Year 2012 funding for the Kinder Morgan Litigation and for Community Plan Updates in Fiscal Year 2013.

Source: Table: Fiscal Year 2011: Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego;
Fiscal Years 2012 and 2013: Financial Management, City of San Diego.
Footnotes: Comptroller's Office, City of San Diego, and Financial Management, City of San Diego.

Fiscal Year 2012 Budget

Development of the City's budget for Fiscal Year 2012 commenced with the release of the Fiscal Year 2012-2016 Five-Year Financial Outlook on February 7, 2011. This five-year outlook served as the basis for determining the City's operating budget allocations for the current fiscal year. On April 14, 2011, the Mayor released the Fiscal Year 2012 Proposed Budget. According to standard practice, the Mayor presented a May Revision to the Fiscal Year 2012 Proposed Budget on May 19, 2011, with updated revenue and expenditure projections for Fiscal Year 2012. On June 6, 2011, the City Council approved a balanced Fiscal Year 2012 budget through a combination of on-going expense reductions, increased revenue projections for sales tax and transient occupancy tax and some one-time revenue solutions matched to one-time expenditures. The Mayor approved the Fiscal Year 2012 budget on June 13, 2011 without exercising his line item veto. The Appropriation Ordinance that enacted the Fiscal Year 2012 budget into law was adopted by the City Council on July 25, 2011, as required by the Charter.

The City's total Fiscal Year 2012 Adopted Budget (the "*Fiscal Year 2012 Adopted Budget*") of $2.80 billion included $1.13 billion for General Fund operations and $1.46 billion for operations of the City's Enterprise Funds and other fund activities. Another $208.0 million was budgeted for capital improvement projects across the City. As shown in Table A-3, General Fund budgeted revenues of $1.13 billion represented an increase of $40.7 million or 3.8% from Fiscal Year 2011 actuals. General Fund budgeted expenditures of $1.13 billion represented an increase of $40.1 million or 3.7% from the Fiscal Year 2011 actuals. In Fiscal Year 2012, the budget for General Fund expenditures did not match the budget for General Fund revenues primarily due to the re-budget of Fiscal Year 2011 savings in City Council Offices for Fiscal Year 2012 Community Projects, Programs, and Services appropriations per Council Policy 100-06. The Fiscal Year 2011 savings fell to the General Fund ending balance and were used as a resource for the Fiscal Year 2012 appropriation. The Fiscal Year 2012 Adopted Budget included 7,037 full-time equivalent (FTE) positions, a net decrease of 31 FTE positions from the Fiscal Year 2011 Adopted Budget.

Fiscal Year 2012 Year-End Budget Monitoring Report

The Fiscal Year 2012 Year-End Budget Monitoring Report (the "*Fiscal Year 2012 Year-End Budget Monitoring Report*") was released on May 23, 2012. This report presents projections of fiscal year-end revenues and expenditures for the General Fund and other funds with budgeted staff. Projections were developed using actual (unaudited) data from July 2011 through March 2012, which provide nine accounting periods of activity, and departments' information regarding expected spending trends and operations for the remainder of Fiscal Year 2012.

The Fiscal Year 2012 Year-End Budget Monitoring Report projects a surplus of $17.8 million of General Fund revenue in excess of expenditures at fiscal year-end. The projection includes the addition of $5.0 million in restored services and one-time expenses, as well as an increase of $1.4 million in retiree health expenses resulting from the loss of funding from the Early Retiree Reinsurance Program. Offsetting these expenditure increases are additional savings in personnel, due to a higher number of retirements, and lower energy and utility expenses. In accordance with the City Council's direction, $8.3 million of the projected surplus will be used to increase deferred capital maintenance in Fiscal Year 2013. In addition, $3.7 million will be re-budgeted in Fiscal Year 2013, and $0.8 million will be allotted to a Fiscal Year 2013 appropriated reserve to help mitigate the potential impact resulting from the State's determination on former Redevelopment Agency enforceable obligations. After incorporating these adjustments, a net $5.0 million surplus is projected for Fiscal Year 2012.

Presented below are growth rates in Fiscal Year 2012 for the major revenue sources based on the Fiscal Year 2012 Year-End Budget Monitoring Report.

Projected Changes in General Fund Major Revenue Sources
Fiscal Year 2012 Year-End Budget Monitoring Report Projection
Compared with Fiscal Year 2011 Actuals[1]

Property Tax	0.4%
Sales Tax[2]	6.6
Transient Occupancy Tax	5.5
Franchise Fees	3.6

(1) The above percentages reflect General Fund percent changes in these revenue sources.
(2) Includes Proposition 172 safety sales tax revenue.
Source: City of San Diego, Financial Management Department.

Fiscal Year 2013 Proposed Budget

Development of the City's budget for Fiscal Year 2013 (the "*Fiscal Year 2013 Proposed Budget*") commenced with the release of the Fiscal Year 2013-2017 Financial Outlook on October 12, 2011. The Fiscal Year 2013-2017 Financial Outlook included the following projections for the General Fund: a deficit of $31.8 million for Fiscal Year 2013, a deficit of $36.6 million for Fiscal Year 2014, a deficit of $28.1 million for Fiscal Year 2015, a deficit of $5.6 million for Fiscal Year 2015 and a surplus of $22.7 million for Fiscal Year 2017. The projected General Fund shortfall for Fiscal Year 2013 was addressed, and modest service restorations were included, in the Fiscal Year 2013 Proposed Budget, which the Mayor delivered on April 16, 2012 for City Council approval. Incorporating the updated revenue and expenditure information from the balanced Fiscal Year 2013 proposed budget, General Fund surpluses are projected over the next five years.

The City's proposed General Fund budget of $1.15 billion for Fiscal Year 2013 represented approximately 42.4% of the total Fiscal Year 2013 Proposed Budget of $2.71 billion. The proposed

General Fund expenditures represented an increase of $21.8 million or 1.9% over the Fiscal Year 2012 Adopted Budget. The proposed General Fund expenditures budget for Fiscal Year 2013 does not match the General Fund revenue budget due to re-budgeting of Fiscal Year 2012 savings in City Council Offices for Fiscal Year 2013 Community Projects, Programs, and Services appropriations per Council Policy 100-06 and re-budgeting of unused Fiscal Year 2012 funding for the Kinder Morgan Litigation and for Community Plan Updates into Fiscal Year 2013. The Fiscal Year 2013 Proposed Budget included 7,105.42 budgeted FTE positions, a net increase of 68.81 FTE positions from FTE positions included in the Fiscal Year 2012 Adopted Budget. The net increase in General Fund positions is primarily due to the addition of positions related to the restoration of service hours at all branch libraries and recreation centers, additional fire prevention positions, as well as other miscellaneous additions. The Fiscal Year 2013 Proposed Budget also included $10.7 million in funding set aside to help mitigate the potential impact of the Redevelopment Agency dissolution. This set aside funding is in the Transient Occupancy Tax Fund balance.

The following table reflects growth rates in the Fiscal Year 2013 May Revision Budget for the major revenues based on the Fiscal Year 2012 Year-End Budget Monitoring Report.

Projected Changes in General Fund Major Revenue Sources
Fiscal Year 2013 May Revision Budget Compared with Fiscal Year 2012 Year-End Budget Monitoring Report Projection[(1)]

Property Tax	0.4%
Sales Tax[(2)]	5.5
Transient Occupancy Tax	5.0
Franchise Fees	3.1

(1) The above percentages reflect General Fund percent changes in these revenue sources.
(2) Includes Proposition 172 safety sales tax revenue.
Source: City of San Diego, Financial Management Department.

On May 23, 2012, the Mayor released a May Revision to the Fiscal Year 2013 Proposed Budget (the "*Fiscal Year 2013 May Revision*"), which includes adjustments to various department budgets as well as updates to major revenue projections. The Fiscal Year 2013 May Revision also includes the use of one-time resources to fund one-time expenditures and ongoing resources to fund ongoing expenditures. The Fiscal Year 2013 May Revision reflects additional resources for public safety, libraries, parks and recreation, and street maintenance.

As a result of the changes included in the Fiscal Year 2013 May Revision, the proposed General Fund budget for Fiscal Year 2013 increased by $12.2 million to $1.16 billion. The most significant additions in the Fiscal Year 2013 May Revision are $8.3 million in deferred maintenance operating support, $3.7 million in additional funds set aside to mitigate the potential impact of the Redevelopment Agency dissolution (bringing the total set aside to $14.4 million), $1.0 million for additional library service hours, and $1.1 million for a second fire academy. These expenditures are primarily funded by an increase in projected Sales Tax and Transient Occupancy Tax ("*TOT*") revenues for Fiscal Year 2012, reduced borrowing costs, reduced Public Liability and Long-Term Disability fund balances, and a portion of the estimated Fiscal Year 2012 surplus. The City's Fiscal Year 2013 property tax budget with Fiscal Year 2013 May Revision adjustments reflects a decrease of approximately $2.0 million in property tax revenue from the Fiscal Year 2013 Proposed Budget of $389.1 million. This decrease is due to a preliminary estimated reduction in the City's assessed valuation of 1.1% in Fiscal Year 2013. The Fiscal Year 2013 May Revision projects no growth in property tax revenue over Fiscal Year 2012 year-end projection.

State Budget Impacts

The City has reviewed the enacted Fiscal Year 2011-12 State Budget (the "Fiscal Year 2012 State Budget"), the Governor's proposed budget for Fiscal Year 2012-13 (the "Governor's Fiscal Year 2012-13 Budget") and the Governor's revised budget for Fiscal Year 2012-13 (the "May Revision"). The Fiscal Year 2012 State Budget included $27.2 billion of actions to close the State budget deficit, including the elimination of redevelopment agencies. The Governor's Fiscal Year 2012-13 Budget estimated a budget shortfall of $9.2 billion for Fiscal Year 2013; however, the May Revision estimated that the State will face a budget deficit of $15.7 billion in Fiscal Year 2013 absent corrective action. The City is monitoring fiscal measures taken by the State for their potential effects on General Fund revenues and expected cash flows.

Given the current state of the State's economy and the projected imbalance in the State's budget, the City cannot fully anticipate the final resolution of the State's budget challenges and its impacts on the revenues or expenditures of the City. The City cannot predict the extent of any additional fiscal problems that will be encountered in this or in any future Fiscal Years, and, it is not clear what measures will be taken by the State or federal government to address the continuing economic downturn. Future State budgets could be affected by national economic conditions and other factors over which the City will have no control. Also, the City cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current and future budget deficits or the impact that such actions will have on the City's finances and operations. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its budget. See "State Budget Information" herein.

Redevelopment Agencies

The State Legislature passed two bills in June 2011 impacting redevelopment agencies statewide. The first, the Dissolution Act (ABx1 26), dissolved redevelopment agencies effective October 1, 2011, and redirected local property tax increment to replace certain State funding of schools and other agencies. The second bill, Alternative Voluntary Redevelopment Act (ABx1 27), allowed for any redevelopment agency to continue to exist provided its sponsoring city paid an annual remittance amount to the local county auditor to be disbursed to local schools and other local agencies. Both of these bills were challenged, and on December 29, 2011, the California Supreme Court upheld the Dissolution Act while invalidating the Alternative Voluntary Redevelopment Act. The effective date for redevelopment agency dissolution under the court's ruling was February 1, 2012.

While the full financial impact to the City following the dissolution of redevelopment agencies statewide remains unclear, on January 10, 2012, the City Council designated the City to serve as the "*Successor Agency*" to the redevelopment agencies of the City. As the Successor Agency, the City is responsible for the winding down of the redevelopment agencies' operations. The fiscal impact to the City is dependent on the review of the Enforceable Obligation Payment Schedule ("*EOPS*") and the subsequent Recognized Obligation Payment Schedule ("*ROPS*") documents, which will govern the Successor Agency's payments going forward. State law limits the "administrative cost allowance" available to the Successor Agency. Any costs to the Successor Agency beyond those allowed by law would impact the City's General Fund. Significant examples of the EOPS include former redevelopment agency agreements to support the City's debt service obligations for Petco Park and for the 1998 Expansion of the Convention Center, which are the Bonds Being Refunded. These agreements total $13.8 million in debt service support for both obligations for Fiscal Year 2013, which is included in the Fiscal Year 2013 Proposed Budget. Total annual payments under these agreements are scheduled to increase through Fiscal Year 2026, capping at $20.3 million and then decline in later years. Should these agreements not be continued in the ROPS, the lack of such funds would have a negative impact on the

City's General Fund. The City has set aside approximately $14.4 million to repay to the former redevelopment agency if the agreements are not deemed recognizable obligations by the State. These costs could also be offset by increased property tax revenues distributed to the City, given that a portion of the tax increment revenue previously allocated to the former redevelopment agencies of the City will be reallocated to the City and other local taxing entities as general property taxes, to the extent that the Successor Agency does not need the continued property tax revenue in order to pay enforceable obligations. The actual level of funds that the City may utilize in fulfilling its role as the Successor Agency will not be known until the County Auditor/Controller, Oversight Board, State Department of Finance, and State Controller review items listed in the EOPS and the ROPS.

On May 25, 2012, the State Department of Finance issued a letter conditionally approving the first two ROPS documents submitted by the Successor Agency. The letter states, however, that the State Department of Finance reserves the right to remove any line item from a future ROPS that is considered to be objectionable. In addition, the County Auditor/Controller has not yet completed its certification of the first ROPS document, as required by ABx1 26; that certification process, which is expected to be finished by July 1, 2012, could result in the removal of multiple line items from the ROPS. Moreover, the Oversight Board conditionally approved the first two ROPS documents during its first meeting on April 25, 2012, but reserved the right to revisit the contents of those ROPS documents after receiving input from the State Department of Finance and the County Auditor/Controller. In sum, the final validity of enforceable obligations in the ROPS documents has not been determined at this time.

Storm Water Program

The City's storm water program is currently funded primarily from the General Fund and partially from property-related storm water fees. The City is a co-permittee funded under a National Pollution Discharge Elimination System Permit (*"NPDES Permit"*) for its storm water program. Pursuant to the NPDES Permit, the City is obligated to undertake substantial capital improvements and implement new operations and maintenance procedures for its storm water program (*"NPDES Permit Requirements"*). If the City is not able to or chooses not to increase its storm water fees to pay for the NPDES Permit Requirements, or if such fees are reduced pursuant to the exercise of the initiative power under Article XIIIC of the California Constitution, the City will have to identify another plan of finance. Such plan of finance may include additional General Fund moneys not previously budgeted for such purpose. Compliance with the NPDES Permit has created a significant impact on the City's General Fund budget, and management of the permit is a budget priority under the City's Five-Year Financial Outlook. Compliance functions encompass storm water pollution prevention, street sweeping and storm drains. The Storm Water Department Fiscal Year 2012 Adopted Budget is $33.8 million. In Fiscal Year 2013, the City will continue to fund programs in accordance with the NPDES Permit Requirements and has included $33.8 million for this purpose in the Fiscal Year 2013 Proposed Budget. For a discussion of Article XIIIC of the California Constitution, see "LIMITATIONS ON TAXES AND APPROPRIATIONS — Articles XIIIC and XIIID (Proposition 218) of the California Constitution – *Article XIIIC*."

Proposition A

A ballot initiative, Proposition A, on the June 5, 2012 primary ballot, would prohibit the City from requiring the use of so-called Project Labor Agreements ("PLAs") on most City construction projects. Subsequent to Proposition A's qualification for the ballot, the State Legislature passed, and the Governor signed, a law that would prohibit the use of State funds on local construction projects where the local agency, including a charter city, prohibits the use of PLAs. If approved, Proposition A could cause the City to lose State funding for City construction projects. In addition to prohibiting requiring the use of PLAs, Proposition A would require the City to post online all construction contracts over $25,000. The

fiscal analysis for the ballot measure estimates the set-up costs required would be $500,000 and the annual recurring cost of the system would be $450,000. Although the City cannot quantify the potential impact on the City from Proposition A as a result of the loss of State funding, the City does not expect it to have a material adverse impact on the City's General Fund or projects supported or funded by the General Fund. For a discussion of other initiatives that could impact the City, see "LIMITS ON TAXES AND APPROPRIATIONS – Articles XIIIC and XIIID (Proposition 218) of the California Constitution."

Major Revenue Sources

Property Taxes

Property tax revenue is the City's largest revenue source, representing 33.6% and 33.9% of the total General Fund revenue estimated for the Fiscal Year 2012 Adopted Budget and the Fiscal Year 2013 Proposed Budget, respectively. The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the City. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the City's share of such taxes to the City, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "*Pool*"). If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City. In the event of such an occurrence, the City believes that General Fund revenue requirements could be met through the use of other City funds. Ad valorem taxes are subject to constitutional limits as discussed under the section "LIMITATIONS ON TAXES AND APPROPRIATIONS." The City does not participate in a Teeter Plan, which is an alternate method for allocating property taxes by counties. A Teeter Plan allows counties to allocate 100% of property taxes billed to a city in exchange for retaining future delinquent tax payments, penalties and interest.

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the City as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing the taxes on which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If not paid, the property is subject to default. Such property may be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1.5% per month from July 1 of the following year to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due following the January 1 lien date and become delinquent, if unpaid, on August 31 of the Fiscal Year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the Fiscal Year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) commencing a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's Office, in order to

obtain a lien on certain property of the taxpayer; and (d) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee.

A supplemental assessment occurs upon a change of ownership of existing property and for new construction upon completion. A supplemental tax bill is issued for the difference in property value resulting from the increase or decrease in assessed value prorated for the remainder of the year.

Effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric ("*SDG&E*"). In lieu of the property tax on these previously included assessed valuations, the City now receives from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

Property taxes allocated to the City include an amount to compensate cities for the loss of motor vehicle license fees. Motor Vehicle License Fees ("*MVLF*" or "*VLF*") are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles at the time of registration. The fees are then forwarded to the State Controller's Office, which allocates the funds to local governments per capita on a monthly basis. Beginning in 1999, the MVLF underwent a series of offsets, first initiated by the State legislature as part of the 1998-1999 Budget agreement. These offsets ultimately resulted in a 67.0% reduction in the effective MVLF rate, from 2.0% of a vehicle's value to 0.65%. To compensate cities and counties for the tax offset, the State began providing State General Fund revenue to cities and counties on a dollar-for-dollar basis, otherwise known as the MVLF backfill. As part of the Fiscal Year 2005 State Budget agreement, the MVLF rate was statutorily reduced to 0.65%, thereby eliminating the MVLF backfill. Cities were compensated for the loss in MVLF revenue with increased property tax revenues. Although the MVLF rate has subsequently increased, the City does not share in this increase.

Property taxes allocated to the City also include a special tax levy of $0.005 per $100 of assessed value, authorized by the Charter for the maintenance of zoological exhibits in Balboa Park. These funds are remitted to the San Diego Zoological Society, a not-for-profit corporation independent from the City that manages the zoo, in accordance with a contractual agreement with such society. As required by the Charter, these revenues are collected in the Zoological Exhibits Fund, a non-general fund.

Fiscal Year 2012 Property Tax Budget. The Fiscal Year 2012 Adopted Budget included $380.9 million in property tax revenues, consisting of $276.8 million of 1% property tax levy and $104.1 million of "in-lieu of VLF" property tax revenue. Property tax revenue represented 33.6% of the Fiscal Year 2012 Adopted Budget. The year-end projection for property tax revenue in the Fiscal Year 2012 Year-End Budget Monitoring Report is $385.4 million (including "in-lieu of VLF" property tax revenue), which is $4.5 million above the property tax revenues in the Fiscal Year 2012 Adopted Budget. The projected increase in property tax revenue over the budgeted amount is based on an increase in the projected property tax collection rate and a higher assessed valuation for the City than what was estimated by the County when the Fiscal Year 2012 budget was adopted.

The City is projecting a 98% collection rate for secured property taxes, which is an increase from the 96.8% collection rate assumed in the Fiscal Year 2012 Adopted Budget. In Fiscal Year 2011, actual property tax revenue receipts exceeded forecasted levels due to an actual collection rate of 98% (exclusive of revenues in the Zoological Exhibits Fund), and it is anticipated this rate of collection will continue in Fiscal Year 2012. The assessed valuation information released by the County Assessor's Office in June 2011, subsequent to the preparation of the Fiscal Year 2012 Adopted Budget, reflected an increase in assessed valuation. This was the first time the City experienced positive growth in assessed valuation since Fiscal Year 2009. The County Assessor's Office will continue to process property tax

refunds for the remainder of the fiscal year; however, a year-to-date comparison of Fiscal Year 2012 refunds against Fiscal Year 2011 shows a significant decrease. Although the City does not anticipate a large amount of additional property tax refunds through fiscal year-end, the total amount of refunds remaining to be processed is unknown.

Fiscal Year 2013 Property Tax Budget. While the local residential housing market has experienced slight increases in home sales in Fiscal Year 2012, this does not greatly impact the projected growth rate in property tax revenues for Fiscal Year 2013 due to a lag between the time assessed valuation is set by the County Assessor's Office (reflecting the entire calendar year) and the time property tax revenue is received by the City. Property tax is a lagging revenue source and, therefore, does not depict recent market activity. Stabilization in home sales, notices of defaults and foreclosures experienced in 2011 may provide for additional growth in upcoming fiscal years from the negative impacts of the recession that began in December 2007.

The Fiscal Year 2013 Proposed Budget included $389.1 million in property tax revenues, consisting of $284.0 million of 1% property tax levy and $105.0 million of "in-lieu of VLF" property tax revenue. The 0.5% growth was a conservative estimate based on the County Assessor's Office 0.65% increase in assessed valuation for the City for Fiscal Year 2012. The Fiscal Year 2013 May Revision includes $387.1 million in property tax revenues, representing a decrease of approximately $2.0 million in property tax revenue from the $389.1 million of budgeted property tax revenues in the Fiscal Year 2013 Proposed Budget. The decrease is based on a preliminary estimated reduction in the City's assessed valuation of 1.1% for Fiscal Year 2013. As a result, there is no projected growth in property tax revenue over Fiscal Year 2012 year-end projection.

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Table A-4 presents the assessed valuation within the City for each of the last ten Fiscal Years.

TABLE A-4
ASSESSED VALUATION[(1)(2)(3)]
Fiscal Years 2003 through 2012
(in thousands except for percentages)
(unaudited)

Fiscal Year	Secured Property	Unsecured Property	Gross Total	Less Exemptions[(4)]	Net Assessed Valuations[(5)]	Annual Assessed Valuation % Change
2003	$ 96,751,483	$ 6,838,410	$103,589,893	$ 4,336,637	$ 99,253,256	8.46
2004	105,730,848	7,167,011	112,897,859	5,171,957	107,725,902	8.54
2005	115,305,637	6,724,787	122,030,424	4,872,423	117,158,002	8.76
2006	128,935,155	7,067,580	136,002,735	5,684,279	130,318,456	11.23
2007	142,036,802	7,629,006	149,665,808	5,867,546	143,798,261	10.34
2008	154,653,913	7,410,589	162,064,502	6,329,714	155,734,787	8.30
2009	162,580,727	7,880,341	170,461,068	6,795,274	163,665,794	5.09
2010	161,637,831	8,164,394	169,802,225	7,157,357	162,644,869	-0.62
2011	158,803,280	7,873,095	166,676,375	7,411,231	159,265,145	-2.08
2012	160,568,112	7,614,792	168,182,903	7,713,035	160,469,868	0.76

(1) The official date of assessment is the first day of January preceding the Fiscal Year during which taxes are levied. For example, January 1, 2011 is the official assessment date for property taxes due during Fiscal Year 2012.
(2) Does not include State assessed utility property.
(3) The table does not include incremental value for redevelopment project areas ($16.7 billion for Fiscal Year 2012).
(4) Inclusive of homeowners' exemptions, which provide for a reduction of $7,000 off the assessed value of a qualifying residence. The result is an annual property tax reduction of approximately $70 for a qualifying homeowner.
(5) Net assessed valuation for tax purposes.

Source: Fiscal Years 2003 – 2011: Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego
Fiscal Year 2012: MuniServices, LLC.

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Table A-5 shows the City's secured tax collections for each of the ten Fiscal Years shown.

TABLE A-5
SECURED TAX LEVIES AND COLLECTIONS[1]
Fiscal Years 2002 through 2011
(in thousands except for percentages)
(unaudited)

Fiscal Year	Tax Levy	Current Year Collections	Current Year Collections as Percentage of Current Tax Levy	Total Tax Collections[2]	Total Collections as Percentage of Current Tax Levy
2002	$167,077	$160,992	96.36%	$165,443	99.02%
2003	181,687	175,943	96.84	180,036	99.09
2004	199,630	191,224	95.79	197,708	99.04
2005	227,422	213,173	93.73	221,126	97.23
2006	255,211	240,895	94.39	249,047	97.58
2007	272,983	257,034	94.16	266,172	97.50
2008	289,235	271,657	93.92	281,842	97.44
2009	299,935	284,212	94.76	299,200	99.75
2010	297,208	284,600	95.76	298,538	100.45
2011	293,617	283,978	96.72	297,049	101.17

(1) Property Tax Levies and Collections for the General Fund and Zoological Exhibits Fund. Current Year Collections as Percentage of Current Tax Levy column reflects combined collection rate for secured and unsecured property taxes collected in General Fund and unsecured property taxes collected in Zoological Exhibits Fund.

(2) Total Collections include unpaid taxes from previous years' tax levies collected in the current Fiscal Year.

Source: Fiscal Year 2011 Comprehensive Annual Financial Report Statistical Section (unaudited), Comptroller's Office, City of San Diego.

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Table A-6 indicates the 10 largest secured and unsecured property taxpayers in the City for the tax roll of Fiscal Year 2012.

TABLE A-6
PRINCIPAL PROPERTY TAXPAYERS IN CITY OF SAN DIEGO[(1)(2)(3)]
Tax Roll for Fiscal Year 2012
(in thousands, except for percentages)
(unaudited)

Taxpayers	Type of Business	Assessed Valuation[(4)]	Percentage of Net Assessed Valuation[(5)]	Amount of Tax[(6)]
Irvine Co.	Real Estate	$ 1,527,438	0.86%	$17,229
Kilroy Realty, LP	Real Estate	1,510,343	0.85	17,037
Qualcomm, Inc.	Electronics	1,344,098	0.76	15,161
San Diego Family Housing, LLC	Real Estate	689,756	0.39	7,780
Arden Realty Ltd. Partnership	Real Estate	612,156	0.35	6,905
Pfizer, Inc.	Pharmaceuticals	465,970	0.26	5,256
Fashion Valley Mall, LLC	Developer	429,801	0.24	4,848
Seaworld Parks	Entertainment	414,129	0.23	4,671
OCSD Holdings	Real Estate	411,572	0.23	4,643
One Park Boulevard LLC	Hotel Management	404,800	0.25	4,566
TOTAL		$ 7,810,062	4.41%	$ 88,097

(1) The official date of assessment is the first day of January preceding the Fiscal Year during which taxes are levied. For example, January 1, 2011 is the official assessment date for property taxes due during Fiscal Year 2012.
(2) Utility Companies excluded.
(3) The table includes incremental value for redevelopment project areas.
(4) Total assessed valuation includes both secured and unsecured property; does not include supplemental assessments.
(5) Using total Net Assessed Valuation of $177.2 billion (includes incremental value for redevelopment project areas) for Fiscal Year 2012.
(6) A number of the top 10 property taxpayers have filed various assessment appeals that could result in refunds of prior year taxes paid. The amount of any such refunds is unknown.
Source: MuniServices, LLC.

Sales Tax

Sales tax is collected and distributed by the State Board of Equalization. The sales tax rate is established by the State Legislature. Sales tax is the City's second largest revenue source, representing 18.8% and 20.4% of the total projected General Fund revenue in the Fiscal Year 2012 Adopted Budget and the Fiscal Year 2013 Proposed Budget, respectively.

The City's sales tax revenues shown in Tables A-3 include a reimbursement from property taxes that the City will receive as a result of the "triple flip". Triple flip is the shift enacted by the State in Fiscal Year 2005 whereby local governments shift one-quarter of a cent of their Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax. Once the State's Economic Recovery Bonds are repaid in full (in 2023, unless retired prior to maturity), local governments will no longer receive the property tax reimbursement, but will instead regain the one-quarter-cent sales tax that was diverted to the State by the triple-flip. This shift is different from the MVLF property tax swap which is considered to be a permanent shift of revenues from MVLF to property tax.

Collected at the point of sale, sales tax receipts are remitted to the State Board of Equalization, which allocates tax revenue owed to the City in the form of monthly payments. According to the Bradley-Burns Sales and Use Tax law, cities are to receive one cent of the total 7.25 cent statewide sales

tax levied on each dollar of taxable sales (one-fourth of which is now received as property tax). In addition to the Bradley-Burns sales tax, San Diego County voters approved a half-cent supplemental sales tax in 1987 to fund the San Diego Transportation Improvement Program ("*TransNet*"), resulting in a total countywide sales tax of 7.75%. The TransNet sales tax was renewed in 2008 for an additional 40-year term. TransNet sales tax revenues are not City revenues, are restricted to transportation projects and are not available to pay the City's General Fund lease obligations. Sales tax also includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax is known as the Proposition 172 safety sales tax.

Fiscal Year 2012 Sales Tax Budget. The Fiscal Year 2012 Adopted Budget included a total of $211.6 million in sales tax revenue, assuming 4.0% growth for the fiscal year. Sales tax revenue represented 18.7% of the Fiscal Year 2012 Adopted Budget, and consisted of $159.3 million in sales tax revenue and $52.3 million in triple flip reimbursements. The year-end projection for sales tax revenue in the Fiscal Year 2012 Year-End Budget Monitoring Report is $222.8 million (excluding Proposition 172 safety sales tax), which is $11.2 million above the sales tax revenues in the Fiscal Year 2012 Adopted Budget. The projected increase in sales tax revenue over the budgeted amount is based on a revised growth rate of 6.0% for the remainder of the fiscal year. The City experienced positive growth in sales tax revenue throughout Fiscal Year 2011 and that trend has continued through the third quarter of Fiscal Year 2012, with gains reported in all sectors of taxable sales. Consumer spending improved from the third quarter of calendar year 2011 and helped stimulate the economy resulting in moderate growth for the third quarter of the calendar year. Actual cash sales tax receipts for the second quarter of Fiscal Year 2012 increased by 11.5% compared to receipts in the same quarter in Fiscal Year 2011. The City can provide no assurance that actual sales tax receipts will not be materially less than projected. See Official Statement, APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY—Table B-4-1" for historic taxable transactions in the City.

Fiscal Year 2013 Sales Tax Budget. In February 2012, the California Employment Development Department reported San Diego's unemployment rate at 9.3% and the State's unemployment rate at 11.4%. With unemployment rates for both the City and the State still above the national unemployment rate of 8.7%, a conservative 5.0% growth rate for sales tax was used for the Fiscal Year 2013 Proposed Budget. The Fiscal Year 2013 Proposed Budget included $234.4 million in sales tax revenues (excluding Proposition 172 safety sales tax), which included the property tax reimbursement that the City receives as a result of the triple-flip. The Fiscal Year 2013 May Revision includes $235.6 million of sales tax revenue, representing a $1.2 million increase over the sales tax revenues in the Fiscal Year 2013 Proposed Budget. This increase is primarily due to projected revised growth rate for the remainder of Fiscal Year 2012, which increased the baseline for sales tax revenue in Fiscal Year 2013.

Transient Occupancy Tax

The City's transient occupancy tax ("*TOT*") is levied at 10.5 cents per dollar of the daily room price in hotels and motels used by visitors staying in San Diego for less than 30 consecutive days. The TOT is allocated pursuant to the City Municipal Code, with guidelines provided by the City Council Policy 100-3. Of the 10.5 cents of collected TOT, 5.5 cents is allocated toward general government purposes; 4.0 cents is allocated to special programs to promote the City's cultural amenities and natural attractions and to support the City's General Fund departments that provide services related to promoting local tourism; and the remaining 1.0 cent is allocated for any purposes approved by the City Council.

San Diego's local attractions, natural amenities, and proximity to other popular tourist sites continue to make the area a top destination. According to estimates from the San Diego Convention and Visitors Bureau ("*CONVIS*"), total visitors to San Diego in 2011 were projected to total 31.0 million, compared to 2010 totals of 29.9 million visitors and the historical high point of 2006, when there was a

total of 32.2 million visitors. Although the region remains a popular vacation spot, the economic recession had a negative effect on tourism during Fiscal Years 2008-2009. The City can provide no assurance that any continued economic weakness will not have an adverse impact on tourism in San Diego during the next Fiscal Year or for any longer period.

Fiscal Year 2012 Transient Occupancy Tax Budget. The Fiscal Year 2012 Adopted Budget included TOT revenues totaling $142.8 million, of which $74.8 was budgeted to the General Fund and the remaining revenue was budgeted in Special Promotional Programs. General Fund TOT revenue represented 6.6% of the Fiscal Year 2012 Adopted Budget. The year-end projection for Citywide TOT revenue in the Fiscal Year 2012 Year-End Budget Monitoring Report is $147.9 million, representing a $5.1 million or 3.5% increase from the TOT revenues in the Fiscal Year 2012 Adopted Budget. The General Fund portion of the year-end projection for TOT revenue is $77.5 million, representing a $2.7 million or 3.6% increase from the TOT revenues in the Fiscal Year 2012 Adopted Budget.

The recession-rebound tourism cycle has resulted in strong growth coming out of the prolonged tourism downturn. The growth however, is anticipated to be more moderate as the economy as whole continues on a slow path to recovery. Although growth in tourism activity for the upcoming fiscal year is expected to be tempered when compared to growth in recent fiscal years, it is still anticipated to be positive and to continue through calendar years 2012 and 2013, according to information from the CONVIS. The current projection for TOT revenue is based on the forecasts for the two main factors that drive revenue levels: room demand and the average daily room rate ("*ADR*"). CONVIS projected room demand growth of 1.9% for calendar year 2012 and 1.5% in calendar 2013, and projects that ADR will increase to $128.2 million in calendar year 2012 and $133.2 million in calendar year 2013. See APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY—Table B-6" for historical transient occupancy tax data.

Fiscal Year 2013 Transient Occupancy Tax Budget. The Fiscal Year 2013 Proposed Budget included $153.6 million in total TOT revenues, assuming a 5.0% growth rate over the Fiscal Year 2012 year-end projection. Of the total budgeted amount, $80.5 million in TOT revenue was allocated to the General Fund. The remaining funds were allocated to Special Promotional Programs, which includes the one-cent Council discretionary TOT funding budgeted to be transferred to the General Fund and TOT allocated for reimbursement of General Fund tourism related expenditures. The Fiscal Year 2013 May Revision includes $155.3 million in Citywide TOT revenues, representing a $1.6 million increase from the TOT revenues in the Fiscal Year 2013 Proposed Budget. The General Fund portion of the projected total TOT revenues is $81.3 million, representing a $0.9 million increase from the General Fund portion of revenues in the Fiscal Year 2013 Proposed Budget. The projected increase in TOT revenue for Fiscal Year 2013 is based on an assumed 6.0% growth rate through the current fiscal year. The City has experienced growth in receipts over the past two calendar years, and growth in tourism activity is expected to continue through the remainder of calendar year 2012 and into 2013. For further discussion of tourism in the City and County, see APPENDIX B — "DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY – Tourism."

Franchise Fees

Franchise fees revenue results from agreements with private utility companies in exchange for the City's rights-of-way. Currently, San Diego Gas & Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T are the primary sources of franchise revenue to the City. In addition, the City collects franchise fees from private refuse haulers that conduct business within its borders. The revenue received from such agreements is based on a percentage of gross sales.

SDG&E, the single largest contributor of franchise fee revenue, is charged 3.0% of the gross sales of gas and electricity within the City. In addition, the City receives a 3.5% surcharge on SDG&E's electricity sales for the undergrounding of electric utility lines that was approved by the California Public Utilities Commission in December 2002. The City also generates revenue by collecting 5.0% of gross revenues from Cox Communications, Time Warner Cable, and AT&T. Refuse hauler fees are imposed on private refuse haulers depending on tonnage per year: Class I haulers (less than 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

Fiscal Year 2012 Franchise Fees Budget. The Fiscal Year 2012 Adopted Budget included $67.8 million in franchise fee revenue for the General Fund, which represented 6.0% of the total budget. The projection for franchise fees in the Fiscal Year 2012 Year-End Budget Monitoring Report is $67.9 million, which is less than a 1%, or $0.2 million, increase from the Fiscal Year 2012 Adopted Budget. The increased projection is primarily due to a change in forecasted revenue from SDG&E franchise fees. There are no revisions to this revenue source included in the Fiscal Year 2013 May Revision.

Fiscal Year 2013 Franchise Fees Budget. The Fiscal Year 2013 Proposed Budget included $71.7 million in franchise fee revenue for the General Fund, which represented 6.2% of the total budget. There are no revisions to this revenue source included in the Fiscal Year 2013 May Revision.

San Diego Gas & Electric. The Fiscal Year 2012 Adopted Budget included $36.1 million in SDG&E franchise fee revenue for the General Fund. The projection for SDG&E revenue in the Fiscal Year 2012 Year-End Budget Monitoring Report is $37.0 million, which is an increase of 2.5% or $0.9 million over the franchise fee revenue in the Fiscal Year 2012 Adopted Budget. The increase is based on the Fiscal Year 2012 year-end projection of actual receipts and assumes a 2.0% growth rate for Fiscal Year 2013. There are no revisions to this revenue source included in the Fiscal Year 2013 May Revision.

Cable Companies. The majority of cable franchise fees are from Cox Communications and Time Warner Cable. Franchise fee revenue from AT&T, which the City began receiving in Fiscal Year 2008 when the company started providing services, has grown steadily for the past two years and is expected to grow as the company continues to expand in the San Diego market. The Fiscal Year 2012 Adopted Budget for cable franchise fee revenue was $19.1 million. The projection for cable revenue in the Fiscal Year 2012 Year-End Budget Monitoring Report is $18.6 million, which is a decrease of 2.5% or $0.5 million from the cable revenues in the .Fiscal Year 2012 Adopted Budget. The Fiscal Year 2013 Proposed Budget for cable franchise fee revenue of $19.4 million is based on the Fiscal Year 2012 year-end revenue projection and assumes a 4.0% growth rate for Fiscal Year 2013. There are no revisions to this revenue source included in the Fiscal Year 2013 May Revision.

Refuse Haulers and Other Franchises. Revenue from private refuse haulers is based on the total amount of refuse hauled annually. The Fiscal Year 2012 Adopted Budget included $9.6 million in refuse hauler revenues for the General Fund. The projection for refuse haulers revenue in the Fiscal Year 2012 Year-End Budget Monitoring Report is $9.3 million, which is a decrease of 2.8% or $0.3 million over the Fiscal Year 2012 refuse haulers revenue budget. The City also anticipates an additional $2.9 million in franchise fees from the EDCO and Sycamore Landfill facilities and $190,000 from other franchise fee sources. The total Fiscal Year 2012 revenue for the Refuse Haulers and Other Franchises category is $12.4 million. The Fiscal Year 2013 Proposed Budget for refuse hauler franchise fee revenue from private refuse haulers is $10.0 million, an increase of $650,000 over the Fiscal Year 2012 year-end revenue projection. The increase in Fiscal Year 2013 is due to a projected increase in refuse tonnage. There are no revisions to this revenue source included in the Fiscal Year 2013 May Revision.

Reserves

City Reserve Policy

The City maintains a "General Reserve Fund" pursuant to Section 91 of the Charter. Section 91 requires that the reserve be maintained in an amount sufficient to meet all legal demands against the City Treasury for the first four months or other necessary period of each Fiscal Year prior to the collection of taxes. This has been interpreted to allow for the proceeds of the City's TRANs, authorized in Charter Section 92, to count towards satisfying this requirement. The General Reserve Fund may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council.

In accordance with Charter Section 91, the City Council approved a "City Reserve Policy" on July 29, 2008. The City Council approved a revised City Reserve Policy on December 5, 2011, which sets forth the City's approach to establishing and maintaining adequate reserves across the spectrum of City operations, including the General Fund and risk management. The target level for the General Fund Reserves is 8% of annual General Fund revenues. Of that 8% target, a minimum of 5% is to be made up of an Emergency Reserve, which may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council. The reserve targets and expected year of achievement for the City's Risk Management Reserves are as follows: (i) 50% of the value of outstanding public liability claims by Fiscal Year 2019, (ii) 50% of the value of outstanding workers' compensation claims by Fiscal Year 2019 and (iii) $12.0 million for long-term disability claims by Fiscal Year 2014. According to the City Reserve Policy, the General Fund contributions to the Public Liability Fund Reserve and the Workers' Compensation Fund Reserve will be reassessed every two years and incorporated into the budget process, in order to ensure that the reserve targets are met in a manner that is balanced with other budget priorities.

Table A-7 provides a summary of certain City reserves as of June 30, 2011.

TABLE A-7
RESERVES
(in thousands, except for percentages)
(unaudited)

	Target Level	Fiscal Year 2011 Actual (%)	Fiscal Year 2011 Actual ($)	Target Fiscal Year
General Fund Reserve	8% of General Fund revenue	11%	$115,532	2011
Public Liability Fund Reserve	50% of outstanding claims	14	17,071	2019
Workers' Compensation Fund Reserve	50% of outstanding claims	23	34,336	2019
Long-Term Disability Fund Reserve	$12,000	63	7,500	2014

Source: Risk Management Department, City of San Diego, except the General Fund Reserve data comes from Fiscal Year 2011 Comprehensive Annual Financial Report.

General Fund Reserves

The General Fund Reserves include the Emergency Reserve, Appropriated Reserve and Unassigned General Fund Balance. At June 30, 2011, the General Fund Reserve (approximately $115.5 million) consisted of $55 million of the Emergency Reserve in the Restricted General Fund Balance, as well as the entire Unassigned General Fund Balance of approximately $60.5 million. The City expects the General Fund Reserves to be above the 8% target in Fiscal Year 2012, in the amount of $131.7 million or 11.6% of General Fund revenues, as indicated in the Fiscal Year 2012 Year-End Budget Monitoring Report. Incorporating these changes from the Fiscal Year 2013 May Revision and the Fiscal Year 2012 year-end projection, the General Fund Reserve is projected to be $118.9 million or 10.3% of General Fund revenues, which is above the 8.0% reserve target for Fiscal Year 2013.

Emergency Reserve. An Emergency Reserve is to be maintained for the purpose of sustaining General Fund operations in the case of a natural disaster or unforeseen catastrophic event caused by human activity, such as a terrorist attack. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only in the event of a public emergency, as determined by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety, lives, and property of the City and its inhabitants. The Emergency Reserve target level is 8% of annual General Fund revenues. Until the City reaches the 8% Emergency Reserve target level, the balance in the Emergency Reserve will be combined with the balances in the Appropriated Reserve and Unassigned General Fund Balance to calculate the General Fund Reserves level. However, at no time will the balance in the Emergency Reserve fall below 5%, unless such requirement is specifically waived through an action of the City Council due to an unforeseen emergency requiring the use of the Emergency Reserve.

Appropriated Reserve. An Appropriated Reserve may be maintained for the purpose of paying for unanticipated operational needs that arise during the Fiscal Year, but which were not anticipated during the budget process. Funds appropriated to this reserve will be identified and appropriated to a single account within the General Fund annual budget. There will be no maximum or minimum amount appropriated to this reserve in any given year. Any funds that are not expended in a given Fiscal Year will revert back to the General Fund Unassigned Fund Balance and may then be reappropriated in the subsequent year, consistent with the City Reserve Policy. Recommendations to use these funds would be brought forward by the Mayor and would require approval by a majority of the City Council.

Unassigned General Fund Balance. The General Fund Unassigned Fund Balance includes all amounts not restricted, committed, or assigned for a certain purpose. Unassigned amounts are available for any governmental purpose and can be appropriated in the event of an unanticipated requirement for additional funds where the Emergency Reserve would not be appropriate. Should the funds in the Appropriated Reserve be exhausted in a Fiscal Year, the Unassigned General Fund balance may be used. Recommendations to appropriate funds from the Unassigned General Fund balance will be initiated by the Mayor and will require approval by a majority of the City Council.

Risk Management Reserves

The City also maintains Risk Management Reserves in order to provide funding sources for certain claims made against the City. The Risk Management Reserves include the Workers' Compensation Fund Reserve, the Public Liability Fund Reserve and the Long-Term Disability Fund Reserve.

Workers' Compensation Fund Reserve. The Workers' Compensation reserves are maintained as a contingency in the event the annual expense for claims exceeds the annual "pay-go" budgeted amount.

Pursuant to the Fiscal Year 2013-2017 Financial Outlook, the Workers' Compensation Fund contributions have been smoothed over seven years (starting in Fiscal Year 2013). This means that fluctuations in the City's outstanding liability are factored into the City's Workers' Compensation Fund contributions roughly over a seven-year period, to achieve a reserve level equal to 50% of current estimated outstanding workers' compensation obligations by Fiscal Year 2019. According to the City Reserve Policy, this target level requires that approximately $5.9 million be contributed annually to the Workers' Compensation Fund Reserve. The Fiscal Year 2012 Adopted Budget does not include additional funding for the Workers' Compensation reserves in Fiscal Year 2012. The Workers' Compensation reserves level is projected at 22% for Fiscal Year 2012 in the Fiscal Year 2013-2017 Financial Outlook. See "RISK MANAGEMENT — Workers' Compensation and Long-Term Disability" herein. The Fiscal Year 2013 Proposed Budget includes a $5.9 million contribution to the Workers' Compensation Reserve.

Public Liability Fund Reserve. The Public Liability Fund reserves are maintained as a contingency in the event the annual expense for claims exceeds the "pay-go" budgeted amount. Pursuant to the Fiscal Year 2013-2017 Financial Outlook, the Public Liability Fund contributions have been smoothed over seven years (starting in Fiscal Year 2013). This means that fluctuations in the City's outstanding liability are factored into the City's Public Liability Fund contributions roughly over a seven-year period, to achieve a reserve level equal to 50% of current estimated outstanding public liability obligations by Fiscal Year 2019. According to the City Reserve Policy, this target level requires that approximately $6.1 million be contributed annually from the General Fund to the Public Liability Fund Reserve. The Fiscal Year 2012 Adopted Budget does not include additional funding for the Public Liability Reserve in Fiscal Year 2012. The Public Liability Reserve is projected at 15% for Fiscal Year 2012 in the Fiscal Year 2013-2017 Financial Outlook. See "RISK MANAGEMENT — Public Liability Insurance" herein. The Fiscal Year 2013 Proposed Budget includes a $6.1 million contribution to the Public Liability Reserve.

Long-Term Disability Fund Reserves. The Long Term Disability Fund Reserves are maintained to fund self-insured claims in the event the annual expense for a claim exceeds the annual "pay-go" budgeted amount. Pursuant to the Fiscal Year 2013-2017 Financial Outlook, the reserve target for this fund is $12.0 million and is expected to be achieved by Fiscal Year 2014. The City expects to increase the reserve by a minimum of $0.61 million by the end of the Fiscal Year 2012 and by approximately $1.9 million annually thereafter to achieve the reserve target of $12.0 million by Fiscal Year 2014. See "RISK MANAGEMENT — Workers' Compensation and Long-Term Disability" herein. The Fiscal Year 2013 Proposed Budget includes a $1.9 million contribution to the Long-Term Disability Reserve.

State Budget Information

The following information concerning the State's budget has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. The following information is provided as supplementary information only, and it should not be inferred from inclusion of this information that the Series 2012A Bonds are payable from State revenues. The Series 2012A Bonds are payable solely from Base Rental Payments to be made by the City under the Lease and certain other money held under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS" in the front part of this Official Statement.

State Budgeting Process

According to the State Constitution, the Governor is required to propose a budget to the Legislature no later than January 10 of each year, and a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The

budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the State Department of Finance website, www.govbud.dof.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

Fiscal Year 2012 State Budget

On June 30, 2011, Governor Brown signed into law the Fiscal Year 2011-12 State budget (the "*Fiscal Year 2012 State Budget*"). The Fiscal Year 2012 State Budget closed a $26.6 billion budget gap, with $15 billion in expenditure reductions, $0.9 billion in targeted revenue increases, $8.3 billion in an improvement in the State's revenue outlook and $2.9 billion in new loans and transfers. The Fiscal Year 2012 State Budget also projected an additional $4 billion in estimated revenues in Fiscal Year 2012 and assumed a year-end reserve of approximately $500 million. However, the Fiscal Year 2012 State Budget recognized the potential risk if revenues fell short of the forecast and established mid-year expenditure reductions ("trigger cuts") that would go into effect in that event. The Fiscal Year 2012 State Budget also included $27.2 billion of actions to close the State budget deficit, including the elimination of redevelopment agencies and the redirection by the State of Motor Vehicle License Fee Revenues, which resulted in a $3.3 million loss to the City. However, $2.8 million of this loss was offset by increased Citizens' Option for Public Safety (COPS) grant funding and jail booking fee offset revenues included in the Fiscal Year 2012 State Budget.

On December 13, 2011, the State Department of Finance issued a revenue forecast with an updated revenue estimate for Fiscal Year 2012 of $86.2 billion, $2.2 billion lower than the revenue specified in the Fiscal Year 2012 State Budget. As a result, the Department of Finance called for a combination of reductions and adjustments to certain expenditures, totaling $980.8 million. The City cannot predict whether any of these reductions or adjustments will have an adverse impact on the City's financial condition.

Fiscal Year 2013 State Budget

Governor Brown released the Governor's Fiscal Year 2012-13 Budget on January 5, 2012, and issued the May Revision on May 14, 2012. The Governor's Fiscal Year 2012-13 Budget provided that, without corrective action, the State faced a budget gap of $9.2 billion in Fiscal Year 2013; however, the May Revision estimated that the gap increased to $15.7 billion. According to the May Revision, absent corrective action to eliminate the structural gap between revenues and expenditures, the State will face a budget shortfall of approximately $8 billion each year. The Governor's Fiscal Year 2012-13 Budget indicated that various factors contributed to the increase in the State's projected Fiscal Year 2013 deficit since the enactment of the Fiscal Year 2012 State Budget, including the budget problem left over from the prior year; court orders and delayed federal approval of budget-balancing cuts in the health and human services area, which increased costs by $2 billion; revenue loss as a result of national and international economic developments; and the delayed elimination of redevelopment agencies, which resulted in less State General Fund savings in Fiscal Year 2012. The May Revision explained that the $6.5 billion increase in the size of the Fiscal Year 2012-13 budget gap was due primarily to a reduced revenue

outlook, higher costs to fund K-14 education, and decisions by the federal government and courts to block budget cuts.

The May Revision proposed $16.7 billion in budget-balancing measures, including $8.3 billion in spending reductions, to address the State's budget problem and to build a $1 billion reserve. The cornerstone of the Governor's Fiscal Year 2012-13 Budget and the May Revision is the assumption that the voters will approve temporary increases in personal income and sales taxes through an initiative that the Governor has proposed to be on the November 2012 ballot. The May Revision estimated that $8.5 billion would be generated through the budget year with the passage of this measure, and that the funds would be used to pay for Proposition 98 school funding obligations and other state programs, including funding for public safety at the local level. The May Revision proposed a back-up plan of trigger cuts totaling $6.1 billion if the ballot measure is not approved. In addition, the May Revision proposed creating a framework to transfer cash assets previously held by redevelopment agencies to cities, counties and special districts. See "BUDGETARY PROCESS – Redevelopment Agencies" above for a discussion of the dissolution of redevelopment agencies.

Effect of State Budget on General Fund Revenues

The State of California is experiencing significant financial and budgetary stress. State budgets are affected by national and State economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. The City is monitoring fiscal measures taken by the State for their potential effects on the City's General Fund revenues and expected cash flows. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

Section 1(a) of Article XIIIA of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIIIA), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIIIA, as enacted in 1978 by Proposition 13, provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978. On June 3, 1986, California voters approved an amendment to Article XIIIA, which allows for an additional exemption to the 1% tax limitation imposed by Article XIIIA. Under this amendment to Article XIIIA, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire bonds approved on or after July 1, 1978, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property. Later amendments allow for property tax increases to pay for certain school district general obligation bonds approved by 55% of those voting in a local election.

Section 2 of Article III A defines "full cash value" to mean "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." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State Legislature to implement Article XIIIA

provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

In addition, legislation enacted by the California Legislature to implement Article XIIIA provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value.

In the June 1990 election, the voters of the State approved amendments to Article XIIIA permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for a replacement dwelling purchased or newly constructed on or after June 5, 1990, and to exclude from the definition of "newly constructed" improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 2010 election, the voters of the State approved an amendment of Article XIIIA to exclude from the definition of "newly constructed" seismic retrofitting improvements to existing structures. Voters have approved several other minor exemptions from the reassessment provisions of Article XIIIA.

Article XIIIB of the California Constitution

Article XIIIB of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior Fiscal Year, as adjusted annually for changes in the cost of living, population, and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978-1979 fiscal year.

Appropriations subject to Article XIIIB generally include any authorizations to expend during a Fiscal Year the proceeds of taxes levied by or for the entity, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of Taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local government entity from (a) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (b) the investment of tax revenues. Article XIIIB provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIIIB does not limit the appropriation of money to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose. Article XIIIB allows voters to approve a temporary waiver of a government's Article XIIIB limit.

In the June 1990 election, the voters of the State approved Proposition 111, which amended the method of calculating State and local appropriations limits. Proposition 111 made several changes to Article XIIIB, three of which are reflected in the City's annual computation of its appropriation limit. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("*CPCPI*") from the preceding year. Previously the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the Fiscal Year was recomputed by adjusting the Fiscal Year 1987 limit by the CPCPI for the three subsequent years. Third, Proposition 111 excluded from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature."

The City's appropriations limit for Fiscal Year 2012 is established at $1.421 billion. Using the Fiscal Year 2012 Adopted Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be $746.8 million, which was $674.2 million lower than the Gann Limit. The impact of the appropriations limit on the City's financial needs in the future is unknown but the City does not expect its appropriations limit for Fiscal Year 2013 to operate to limit its appropriations subject to limitation for such year.

Articles XIIIC and XIIID (Proposition 218) of the California Constitution

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 and assessments, fees and charges.

Article XIIIC

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.

Although a portion of the City's General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were either imposed, extended or increased prior to the effective date of Proposition 218 or in accordance with the requirements of Proposition 218. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges, such as the TOT, Proposition 172 revenues, or storm water fees which support the City's General Fund. TOT and other local taxes, assessments, fees and charges, could be subject to reduction or repeal by initiative under 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 that 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 fees and charges within the meaning 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. The Bighorn Decision has been interpreted to mean that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIIID.

In the *Bighorn Decision*, the Supreme Court stated 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.

Article XIIIC also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. "Assessments," "fees" and "charges" are not defined in Article XIIIC, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIIC as for Article XIIID described below. If not, the scope of the initiative power under Article XIIIC potentially could include any General Fund local tax, assessment, or fee not received from or imposed by the federal or State government or derived from investment income.

If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City's General Fund. Given the approval requirements imposed by Article XIIID, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. If the City chose to fund any such programs from the General Fund instead, the General Fund budget would be affected.

Article XIIID

Article XIIID defines a "fee" or "charge" as any levy other than an ad valorem tax, special tax, or assessment imposed by an agency 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" herein. Article XIIID further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. In the *Bighorn Decision*, the Supreme Court stated that ongoing water delivery charges are also property-related 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, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a "fee" or "charge" as defined in Article XIIID, 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 (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) 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 (iv) 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.

Depending on the interpretation of what constitutes a "property-related fee" under Article XIIID, there could be future restrictions on the ability of the City's General Fund to charge its enterprise funds for various services provided. In the event that fees and charges of enterprise funds cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to supplement any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

The City believes its current water and wastewater rates materially comply with the notice and substantive provisions of Article XIIID.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Both Articles XIIIA and XIIIB, as well as Articles XIIIC and XIIID described above, were adopted as measures that qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

The State legislature suspended the requirements of Proposition 1A in an effort to balance the State's Fiscal Year 2010 budget. In Fiscal Year 2010, the State borrowed approximately $1.9 billion in property tax revenue from local jurisdictions to help balance the State budget; the City's share of this is approximately $35.8 million. However, the City recovered this property tax revenue during Fiscal Year 2010 through a securitization program of the California Statewide Communities Development Authority. As discussed below, subsequent to the enactment of Proposition 22, Proposition 1A can no longer be suspended.

Proposition 1A may, in some circumstances, result in decreased resources being available for State programs. The decreased resources in turn, could affect actions taken by the State to resolve budget

difficulties. Such actions have recently included increasing State taxes, and could include decreasing spending on other state programs or other actions, some of which could be adverse to the City. While Proposition 1A provides some protection to the City from the State taking of property tax, sales tax and vehicle license fees, there are certain significant issues that relate to sources of funds not covered by Proposition 1A and to the statutory relationships between the State and San Diego County. Impacts to the City's budget that are controlled by the State and County include property tax administration fees, booking fees and the SB 172 allocation.

Proposition 22

On November 2, 2010, the voters of the State approved Proposition 22, known as "The Local Taxpayer, Public Safety, and Transportation Protection Act" ("*Proposition 22*"). Proposition 22, among other things, broadens the restrictions established by Proposition 1A. While Proposition 1A permits the State to appropriate or borrow local property tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the California Constitution to prohibit the State from appropriating or borrowing local property tax revenues under any circumstances. The State can no longer borrow local property tax revenues on a temporary basis even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government's purposes. Furthermore, Proposition 22 restricts the State's ability to redirect redevelopment agency property tax revenues to school districts and other local governments and limits uses of certain other funds. Proposition 22 is intended to stabilize local government revenue sources by restricting the State government's control over local revenues. The City cannot predict whether Proposition 22 will have a beneficial effect on the City's financial condition. See "BUDGETARY PROCESS – Redevelopment Agencies" above for a discussion of the dissolution of redevelopment agencies.

Proposition 26

On November 2, 2010, the voters of the State approved Proposition 26, known as the "Supermajority Vote to Pass New Taxes and Fees Act" (*"Proposition 26"*). Proposition 26, among other things, amends Article XIIIC to the California Constitution principally to define what constitutes a "tax" under the limitations and requirements of that provision. Article XIIIC imposes limitations on local governments like the City when imposing certain taxes, including a requirement that the local government submit certain taxes to the electorate for its approval. Before Proposition 26, Article XIIIC did not define the term "tax." Proposition 26 broadly defines a tax under Article XIIIC to include "any levy, charge, or exaction of any kind imposed by a local government." Proposition 26 lists several exceptions to the definition of "tax," which include (a) a charge for a specific benefit or privilege, which does not exceed the reasonable costs of providing the benefit or privilege, (b) a charge for a government service or product, which does not exceed the reasonable costs of providing the service or product, (c) a charge for the reasonable regulatory costs of issuing licenses and permits, performing investigations, inspections, and audits, and the administrative enforcement thereof, (d) a charge for entrance to or use of local government property, or the purchase, rental, or lease of local government property, (e) a fine, penalty, or other monetary charge imposed as a result of a violation of law, (f) a charge imposed as a condition of property development, and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

It appears that Proposition 26 does not apply retroactively to local government. Thus, even if a fee enacted by the City prior to November 3, 2010 does not fit within any of Proposition 26's exceptions, it will nonetheless remain valid provided that the legislation authorizing it is not amended so as to extend or increase the fee. The City does not believe that it has enacted, extended or increased any fees since passage of Proposition 26 that would not be exempt from Proposition 26 or that would require voter

approval pursuant to Proposition 26. Appellate courts have yet to interpret the provisions of Proposition 26 and, in particular, whether it applies to any of the fees and charges of the types imposed by the City.

Future Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID and Propositions 1A, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State and the City to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

LABOR RELATIONS; SDCERS; OTHER POSTEMPLOYMENT BENEFITS

Labor Relations

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 March 8, 2012, MEA represented approximately 4,364 employees; AFSCME Local 127 represented approximately 1,827 employees; POA represented approximately 1,950 employees; IAFF Local 145 represented approximately 925 employees; Teamsters Local 911 represented approximately 136 employees; and DCAA represented approximately 136 employees. The City had approximately 721 unrepresented employees.

Contracts for Fiscal Year 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 for unrepresented employees which continues through Fiscal Year 2012. For Fiscal Year 2013, the City has reached tentative agreements with all recognized employee organizations which would maintain the status quo, including the 6% reduction in compensation for another year. Such agreements will be memorialized in memoranda of understanding which are expected to be approved by the City Council before the end of Fiscal Year 2012. Unrepresented employees will also be subject to the ongoing 6% reduction in overall compensation. The various labor organizations and unrepresented employees achieved 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.

AFSCME Local 127: AFSCME 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.

IAFF 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.

San Diego City Employees' Retirement System

The City faces significant financial challenges in addressing an unfunded pension liability of approximately $2.2 billion as of June 30, 2011. The challenges posed by the unfunded pension liability are significant and, together with costs related to postemployment healthcare benefits, pose a threat to the future fiscal health of the City.

General

San Diego City Employees' Retirement System (*"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 of Administration (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 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 working half-time or greater and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS.

SDCERS is considered part of the City's financial reporting entity and is included in the City's CAFR as a pension system trust fund. SDCERS does prepare its own CAFR, the most recent of which is for Fiscal Year 2011.

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 2012A 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 2012A 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 2012A Bonds should also be aware that some of the information presented under this caption contains forward-looking statements and the actual results of the pension system may differ materially from the information presented herein.

The information disclosed under this caption relates solely to the City's participation in SDCERS. City employment classes participating in the City's defined benefit plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

TABLE A-8
CITY OF SAN DIEGO PLAN MEMBERSHIP
As of June 30, 2011 (actual member count)

	General	Safety	Total by Classification
Active Members	5,498	2,294	7,792
Terminated Members	2,365	529	2,894
Retirees, Disabled and Beneficiaries	4,755	3,147	7,902
Total Members, as of June 30, 2011	12,618	5,970	18,588

Source: Cheiron Actuarial Valuation as of June 30, 2011.

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 Annual Required Contribution (*"ARC"*) is recommended 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, 2011 Annual Actuarial Valuation of SDCERS, dated March 30, 2012 (the *"2011 Valuation"*). The 2011 Valuation will serve as the basis for the City's pension contribution for Fiscal Year 2013. The City's actual annual pension contribution may differ from the ARC based on a number of factors discussed below.

Actuarial Assumptions and Methods

Funding Method. Cheiron calculates the City's contribution using the Entry Age Normal (*"EAN"*) 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"*). The normal cost (associated with active employees only) 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.[1] The difference between the EAN actuarial liability and the actuarial value of assets is the UAAL.

Amortization Periods. The UAAL as of June 30, 2011 is amortized over several different closed periods as follows: changes in the UAAL due to assumption changes 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 2013, 16 years of amortization remain), and subsequent yearly experience gains and losses are 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. As of the 2011 Valuation, this resulted in an equivalent single amortization period for the UAAL of 15.789 years.

Actuarial Assumptions. At its September 30, 2011 meeting, the SDCERS Board approved several actuarial assumption changes resulting from an Experience Study conducted by Cheiron for the period July 1, 2007 through June 30, 2010. The Experience Study compared assumed versus actual experience for various actuarial factors and recommended changes where actual experience differed from the assumptions. The 2011 Valuation reflects the changed assumptions. The following are the principal

[1] Prior to Fiscal Year 2009, the City's actuarial liability was calculated using the Projected Unit Credit (*"PUC"*) method.

actuarial assumptions used by Cheiron in preparing the 2011 Valuation with the prior year assumptions shown parenthetically:

1. Investment Return Rate: 7.5% per year, net of both administrative and investment expenses (formerly 7.75%).

2. Inflation Rate: 3.75% per year, compounded annually (formerly 4.00%).

3. Interest Credited to Member Contributions: 7.5% compounded annually.

4. Salary Increase Rates: 3.75% (following a two-year freeze assumption for Fiscal Years 2013 and 2014) (formerly 4.00%).

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

6. 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, using 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 8.2% while the market value of assets increased by 24.3% from June 30, 2010 to June 30, 2011. As of June 30, 2011, the market value of plan assets was $4.848 billion, and the actuarial value was $4.739 billion.

Funding Status

According to the 2011 Valuation, at June 30, 2011, the City had a UAAL of $2.178 billion and a funded ratio of 68.5%. The UAAL increased by $32.6 million over the UAAL at the 2010 Valuation, which was $2.145 billion, and the funded ratio increased by 1.4%. The primary cause for the increase in the UAAL was the change in actuarial assumptions adopted by the SDCERS Board at its September 20, 2011 meeting. These changes increased the UAAL by $188.3 million, a significant portion of which was offset by reduced actuarial liabilities and better than expected investment performance, which together decreased the UAAL by $130.0 million.

Table A-9 below sets forth the City's portion of SDCERS' historical funding progress for Fiscal Years 2002 through 2011.

[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 A-9
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Fiscal Years 2002 through 2011
($ in thousands)
(unaudited)

Valuation Date (June 30)	Actuarial Value of Assets	Market Value of Assets	AAL	Funded Ratio (Actuarial)	Funded Ratio (Market)	UAAL (Actuarial)	AAL less Market Value of Assets	Covered Payroll [5]	UAAL to Covered Payroll
2002	$2,448,208	$2,609,623	$3,168,921	77.3%	82.4%	$ 720,713	$ 559,298	$535,157	134.7%
2003	2,375,431	2,780,080	3,532,626	67.2	78.7	1,157,195	752,546	533,595	216.9
2004[1]	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[2]	3,981,932	3,981,932	4,982,699	79.9	79.9	1,000,767	1,000,767	534,103	187.4
2007[3]	4,413,411	4,641,341	5,597,653	78.8	82.9	1,184,242	956,312	512,440	231.1
2008[1]	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	2,106,407	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[4]	4,739,399	4,848,054	6,917,175	68.5	70.1	2,177,776	2,069,121	514,265	423.5

(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. Methodologies and assumptions are discussed above.
(5) Covered payroll includes all elements of compensation paid to active City employees on which contributions to the pension plan are based.
Source: SDCERS Comprehensive Annual Financial Report for 2002 through 2010 Valuations; Cheiron Actuarial Valuation as of June 30, 2011; Office of City Comptroller.

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. Payments related to the POB Plan are funded annually by the City. Depending on whether the City has any retirees whose pension benefits exceed IRC section 415(b) limits in any given year, the City may have a POB Plan contribution.

Citywide and General Fund Pension Contributions

The City's total budgeted pension contribution for Fiscal Year 2012 is $232.8 million. This includes a pension plan contribution of $231.2 million, which is equal to the pension plan ARC, and an estimated POB plan contribution of $1.6 million. The General Fund's proportionate share of the City's total budgeted pension contribution is $179.9 million, or 77.3% of the total City's pension contribution. The City's total budgeted pension contribution for Fiscal Year 2013 is $232.8 million. This includes a pension plan contribution of $231.1 million, which is equal to the pension plan ARC, and an estimated POB plan contribution of $1.7 million. Thus, for Fiscal Year 2013, the City General Fund's proportionate share of the City's total budgeted pension contribution is 78.1% or $181.4 million.

Table A-10 sets forth the City's pension contributions and the General Fund's share for Fiscal Years 2006 (the year the City began to fully fund its pension plan ARC and the first year that Cheiron conducted the actuarial valuation) through 2013.

TABLE A-10
CITY OF SAN DIEGO
PENSION CONTRIBUTION
Fiscal Years 2006 through 2013
($ In Thousands)

Fiscal Year ended (June 30)	Pension Plan ARC	POB Plan ARC	Total ARC[1]	Total Pension Contribution	Additional Contribution (underfunding)	General Fund Pension Contribution[2]
2006	$170,071	--	$170,071	$271,349	$101,278	$123,082
2007	162,000	--	162,000	169,126	7,126	123,834
2008	137,700	2,407	140,107	166,581	26,474	128,746
2009	161,700	4,004	165,704	163,614	(2,090)	135,018
2010	154,200	1,000	155,200	193,880	38,680	152,785
2011	229,100	1,817	230,917	230,423	(494)	182,913
2012[3]	231,200	1,269	232,469	232,800	331	179,944
2013[3]	231,100	1,314	232,414	232,800	386	181,415

(1) Includes core pension ARC and POB Plan ARC. See Note 12 in City's Fiscal Year 2011 CAFR for more information on ARC and POB. Per IRS guidelines, the City may not pre-fund the POB Plan. Therefore, plan contributions may differ from the ARC in any given year. The City did not maintain a QEBA prior to Fiscal Year 2008 and therefore did not calculate a separate ARC.

(2) Starting 2008, includes contribution to both Pension Plan and POB ARC.

(3) Data for Fiscal Years 2012 and 2013 are budgeted. All other data are actual. The total pension and General Fund contributions assume a POB Plan contribution of $1,600 for Fiscal Year 2012 and a POB Plan contribution of $1,700 for Fiscal Year 2013.

Source: City of San Diego Comprehensive Annual Financial Reports Fiscal Year 2006-2011; SDCERS Actuarial Valuations; Department of Financial Management.

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 uses the assumed investment return rate of 7.5% adopted by the SDCERS Board on September 20, 2011. It is critical to note that these projections, while valid as baseline projections, are not likely to occur as experience never conforms exactly to assumptions from year to year.

TABLE A-11
CITY OF SAN DIEGO ACTUARIAL FUNDING PROJECTIONS
Fiscal Years 2013 through 2023
(earnings as assumed)

Fiscal Year Ending June 30	Investment Return Rate	Annual Required Contribution (millions)	ARC as Percentage of Payroll	UAAL (billions)
2013	7.50%	$231.1	46%	$2.18
2014	7.50	236.2	46	2.13
2015	7.50	242.8	46	2.08
2016	7.50	250.0	45	2.02
2017	7.50	257.9	45	1.96
2018	7.50	266.4	44	1.89
2019	7.50	275.4	44	1.81
2020	7.50	284.9	44	1.71
2021	7.50	294.9	44	1.61
2022	7.50	305.4	44	1.49
2023	7.50	316.4	44	1.36

Source: Cheiron 2011 Valuation (March 30, 2012).

Pension Reform Ballot Initiative

An initiative generally entitled "Comprehensive Pension Reform for San Diego" and designated as Proposition B, "Amendments to the San Diego City Charter Affecting Retirement Benefits," has qualified for the June 5, 2012 ballot. Generally, the amendments would provide all new City employees hired on or after the effective date of the amendments, except sworn police officers, with a 401(k) plan instead of a defined benefit plan. The initiative also contains other provisions intended to limit pension benefits for existing employees by imposing a six-year freeze on inflationary salary increases from July 1, 2012 to June, 1, 2018 and limiting the compensation used to calculate pension benefits.

The fiscal analysis for Proposition B was prepared, pursuant to the Municipal Code, by the Independent Budget Analyst, with the concurrence of the Mayor's office and based on actuarial data compiled by Cheiron. The City Auditor, who also participates in preparing the fiscal analysis for ballot measures, did not concur with conclusions in the fiscal analysis for Proposition B because he believes it potentially overstates the savings to the City. According to the fiscal analysis, which is included in the Proposition B ballot materials, the proposal to change to a 401(k)-style plan for all new City employees hired on or after July 1, 2013, except sworn police officers, could have a net cost to the City of approximately $13 million (approximately $56 million in 2012 dollars adjusted for the timing of cost measures and saving measures and assuming inflation at 3.75% per annum) over a 30 year term and the proposal to freeze pay, if fully implemented by the City Council, could save the City approximately $963 million (approximately $581 million in 2012 dollars adjusted for inflation) over a 30 year term.

It is further noted, however that, according to the fiscal analysis, Proposition B, as drafted, is estimated to result in increased costs to the City of $54.1 million for fiscal years 2014 through 2016, largely due to the change in the UAAL payment schedule. These costs could be greater and could continue over a longer period of time if salary freezes are not implemented. Also, Proposition B cannot unilaterally freeze City salaries. Rather, it establishes the City's initial bargaining position with respect to pay increases and pay increases may be authorized with a 2/3 vote of the City Council. If salary increases are authorized, the projected savings could be reduced or not achieved. All fiscal analysis regarding

Proposition B herein is on a citywide basis, and all projections are based on assumptions that may differ materially from actual results if Proposition B is approved by voters and implemented.

The California Public Employment Relations Board ("*PERB*") has sued the City alleging that the City was required to meet and confer with the City's labor unions before Proposition B was placed on the ballot. This case was joined by the San Diego Municipal Employees' Association. The City has argued that Proposition B is a citizens' initiative and the relevant law would only require the City to meet and confer if Proposition B was initiated by the City Council. The PERB complaint will be resolved by the courts. If Proposition B passes, this litigation may delay or preclude the implementation of some or all of the Proposition B amendments to the City Charter. For a discussion of other pending lawsuits against the City, see "LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND."

Postemployment Healthcare Benefits

General

The City provides retiree healthcare benefits, also known as other postemployment benefits ("*OPEB*"), to certain health-eligible retired employees through a plan administered by SDCERS. The City's OPEB plan includes approximately 5,602 retirees, 7,240 active employees, and 759 terminated vested members as of June 30, 2011. The City's postemployment healthcare benefits are closed to employees hired on or after July 1, 2005; however, this is being challenged in court by certain employee groups who contend that due to delays in codifying the benefits changes in the Municipal Code, the elimination date is February 16, 2007, the date the ordinance became effective. The trial court ruled in favor of the City but the matter is currently on appeal. For a discussion of other pending lawsuits against the City, see "LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND."

Historically, OPEB expenses were funded on a pay-as-you-go basis. Beginning in Fiscal Year 2008, the City entered into an agreement with the California Public Employees Retirement System (*"CalPERS"*) as a participating employer in the CalPERS Employers Retirement Benefits Trust (*"CERBT"*) to prefund future OPEB expenses.

Actuarial Assumptions and Methods

The City commissions an annual actuarial valuation of its OPEB liability for the purpose of determining the City's annual cost in accordance with GASB 45. The valuation as of June 30, 2011 ("2011 OPEB Valuation"), dated November 2, 2011, was performed by Buck Consultants ("Buck"). CalPERS has established minimum valuation assumptions for CERBT participants. The following are the major actuarial assumptions and methods employed by Buck in performing the 2011 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: 30 years, open.

4. Actuarial Asset Valuation Method: Fair Value.

5. Discount Rate: 6.40% (6.69% in Fiscal Year 2010)

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

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

8. Health Care Cost Trend: 9.5% for Fiscal Year 2012 grading down by 0.5% annually to 5% for Fiscal Year 2021 and beyond.

Funding Status

According to the 2011 OPEB Valuation, at June 30, 2011, the City had an OPEB UAAL of $1.132 billion and a funded ratio of 9.34%. The OPEB UAAL increased by approximately $4 million over the OPEB UAAL at the 2010 OPEB Valuation, which was $1.128 billion, and the funded ratio increased by 3.28%.

The following table shows the City's OPEB funding progress for Fiscal Years 2008 (the year the City began to prefund OPEB expenses) through 2011:

TABLE A-12
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS (OPEB)
Fiscal Years 2008 through 2011
($ in thousands except for percentages)
(unaudited)

Fiscal Year ending June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Covered Payroll	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

Source: The City of San Diego Comprehensive Annual Financial Report for the Fiscal Years 2008-2011.

Citywide and General Fund OPEB Contributions

The City does not fully fund its annual required contribution for OPEB ("*OPEB ARC*") and does not expect to do so for the foreseeable future. In Fiscal Year 2011, the City paid approximately $33.9 million for annual OPEB pay-as-you-go costs and contributed an additional amount of approximately $25 million to the CERBT. In Fiscal Year 2012, the City has budgeted approximately $35.2 million for annual OPEB pay-as-you-go costs (but projects to contribute $37.2 million), and budgeted an additional amount of approximately $20.6 million for defined contribution payments and to contribute to the CERBT. The total amount the City expects to contribute in Fiscal Year 2012 is $57.8 million. In Fiscal Year 2013, the City has budgeted approximately $39.5 million for annual OPEB pay-as-you-go costs, and has budgeted an additional amount of approximately $18.3 million for defined contribution payments and a contribution to the CERBT. The total amount the City expects to contribute in Fiscal Year 2013 is $57.8 million.

In Fiscal Year 2011, the General Fund's proportionate share was approximately 71% of the total citywide OPEB contribution. For Fiscal Year 2012, the General Fund's proportionate share was

approximately 70.1% of the total citywide OPEB contribution. For Fiscal Year 2013, the General Fund's proportionate share was approximately 70.8% of the total citywide OPEB contribution.

TABLE A-13
CITY OF SAN DIEGO
RETIREE HEALTH CONTRIBUTIONS
Fiscal Years 2008 through 2013[1]
(in thousands)

Fiscal Year	Annual Required Contribution	City CERBT Contribution	City Paygo	Total City Retiree Health Contribution[2]	General Fund Retiree Health Contribution
2008	$ 91,646	$30,129	$23,424	$53,553	$32,542
2009	104,475	23,911	25,587	49,498	34,924
2010	113,426	25,000	31,689	56,689	39,640
2011	120,324	25,000	33,868	58,868	42,065
2012[3]	98,471	20,592	37,198	57,790	40,511
2013[3]	97,448	18,292	39,523	57,815	40,946

(1) Fiscal Years 2008 through 2011: Audited. Fiscal Year 2012: Budgeted. Fiscal Year 2013: Proposed Budgeted.
(2) Includes pay-as-you-go expenses, contributions towards the CalPERS Employment Retirement Benefit Trust (CERBT) beginning in Fiscal Year 2008, and contributions to the Retiree Medical Trust (RMT) beginning in Fiscal Year 2010.
(3) Fiscal Years 2012 and 2013 City CERBT contributions reflect both payments for defined contributions and for CERBT.
Source: City of San Diego Comprehensive Annual Financial Reports Fiscal Year 2008-2011; Comptroller's Office, Fiscal Year 2012: Adopted Budget and Fiscal Year 2013: Proposed Budget; Financial Management Department, City of San Diego.

Labor Agreements Related to OPEB

The City has entered into a 15-year single subject memorandum of understanding with each of its labor organizations regarding reforms to the retiree healthcare benefit for health-eligible employees. The agreements, which cannot be changed until Fiscal Year 2015 at the earliest, caps the City's OPEB contribution at $57.8 million for Fiscal Years 2012 through 2015, with annual increases of up to 2.5% after 2015.

Under the agreements, health-eligible retirees may elect to receive certain retiree health benefits. City employees retiring after March 31, 2012, who were eligible for the prior Retiree Health Benefit, were given a choice between a reduced defined benefit and a defined contribution-style post-employment health plan. The actuarial savings to the City associated with the agreements depends on the benefit elections made, and the benefit election process is currently ongoing. Based upon preliminary election results, when compared to the 2011 OPEB Valuation, Buck projects the UAAL to drop from $1.13 billion to $567 million and the ARC to drop from $94.4 million to $45.5 million for the fiscal year ending June 30, 2012. Actual results will vary depending on the final benefit elections made and will not be known until the OPEB valuation for fiscal year 2012 is prepared.

RISK MANAGEMENT

Self-Insurance

The City is self-insured for workers' compensation, long-term disability ("LTD") and public liability claims. Public liability, workers' compensation, and LTD estimated liabilities as of June 30, 2010 are determined based on results of independent actuarial evaluations and include amounts for claims

incurred but not reported and the loss adjustment expenses. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Estimated liabilities for public liability claims have been recorded in the Self Insurance Fund, Sewer Utility Fund, and Water Utility Fund. Table A-14 presents both the liability expense and the liability premium payments of the City for all three funds for the years presented. Amounts charged to the General Fund for claims and premiums vary from year to year based on a variety of factors, including distribution of claims among responsible funds.

TABLE A-14
CITY OF SAN DIEGO
LIABILITY CLAIMS AND PREMIUMS
Fiscal Years 2007 through 2011

Fiscal Year	Liability Claims Payments and Settlement Costs[1]	Liability Premium Payments
2007	$31,832,000	$5,725,972
2008	28,043,000	4,487,500
2009	25,588,000	5,491,130
2010	20,498,000	5,826,611
2011	26,797,000	4,938,794

[1] The City's portion of settlement and investigation expenses for third party public liability claims, and other litigation expenses.

Source: Information under tabular heading "Liability Claims Payments and Settlement costs" — Fiscal Years 2006 - 2011: Comprehensive Annual Financial Reports, Comptroller's Office, City of San Diego.
Information under tabular heading "Liability Premium Payments" - Risk Management Department, City of San Diego

During Fiscal Year 2011 and to date in Fiscal Year 2012, there were no significant reductions in insurance coverage from the prior year. For each of the past three full Fiscal Years, the settlements have not exceeded insurance coverage. The City can give no assurance that particular losses will be covered or that providers will be able to pay covered losses.

Workers' Compensation and Long-Term Disability

All operating funds of the City participate in both workers' compensation and LTD programs and make payments to the Self Insurance Fund. Each fund contributes an amount equal to a specified rate multiplied by the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the Self Insurance Fund. The Fiscal Year 2013-2017 Financial Outlook addresses reserves for the Workers' Compensation Fund. See "Reserves" herein.

Public Liability Insurance

The City's self-insured retention for public liability is $3,000,000 per occurrence. The City maintains excess public liability insurance policies 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 $50,000,000 per occurrence (inclusive of the $3,000,000 self-insured retention for public liability). The Fiscal Year 2013-2017 Financial Outlook addresses reserves for the Public Liability Fund. See "Reserves" herein.

Employee Group Health Insurance

The City offers a cafeteria-style flexible benefits plan. For all employees, this plan requires employees to choose a health and life insurance plan and also gives employees the option of obtaining dental insurance, vision insurance, or catastrophic care insurance. For MEA and AFSCME Local 127 represented employees, this plan requires employees to choose a life insurance plan for their flexible benefit credit. For all other employees, $50,000 of City-paid life insurance is automatically provided outside of the flexible benefit credit. Employees can place remaining flexible benefit dollars into IRS qualified dental/medical/vision and childcare reimbursement accounts, into their 401(k), and/or take as cash.

Property and Flood Insurance

The City participates in the joint purchase of property insurance and flood insurance through the CSAC-EIA pool, policy term March 31, 2012 through March 31, 2013, which does not insure the Leased Property. The fire and other property insurance for the Leased Property is described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS – Fire and Extended Coverage Insurance" in the front part of this Official Statement. Although the City is not required to provide flood or terrorism insurance for the Leased Property pursuant to the Lease, the City currently has such coverage. The City, in its discretion, may decide at any time to modify or delete such coverage for the Leased Property.

This joint purchase of the City's "all risk" property insurance through the CSAC-EIA pool insures approximately 2.73 billion of City property and provides coverage for loss to City property under the primary policy up to approximately $25 million per occurrence, with a $25,000 deductible. This limit of insurance includes coverage for rental interruption 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 losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to requirements of bond financed projects, acquisitions, and in response to changes in the insurance marketplace. The City can give no assurance that any future losses will be covered or that its insurance provider will be able to cover any such losses.

Earthquake Insurance

The City has access up to $307.5 million of coverage limits, including coverage for rental interruption, for earthquake for designated buildings/structures and certain designated City lease financed locations, which does not include the Leased Property. Although the City is not required to provide earthquake insurance for the Leased Property pursuant to the Lease, the City currently has limited earthquake coverage. The City, in its discretion, made decide at any time to modify or delete such earthquake insurance for the Leased Property.

Depending upon the availability and affordability of the earthquake insurance which the City currently maintains on certain of its property (excluding the Leased Property), 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. This earthquake coverage is subject to a 5% of total values deductible per unit per occurrence, subject to a minimum of $100,000, effective through March 31, 2013. The City's earthquake coverage is purchased jointly and 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 earthquake. The City can give no assurance that any future losses will be covered by its insurance or that its insurance will be able to pay any covered losses.

Employee Dishonesty and Faithful Performance Insurance

The City is a public agency subject to liability for the dishonest acts, 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 $10 million per occurrence subject to a $25,000 deductible.

LITIGATION POTENTIALLY ADVERSELY AFFECTING THE GENERAL FUND

No Pending Litigation Regarding the Series 2012A Bonds

There is no litigation against the City pending or, to the knowledge of the executive officers of the City, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Series 2012A Bonds; (ii) questioning or affecting the validity of the Series 2012A Bonds; or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Series 2012A Bonds. There are, however, lawsuits and claims pending against the City arising in the ordinary course of the City's activities which, taken individually or in the aggregate, could materially affect the City's finances. Note 18 the City's CAFR for Fiscal Year 2011.

Litigation and Regulatory Actions

The City is a defendant in lawsuits pertaining to various 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 approximately 2,433 notices of claims in Fiscal Year 2010. The City received approximately 2,088 notices of claims in Fiscal Year 2011 and, as of April 30, 2012 had received approximately 1,606 notices of claims for the current fiscal year.

The Office of the City Attorney has prepared the following summary of certain pending claims and lawsuits for which, as of the date of the Official Statement, the City Attorney believes, in the event of an unfavorable outcome for the City, the potential loss could exceed $10 million. All figures provided in this section are preliminary and subject to change. Nothing disclosed herein should be considered an admission by the City.

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

Starting in 1995, an Otay Mesa developer filed the first of four lawsuits against the City concerning alleged breaches to a 1986 development agreement and inverse condemnation. The developer, Roque De La Fuente, controls all of the plaintiff entities. In the first lawsuit, *Border Business Park, Inc.,* a jury returned a verdict of $94.5 million in plaintiff's favor. On appeal, however, the Court of Appeal overturned the jury's verdict and ordered a new trial on the breach of contract claim only. Two other lawsuits, *National Enterprises, Inc.* and *Otay Acquisitions, LLC,* were stayed during the pendency of the *Border Business Park* appeal. Upon remand, the City successfully demurred in each of the three cases, and each was dismissed. Plaintiff subsequently filed appeals in these matters. On June 7, 2010, the California Court of Appeal, Fourth Appellate District, Division Two, reversed the judgments entered in favor of the City on the breach of contract causes of action only. The dismissal of the inverse condemnation causes of action was affirmed. A fourth lawsuit, *Otay Truck Parking, L.P.,* setting forth substantially similar allegations, including an inverse condemnation claim, was filed in August 2009.

The matter has been returned to the trial court for further proceedings. Trial is presently scheduled for January 2013. The possible aggregate exposure of these cases ranges between $0 and $30 million.

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

This case, along with other cases based on the same facts, involves residents of the De Anza Mobilehome Park who have filed suit alleging violations by the City of the California Mobilehome Residency laws. The court found the City liable for failing to prepare a tenant impact report when the City sought to close the mobilehome park in 2003. The tenant impact report is being finalized and the range of cost to the City is between $10 and $50 million depending on the length of relocation assistance provided to the mobilehome park residents. A related claim, *Joseph Aglio et al. v. City of San Diego, et al.,* involves residents excluded from the *Homeowners* action either because they had entered into settlement agreements or were evicted from the park. The *Aglio* case involves potential costs to the City of up to $10 million. In both De Anza cases, the City has insurance policies that may cover some or all of the City's costs.

Janet M. Wood v. City of San Diego

This case, brought as a class action representing women and unmarried retirees, alleges that class members receive fewer retirement benefits than other City retirees. Plaintiff has filed identical actions in federal and state court. The cost of increased benefits that would be paid to class members if the outcome of this case is unfavorable to the City has been calculated to be approximately $2.2 million annually. The impact of such increased benefits on the General Fund is unknown and is dependent on factors such as the number of class members attributed to the General Fund, the total increase in the City's actuarial liability associated with such benefits, the amortization period of any increase to the City's actuarial liability and other factors.

Regional Water Quality Control Board San Diego Region Cleanup and Abatement Order

This action involves the cleanup of San Diego Bay in the area around the NASSCO shipyard. The action was brought under CERCLA and stems from San Diego Regional Water Quality Control Board Cleanup and Abatement Order No. R9-2012-0024. The City has liability under CERCLA as the former owner and lessor of the shipyard sites and as operator of the City's stormwater system, which discharges to the bay near the shipyards. A preliminary engineering estimate indicates a cleanup cost of approximately $71 million, plus $10 million in additional costs related to regulatory oversight and environmental studies. Actual costs could be higher. The City's share of this cost is expected to be approximately $20 million. The City has tendered claims on insurance policies which, collectively, may cover approximately half of the City's cost.

All estimates of potential loss in the event of an adverse ruling are subject to change without notice, and, except as required by the Bond Purchase Agreement, the City disclaims any undertaking to update the information concerning pending litigation or asserted claims for matters which may thereafter be brought to the attention of the City. In the event of an adverse ruling, certain pending lawsuits, including those disclosed individually herein, have a reasonable possibility of resulting in an additional liability to the City, in the aggregate, ranging from $0 to $231 million. See Note 18 the City's CAFR for Fiscal Year 2011.

INVESTMENT OF FUNDS

Investment of Funds

Amounts in the funds and accounts of the General Fund are invested by the City Treasurer in the City Treasurer's Pooled Investment Fund (the "*City Pool*") described below and 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 City Pool 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 Finance Committee, and the City Council. All of these documents are promptly posted to the City Treasurer's website for viewing by the general public (http://www.sandiego.gov/treasurer/investments/). 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 2012A Bonds. 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 section and the Office of the Comptroller of the City for review and reconciliation. The Office of the City Treasurer's accounting section 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") 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. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Bank of America Merrill Lynch one- to three-year U.S. Treasury Index. The 35% Liquidity/65% Core portfolio split serves as a guideline. The actual split may vary due to market conditions or other factors. Safety of principal and liquidity are paramount considerations in the management of both portfolios.

Pool Liquidity and Other Characteristics

The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. Based on unaudited month-end data as of March 31, 2012, approximately 13% of the pool investments mature within 62 days, 16% within 92 days, 24% within 184 days, 37% within one year, 77% within two years, 97% within 3 years, and 100% within 4 years (on a cumulative basis). As of March 31, 2012, the City Pool had a weighted average maturity of 1.40 years (510 days) and its weighted average yield was 0.60%. 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 0.36 years and the Core portfolio had a duration of 1.77 years as of March 31, 2012. 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 0.36% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.77% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates. See Note 3, "Cash and Investments" to the City's audited financial report for Fiscal Year 2011.

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Table A-15 sets forth information concerning the City Pool at March 31, 2012.

TABLE A-15
CITY OF SAN DIEGO POOLED INVESTMENT FUND
at March 31, 2012
(in thousands)
(unaudited)

Investment Instrument	Book Value	Fair Value	Percent of Total[1]
U.S. Treasury Notes	$1,101,126	$1,103,635	48.00%
Agency Discount Notes	80,975	81,100	3.53%
Agency Notes & Bonds	623,409	624,482	27.18%
Commercial Paper	149,750	149,769	6.53%
Corporate Notes & Bonds	132,295	132,320	5.77%
Local Agency Investment Fund	49,429	49,429	2.15%
Repurchase Agreement	45,099	45,099	1.97%
Negotiable Certificates of Deposit	75,000	75,030	3.27%
Certificates of Deposit (CDARS)	10,000	10,000	0.43%
Asset Backed Securities	26,903	26,903	1.17%
TOTAL INVESTMENTS	$2,293,986	$2,297,767	100.00%

[1] Based on book value.
Source: Office of the City Treasurer, City of San Diego.

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.

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BONDED AND OTHER INDEBTEDNESS

Long-Term Obligations

As of June 30, 2011, the City had $2,240,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding, $519,297,000 aggregate principal amount of long-term General Fund lease obligations outstanding, and $29,035,000 of other obligations outstanding.

Table A-16 provides a schedule, by years, of principal and interest payments required to be made by the City or its oversight entities with respect to future obligations, as of June 30, 2011.

TABLE A-16
CITY OF SAN DIEGO
GENERAL OBLIGATION AND GENERAL FUND LEASE OBLIGATIONS [1]
As of June 30, 2011
(in thousands)

Fiscal Year	General Obligation Bonds[2]	General Fund Lease Obligations[3]	Other[4]	Total Principal and Interest Payable
2012	$2,314	$ 40,764	$7,971	$ 51,049
2013	0	43,064	7,971	51,035
2014	0	43,029	7,971	51,000
2015	0	43,010	7,971	50,980
2016	0	42,976	0	42,976
Thereafter	0	631,822	0	631,822
Subtotal	$2,314	$844,665	$31,883	$878,862
Less Interest Portion	(74)	(325,368)	(2,847)	(328,289)
Total Principal Portion	$2,240	$519,297	$29,035	$550,572

(1) Unaudited
(2) All of the City's General Obligation Bonds were retired as of July 15, 2011.
(3) This category includes the Qualified Energy Conservation Bonds (*"QECBs"*). The QECB lease payments are partially offset by direct cash subsidy payments from the federal government annually over the life of the bonds. For example, the Fiscal Year 2012 subsidy is $467,971 resulting in a net lease payment of $1,058,095 after accounting for the subsidy. The gross lease payment amounts are reflected in the table.
(4) Payment on the sale of McGuigan Settlement concerning the court-approved class action settlement in the case of William J. McGuigan v. City of San Diego, et. al. Does not include the additional non-general fund total principal obligation of $3,276,705 and interest obligation of $365,476.

Source: Debt Management Department, City of San Diego.

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Table A-17 provides a summary list of long-term general fund supported obligations outstanding as of June 30, 2011.

TABLE A-17
CITY OF SAN DIEGO
GENERAL FUND SUPPORTED OBLIGATIONS[1]
As of June 30, 2011
(in thousands)

	Principal Outstanding[1]
General Obligation Bonds	
1991 – Public Safety Communications[2]	$ 2,240
Total Principal of General Obligation Bonds	**$ 2,240**
General Fund Lease Commitments	
Certificates of Participation	
2003 – Balboa Park/Mission Bay Park Capital Improvements Refunding	$ 7,725
Lease Revenue Bonds	
1998 – Convention Center Expansion Financing Authority[3]	156,785
2002 – Fire and Life Safety Facilities Project[4]	21,150
2003 – City/MTDB Authority for Old Town Trolley Extension Refunding	10,745
2007 – Ballpark Project	142,115
2010A – Master Refunding Bonds[5]	167,635
2011 – Qualified Energy Conservation Bonds (Broad Spectrum Street Lightning)	13,142
Total Principal of General Fund Lease Commitments	**$519,297**
Other	
McGuigan Settlement Modification[6]	$ 29,035
Total Other	**$ 29,035**
Total Principal Outstanding	**$550,572**

(1) Unaudited
(2) All of the City's General Obligation Bonds were retired as of July 15, 2011.
(3) The Convention Center Expansion Financing Authority is planning to issue its Series 2012A Bonds, to refund all of its Lease Revenue Bonds, Series 1998A.
(4) The City expects to issue lease revenue bonds in July 2012, to be used, in part, to redeem all of the outstanding Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2002 B (Fire and Life Safety Facilities Project).
(5) The 2010A Master Refunding Bonds refunded the outstanding 2009A Deferred CIP Bonds, the 1996B Balboa Park/Mission Bay Park Refunding COPs and the 1996A Qualcomm Stadium Bonds.
(6) Does not include the additional non-general fund total principal obligation of $3,276,705 related to the McGuigan Settlement Modification.

Source: Debt Management Department, City of San Diego.

Other Obligations

The City has entered into various short-term vehicle and equipment capital leases that are obligations of the City's General Fund which, as of June 30, 2011, were outstanding in an aggregate principal amount equal to $48,155,000.

Proposed Additional General Fund Lease Financings

From time to time, the City issues lease revenue bonds to fund various capital improvements and projects. The City Council approved a deferred capital program funding plan on March 20, 2012 that describes the City's General Fund deferred capital improvement needs. Deferred capital improvements include needed repairs to City facilities, including roof replacement, heating and cooling system upgrades, structural repairs, and repairs and improvements to storm drains and streets. The City estimates that its deferred capital improvement needs, excluding those related to water and wastewater enterprises, are approximately $898 million. Based on the deferred capital program funding plan, the City will be issuing lease revenue bonds in July 2012 totaling approximately $75 million in net proceeds. Additionally, the City expects to issue, annually in Fiscal Years 2013 to 2017, approximately $80 million to $90 million in General Fund supported obligations to address the City's deferred capital improvement needs.

The City currently anticipates issuing other obligations over the next two years to finance an expansion of the San Diego Convention Center, which is expected to be funded through obligations supported primarily by special tax revenue and some General Fund revenue, and to finance a parking structure in Balboa Park, a General Fund supported obligation to be funded with garage revenue. Such projects may be subject to other approvals, including environmental approvals, which may or may not be granted. Although the City has no current plans to borrow for capital needs other than as described above, it is possible that the City may issue additional obligations in the future. The City also monitors its outstanding bond issuances for refunding opportunities, and, depending on market conditions, the City may issue refunding bonds where economically advantageous to the City.

Short-Term Borrowings

The City has issued tax and revenue anticipation notes since the mid-1960's (except for Fiscal Year 1979) in anticipation of receipt of taxes and other General Fund revenues, and expects to issue tax and revenue anticipation notes for Fiscal Year 2013 in the amount of approximately $130 million.

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The following Table A-18 presents a 10-year history of the City's tax and revenue anticipation notes:

TABLE A-18
CITY OF SAN DIEGO GENERAL FUND
TAX AND REVENUE ANTICIPATION NOTES
Fiscal Years 2003 through 2012
(in thousands)

Fiscal Year	*Principal Amount*[1]
2003	$ 93,200
2004	110,900
2005	114,000
2006	145,000
2007	142,000
2008	116,000
2009	135,000
2010	124,070
2011	163,165
2012[2]	161,000

(1) Principal amounts issued pursuant to Charter Section 92
(2) Consists of three notes, final note matures on May 31, 2012
Source: Debt Management Department, City of San Diego.

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Operating Lease Commitments

The City has entered into various General Fund operating leases under which the City must make annual payments to rent facilities necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 2011.

TABLE A-19
CITY OF SAN DIEGO
FUTURE MINIMUM RENTAL PAYMENTS
GENERAL FUND OPERATING LEASE COMMITMENTS[1]
(in thousands)
As of June 30, 2011

Fiscal Year	*Rent Payable*
2011	$8,244
2012	8,241
2013	8,366
2014	6,248
2015	717
2016	529
2017	553
2018	561
2019	587
2020	596
2021	162
Total	$34,804

[1] Table describes commercial rent payable by the City of San Diego.
Source: Real Estate Assets Department, City of San Diego.

Overlapping Debt and Debt Ratios

Table A- 20 presents a statement of direct and overlapping bonded debt (the "*Debt Statement*") of the City as of June 30, 2011. The City has issued bonds or certificates of participation secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501(c)(3) non-profit corporations. These bonds and certificates of participation are not secured by City General Fund amounts or revenues.

The Debt Statement is prepared by California Municipal Statistics Inc. and is included for general information purposes only. The City has not reviewed the Debt Statement for completeness or accuracy and makes no representations in connection therewith. The Debt Statement does not include the Series 2012A Bonds described in the front part of this Official Statement. The Debt Statement generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The City contains numerous school districts and special purpose districts, such as for water and sanitation, many of which have issued general obligation bonds. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation.

The City periodically issues Special Assessment or Community Facilities District (Mello-Roos) bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined extraordinary benefit to the City. These bonds are secured by property owner assessments or special taxes. As of March 3, 2012, there was one 1915 Act Assessment District and two Reassessment District bond issues with aggregate outstanding principal of $18,169,902, and seven Community Facilities District bond issues with outstanding principal of $125,145,000.

The reserve funds for each of the City's outstanding Assessment District and Community Facilities District bond issues were fully funded as of March 3, 2012. The City is not in any way obligated to make debt service payments for either Assessment District or Community Facilities District bond issues. Based on the City's current Debt Policy, if a short-fall in assessments or special tax receipts needed to make debt service payments occurred as a result of delinquencies, the City does not expect to cover such shortfalls using its general revenues.

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TABLE A-20
CITY OF SAN DIEGO
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
(as of June 30, 2011)
(unaudited)

2010-11 Assessed Valuation:	$177,870,091,628
Redevelopment Incremental Valuation:	17,261,425,251
Adjusted Assessed Valuation:	$160,608,666,377

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/11	% Applicable[1]	City's Share of Debt 6/30/11
Metropolitan Water District	$ 227,670,000	8.999%	$ 20,488,023
Palomar Community College District	322,528,901	26.196	84,489,671
San Diego Community College District	617,707,081	99.924	617,237,624
Poway Unified School District School Facilities Improvement District Nos. 2002-1 and 2007-1	274,996,263	67.726 & 68.433	186,943,877
San Diego Unified School District	1,700,910,669	99.927	1,699,669,004
Sweetwater Union High School District	338,354,415	20.897	70,705,922
San Ysidro School District	103,296,727	82.386	85,102,042
Other School, High School and Community College Districts	1,199,521,709	Various	71,610,986
Grossmont Healthcare District	222,282,076	8.371	18,607,233
Palomar Pomerado Health System	481,514,998	32.061	154,378,524
City of San Diego	**2,240,000**	**100.**	**2,240,000**
City of San Diego Community Facilities District No. 1	34,495,000	100.	34,495,000
City of San Diego Community Facilities District No. 2, Improvement Area Nos. 1, 3 and 4	67,695,000	100.	64,490,000
City of San Diego Community Facilities District No. 3	19,750,000	100.	18,865,000
City of San Diego Community Facilities District No. 4	11,940,000	100.	11,940,000
City of San Diego 1915 Act Bonds	21,501,400	100.	21,501,400
Del Mar Unified School District Community Facilities District No. 99-1 & 95-1	28,560,000	100.	28,560,000
North City West School District Community Facilities District	87,082,921	100.	87,082,921
Poway Unified School District Community Facilities Districts	299,059,166	99.609-100.	298,902,473
San Dieguito Union High School District Community Facilities Districts	47,134,175	39.731-81.063	31,471,391
Sweetwater Union High School District Community Facilities Districts	40,799,541	11.543-100.	22,533,608
Other Special District 1915 Act Bonds	17,597,148	Various	1,716,853
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$3,633,031,552
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	$385,650,000	46.840%	$ 180,638,460
San Diego County Pension Obligations	820,288,160	46.840	384,222,974
San Diego Superintendent of Schools Certificates of Participation	19,992,500	46.840	9,364,487
Palomar Community College District General Fund Obligations	6,275,000	26.196	1,643,799
Poway Unified School District Certificates of Participation	127,465,490	71.292	90,872,697
Sweetwater Union High School District Certificates of Participation	8,730,000	20.897	1,824,308
Chula Vista School District General Fund Obligations	140,055,000	5.055	7,079,780
San Ysidro School District Certificates of Participation	36,540,000	82.386	30,103,844
Other School, High School and Community College District Certificates of Participation	140,907,349	Various	6,021,386
City of San Diego General Fund Obligations and MTDB Authority	**506,155,000**	**100.**	**506,155,000**
Otay Municipal Water District Certificates of Participation	60,095,000	8.179	4,915,170
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$1,222,841,905
Less: Otay Municipal Water District Certificates of Participation			4,915,170
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$1,217,926,735
TOTAL DIRECT DEBT			**$508,395,000**
TOTAL GROSS OVERLAPPING DEBT			$4,347,478,457
TOTAL NET OVERLAPPING DEBT			$4,342,563,267
GROSS COMBINED TOTAL DEBT			$4,855,873,457[2]
NET COMBINED TOTAL DEBT			$4,850,958,267

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

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Ratios to 2010-11 Assessed Valuation:

Direct Debt ($2,240,000)	**0.0001%**
Total Direct and Overlapping Tax and Assessment Debt	2.04%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt ($508,395,000)	**0.32%**
Gross Combined Total Debt	3.02%
Net Combined Total Debt	3.02%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: $0

Source: California Municipal Statistics, Inc.

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APPENDIX B

DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY

Set forth below is certain demographic information regarding the City of San Diego (the "City") and the County of San Diego (the "County"). This information is provided for informational purposes only and general background. The information and data within this Appendix B are the latest data available; however, the current state of the economy at City, County, State of California (the "State") and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the City.

As explained under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS" in the front part of this Official Statement, the Series 2012A Bonds (as defined in this Official Statement) are payable solely from the Base Rental Payments to be made by the City under the Lease and certain other money held by the Trustee under the Indenture. The Series 2012A Bonds are not a debt of the City, the State, or any of its political subdivisions, and neither the City, the State nor any of its political subdivisions is liable thereon.

Introduction

The City, with a total population of approximately 1,321,315 as of January 1, 2012 and a land area of approximately 324 square miles, is the eighth largest city in the nation and the second largest city in California. The City is the county seat for the County. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. Major components of the City's diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City's economic base is also 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.

Population

The following Table B-1 sets forth annual population figures for the City, the County and the State for calendar years 2003 through 2012. The City's population increased by approximately 5.6% between 2003 and 2012, with an average annual increase of approximately 7,735.

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TABLE B-1
CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, AND STATE OF CALIFORNIA
POPULATION GROWTH
Calendar Years 2003 through 2012

Calendar Year[1]	City of San Diego	Annual Growth Rate	County of San Diego	Annual Growth Rate	State of California	Annual Growth Rate
2003	1,251,700	1.22	2,927,216	1.28	35,163,609	1.26
2004	1,257,358	0.45	2,953,703	0.90	35,570,847	1.16
2005	1,261,035	0.29	2,966,783	0.44	35,869,173	0.84
2006	1,261,633	0.05	2,976,492	0.33	36,116,202	0.69
2007	1,266,978	0.42	2,998,477	0.74	36,399,676	0.78
2008	1,279,505	0.99	3,032,689	1.14	36,704,375	0.84
2009	1,294,031	1.14	3,064,436	1.05	36,966,713	0.71
2010	1,304,482	0.81	3,091,579	0.89	37,223,900	0.70
2011	1,309,784	0.41	3,115,810	0.78	37,427,946	0.55
2012	1,321,315	0.88	3,143,429	0.89	37,678,563	0.67

[1] As of January 1 of the calendar year.
Source: State of California Department of Finance, Demographic Research Unit.

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Employment

The following Table B-2 sets forth information regarding the size of the labor force, employment and unemployment rates for the City, the County, the State and the United States for calendar years 2007 through 2011, and for April 2012 (Preliminary).

TABLE B-2
LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF CITY OF SAN DIEGO CIVILIAN LABOR FORCE[1]
Calendar Years 2007 through 2011, and April 2012
(Not Seasonally Adjusted)

	Calendar Year					April
	2007	2008	2009	2010	2011	2012[2]
Civilian Labor Force						
City of San Diego[1]						
Employed	647,100	649,600	627,000	622,200	636,600	644,600
Unemployed	30,700	41,200	66,800	73,300	70,400	61,700
Unemployment Rates						
City[1]	4.5%	6.0%	9.6%	10.5%	10.0%	8.7%
County[1]	4.5	6.0	9.6	10.5	10.0	8.7
California[1]	5.3	7.2	11.3	12.4	11.7	10.5
United States[3]	4.6	5.8	9.3	9.6	8.9	7.7

(1) Estimates are revised annually in March.
(2) Preliminary, subject to change.
(3) The United States unemployment rates for calendar years 2007-2011 were generated as of March 14, 2012.
Source: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

The State of California Employment Development Department, Labor Market Information Division (the *"EDD"*), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the City in April of 2012 was 706,300, of which approximately 61,700 persons were unemployed. Based on preliminary estimates of the EDD as of May 18, 2012, the City's unemployment rate in April of 2012, on a seasonally unadjusted basis, matched that of the County at 8.7% and was below the unemployment rate of the State, which was 10.5%. However, the City's unemployment rate exceeded that of the United States, which was 7.7%. The following Table B-3 sets forth estimates of total annual civilian nonfarm employment by number of employees in each major industry category in the County for calendar years 2007 through 2011. Annual industry employment information is not compiled by sector for the City.

TABLE B-3
COUNTY OF SAN DIEGO
NONFARM EMPLOYMENT
Calendar Years 2007 through 2011[1]
(In Number of Jobs By Industry)

Industry Category	2007	2008	2009	2010	2011
Services[2]	594,100	603,400	580,900	579,300	588,600
Government	222,400	225,100	224,500	230,400	228,400
Federal	40,900	41,600	43,700	47,000	46,700
State and Local	181,500	183,500	180,800	183,500	181,800
Trade	193,600	186,900	172,200	170,800	172,900
Wholesale	45,500	44,900	40,600	40,100	40,700
Retail	148,100	142,000	131,600	130,700	132,200
Manufacturing	102,500	102,800	95,300	92,900	92,800
Nondurable Goods	25,200	24,700	22,200	21,900	21,900
Durable Goods	77,300	78,100	73,100	71,000	70,800
Financial Activities[3]	80,300	75,200	69,800	67,200	66,800
Construction	87,000	76,100	61,100	55,300	55,200
Transportation, Warehousing & Utilities	28,800	29,000	27,400	26,500	26,100
Mining & Logging	400	400	400	400	400
TOTAL NONFARM[4]	**1,308,800**	**1,298,700**	**1,231,400**	**1,222,800**	**1,231,200**

(1) Estimates are revised annually in March.
(2) Includes professional and business, information, educational and health, leisure and hospitality and other services.
(3) Includes finance, insurance, and real estate.
(4) Line items may not add to totals due to independent calculations.
Source: State of California Employment Development Department, Labor Market Information Division.

Since the industry employment data referenced above are organized by standard industrial classification codes, employment in the various high tech categories, such as telecommunications, software and biotechnology may not fall into a single employment section alone. For example, some telecommunications firms appear in Manufacturing while others appear in Services.

Taxable Sales

The following Table B-4 sets forth taxable transactions in the City for calendar years 2006 through 2010, the most recent period for which State Board of Equalization data is available. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Major Revenue Sources" for a discussion of the City's assumptions regarding trends of taxable transactions and sales tax revenues for Fiscal Year 2012 and Fiscal Year 2013.

TABLE B-4
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 2006 through 2010
(In Thousands)

	2006	2007	2008	2009[1]	2010[1]
Retail Stores					
Apparel	$ 924,301	$ 959,509	$ 1,123,736	$ 1,358,011	$ 1,476,887
General Merchandise	2,236,087	2,272,494	1,995,887	1,443,341	1,505,694
Food	843,800	881,871	828,471	864,733	874,855
Eating and Drinking	2,466,681	2,617,392	2,682,884	2,582,572	2,674,975
Home Furnishings and Appliances	706,043	655,097	749,808	1,005,324	1,064,083
Building Materials	1,427,987	1,098,559	865,280	707,657	735,040
Motor Vehicles and Parts	2,132,207	2,237,019	1,852,953	1,606,349	1,720,348
Service Stations	1,567,032	1,656,784	1,847,002	1,319,720	1,527,002
Other Retail Stores	2,527,653	2,321,276	2,045,273	1,481,096	1,483,428
Total Retail Stores	$14,831,791	$14,700,001	$13,991,295	$12,368,802	$13,062,313
All Other Outlets	5,227,476	5,356,105	5,422,964	4,795,162	4,816,619
TOTAL ALL OUTLETS	$20,059,267	$20,056,106	$19,414,259[2]	$17,163,965[2]	$17,878,932[2]

(1) In early 2007 the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System (*"NAICS"*) codes. Beginning in 2009, the California State Board of Equalization reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, industry data for 2009 and 2010 are not comparable with data from prior years.

(2) Line items may not add to totals due to independent rounding.

Source: California State Board of Equalization.

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Tourism

The tourism industry is the County's third largest industry in terms of business revenue generation, following manufacturing and the military. The following Table B-5 sets forth total visitor spending in the County for the calendar years 2007 through 2011.

TABLE B-5
COUNTY OF SAN DIEGO
TOTAL VISITOR SPENDING
Calendar Years 2007 through 2011
(In Millions)

Calendar Year	Amount
2007[1]	$7,899
2008	7,916
2009	6,958
2010	7,080
2011[2]	7,485

[1] For calendar years 2007-2010, visitor spending is an estimate of total direct and indirect visitor expenditures as derived from the Visitor Activity Model/Visitor Profile Study prepared by CIC Research, Inc. for the San Diego Convention and Visitors Bureau.

[2] For calendar year 2011, the estimate of visitor expenditures is derived from the Quarterly Travel Forecast prepared for the San Diego Convention and Visitors Bureau by Tourism Economics.

Source: San Diego Convention and Visitors Bureau.

The following Table B-6 sets forth the City's transient occupancy tax revenues for Fiscal Years 2007 through 2011. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Major Revenue Sources" for a discussion of trends of City transient occupancy tax projected for Fiscal Year 2012.

TABLE B-6
CITY OF SAN DIEGO
TRANSIENT OCCUPANCY TAX[1]
Fiscal Years 2007 through 2011
(in thousands)

Fiscal Year	Amount
2007	$153,574
2008	159,348
2009	140,657
2010	123,879
2011	139,545

[1] Includes both the General Fund portion of TOT (5.5¢ of 10.5¢) and the balance (5¢ of 10.5¢) allocated to Special Promotional Programs. Special Promotional Programs are intended to: advance the City's economy by promoting the City as a visitor destination; develop, maintain, and enhance visitor-related facilities; and support the City's cultural amenities and natural attractions.

Source: Fiscal Year 2011 Comprehensive Annual Financial Report, Comptroller's Office, City of San Diego.

The City is the focal point for tourism in the County. Based on the San Diego County Visitor Industry Summary produced by the San Diego Convention and Visitors Bureau, in the first half of calendar year 2011 an average of 66.3% of the County's hotel and motel rooms rented were located in the City. In addition, most of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, Balboa Park and a host of other cultural and recreational activities.

Based on the San Diego County Visitor Industry Summary, in the first half of calendar year 2011, there were 4,052,170 airport arrivals and 413,771 Amtrak arrivals in the County; City average hotel occupancy was 69.7%, which represents a 2.17% increase from the same period of the prior year.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major sporting events. The City annually hosts the Buick Invitational, a Professional Golfers' Association Tour Event played at the world renowned Torrey Pines Golf Course. In addition, the City has annually hosted a pair of post season contests of elite college football teams, the Holiday Bowl and the Poinsettia Bowl.

The San Diego Convention Center has 2.6 million total gross square feet of buildings, including the parking structure. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention Center has generated over $20 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

Military

Military and related defense spending are significant factors in the County economy. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot; Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

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The following Table B-7 sets forth military and related defense expenditures and personnel in the City for the federal fiscal years ended September 30, 2009 and September 30, 2010.

TABLE B-7
CITY OF SAN DIEGO[1]
DEFENSE EXPENDITURES AND PERSONNEL
Federal Fiscal Years ended September 30, 2009 and September 30, 2010

	Expenditures (In Thousands)		Naval & Civilian Personnel[2]		
Fiscal Year	Grants/ Contracts[3]	Payroll Outlays[4]	Active Duty Military	Civilian[5]	Total
2009	$10,347,135	$3,401,900	51,776	23,409	75,185
2010	10,602,683	3,292,915	43,909	19,962	63,871

(1) Data include activity and expenditures which may occur outside the City or in adjacent counties related to County-based sites.
(2) Computation for personnel data includes only Active Duty Navy and Civilian Personnel in the following military installations: Naval Base San Diego, the Broadway Complex, Naval Base Point Loma, Naval Base Coronado, Marine Corps Air Station Miramar, Marine Corps Recruit Depot Miramar, and Naval Medical Center.
(3) Procurement data include Contracts and Grants for Department of Defense only in Congressional Districts CA-49, CA-50, CA-51, CA-52 and CA-53.
(4) Comprised of Salary and Wage Expenditures by the Department of Defense in San Diego County for Active and Inactive Military Employees and Civilian Employees for all branches of the military service.
(5) Includes Appropriated and Non-appropriated Funds Civilians Navy employees.
Source: Contracts and Grants data: www.usaspending.gov.
Payroll Outlays data: U.S. Census Bureau, Governments Division, Federal Programs Branch.
Personnel data: Total Workforce Management System, Commander Navy Region Southwest, Regional Business Office.

International Trade

The following Table B-8 sets forth the valuation of exports originating in the San Diego Customs District for calendar years 2006 through 2010.

TABLE B-8
VALUATION OF EXPORTS
ORIGINATING IN SAN DIEGO CUSTOMS DISTRICT[1]
Calendar Years 2006 through 2010
(In Millions)

Calendar Year	Amount
2006	$15,980
2007	16,002
2008	16,607
2009	14,007
2010	16,252

(1) The San Diego Customs District includes the ports of San Diego, Andrade, Calexico, San Ysidro, Tecate, Otay Mesa Station, and Calexico-East.
Source: RAND California, Business and Economic Statistics and US Census Bureau Foreign Trade Statistics.

Top Ten Principal Employers

The following Table B-9 sets forth the top 10 principal employers in the City for Fiscal Year 2011.

TABLE B-9
CITY OF SAN DIEGO
TOP TEN PRINCIPAL EMPLOYERS
Fiscal Year 2011
(unaudited)

Employer	Number of Employees	Percentage of Total Employment[1]
United States Navy[2]	54,000	7.71%
University of California San Diego[3]	27,406	3.91%
San Diego Unified School District	16,158	2.31%
San Diego County	15,063	2.15%
Sharp Healthcare[4]	14,924	2.13%
Qualcomm, Inc.	11,500	1.64%
City of San Diego[5]	10,051	1.43%
Kaiser Permanente	7,101	1.01%
UC San Diego Medical Center	5,799	0.83%
San Diego Gas & Electric Co.[6]	4,643	0.66%
Total Top Employers	**166,645**	**23.8%**

(1) Percentage based on total employment of 700,600 provided by the EDD Labor Force Data.
(2) Employee count includes Navy personnel only (civilian/military).
(3) Employee count includes full and part time, academic and support staff.
(4) Employee count is companywide.
(5) Employee count is provided by the City of San Diego, Office of the Comptroller – Payroll Division.
(6) Employee count does not include Sempra Energy or other affiliate companies.
Source: Fiscal Year 2011 Comprehensive Annual Financial Report, Statistical Section (Unaudited).

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Personal Income

The following Table B-10 sets forth the per capita personal income in the County, the State and the United States for calendar years 2006 through 2011.

TABLE B-10
COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES
PER CAPITA PERSONAL INCOME[1]
Calendar Years 2006 through 2011

Calendar Year	County of San Diego	State of California	United States
2006	$ 43,967	$ 41,518	$ 37,725
2007	45,768	43,211	39,506
2008	47,197	44,003	40,947
2009	44,412	41,301	38,846
2010	45,627	42,514	39,937
2011[2]	-	44,481	41,663

(1) Amounts for County and State may not be comparable based on different source methodology.
(2) County of San Diego Per Capita Personal Income for calendar year 2011 not yet available as of the date of this Official Statement.
Source: U.S. Bureau of Economic Analysis and Bureau of the Census.

Property Value and Construction

Residential and non-residential construction declined after peaking in 2005, in part due to the subprime mortgage crisis and the resulting significant increase in the number of foreclosures. However, residential and non-residential construction activity has increased since 2010. Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. The first half of Fiscal Year 2012 construction permits valuation increased by 83%, or $325.5 million from the first half of Fiscal Year 2011.

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The following Table B-11 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2007 through 2011.

TABLE B-11
CITY OF SAN DIEGO
ASSESSED VALUE AND CONSTRUCTION PERMIT VALUATION
Fiscal Years 2007 through 2011
($ in thousands)
(unaudited)

	Residential[1]		Non-Residential[2]		
Fiscal Year	Dwelling Units	Assessed Value[3]	Permits	Assessed Value[3]	Total Permit Assessed Value Estimate[3]
2007	3,540	$ 587,520	217	$ 1,035,183	$ 1,622,703
2008	2,228	437,934	175	931,648	1,369,582
2009	1,117	202,268	138	576,879	779,147
2010	1,147	234,868	76	368,098	602,966
2011	2,024	342,598	98	818,627	1,161,225

(1) Residential reflects construction of new structures.
(2) Non-residential reflects construction of new structures whose intended use includes commercial, industrial, and other uses. Each permit is a separate structure.
(3) Valuation figures only include valuation of newly created structures. These figures do not include minor modification work such as interior remodels, reroofs, etc. Total Permit Assessed Value is an estimate determined at time of permit issuance; actuals may vary.

Source: Development Services Department, City of San Diego; Permit Tracking System Database.

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The following Table B-12 sets forth foreclosure activity in the County for calendar years 2006 through 2011.

TABLE B-12
COUNTY OF SAN DIEGO
FORECLOSURE ACTIVITY
Calendar Years 2006 through 2011

Calendar Year	Foreclosures	Total number of Housing Units[1]	% of Total Housing Units
2006	2,065	1,118,283	0.18%
2007	8,416	1,131,749	0.74
2008	19,575	1,140,654	1.72
2009	15,487	1,145,548	1.35
2010[2]	13,467	1,158,076	1.16
2011[3]	12,216[4]	–	–

(1) As of January 1 of the indicated year.
(2) County of San Diego Total Number of Housing Units for calendar year 2010 was calculated based on 2010 census data.
(3) County of San Diego Total Number of Housing Units for calendar year 2011 not yet available as of the date of this Official Statement.
(4) Total foreclosures for the County of San Diego during calendar year 2011 declined by approximately 9%, compared to the same period of the prior year.
Source: County of San Diego, Assessor's Records; InnoVest Resource Management's Foreclosure Forum; and SANDAG.

According to the San Diego County Recorder's Office, there has been a decrease in the number of notices of loan defaults recorded in the County in calendar year 2011 compared to calendar year 2010. In addition, foreclosures have dropped during this time frame as well. There were 24,835 notices of default recorded in 2010 in the County, which decreased to 22,101 notices recorded in 2011. Furthermore, there were 13,467 foreclosures in the County in 2010, which decreased to 12,216 foreclosures in 2011. In the first quarter of calendar year 2012, there were 4,808 notices of default recorded in the County, and 2,263 foreclosures.

APPENDIX C

SUMMARY OF LEGAL DOCUMENTS

The following is a brief summary of provisions of the Indenture and the Lease that are not summarized elsewhere in this Official Statement. This summary is not intended to be definitive, and is qualified in its entirely by reference to the full terms of such documents.

CERTAIN DEFINITIONS

The following are definitions of certain terms used in the Indenture, the Lease, and this Official Statement, which are not otherwise defined in this Official Statement. Reference is made to the entire documents for the definitions of all terms used in such documents. The following definitions are equally applicable to both singular and plural forms of any of the terms defined in the Indenture or the Lease:

"1998A Bonds" means the $205,000,000 Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998A, of which $150,720,000 remain outstanding on the Closing Date.

"1998 Expansion Site" means that certain real property more particularly described in Exhibit A to the Expansion Lease and in Exhibit A to the Lease.

"1998 Indenture" means the Indenture, dated as of September 1, 1998, between the Authority and the 1998 Trustee, pursuant to which the 1998A Bonds were issued.

"1998 Trustee" means BYN Western Trust Company.

"Addition" means the addition of Leased Property to the leasehold of the Lease, and the lease of additional real property and improvements under the Lease from the Authority to the City, as provided in the Lease.

"Additional Bonds" means all bonds of the Authority authorized by and at any time outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

"Additional Projects" means public capital improvements, including equipment, financed in whole or in part with the proceeds of Additional Bonds.

"Additional Rental" means amounts payable by the City as described under "THE LEASE — Rental Payments — Additional Rental" herein.

"Authorized Representative" means: (a) with respect to the Authority, its Chair, Treasurer or Secretary or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chair, and filed with the City and the Trustee; and (b) with respect to the City, its Chief Financial Officer, Chief Operating

Officer or any other person duly designated by its Chief Financial Officer or its Chief Operating Officer as an Authorized Representative of the City by a Written Certificate of the Chief Financial Officer or its Chief Operating Officer filed with the City and the Trustee.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments attached to the Lease, as from time to time amended as permitted in the Lease.

"Bond Counsel" means (a) Squire Sanders (US) LLP, or (b) any other firm of attorneys, designated by the City, of nationally recognized standing in matters pertaining to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America. Any Opinion of Bond Counsel may be based, insofar as it relates to factual matters, upon information that is in the possession of the City or the Trustee, as applicable, upon a certificate or opinion of, or representation by, an officer or officers of the City, the Trustee or the Authority, unless such Counsel knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which their opinion may be based, is erroneous.

"Bond Year" means each twelve-month period extending from April 2 in one calendar year to April 1 of the succeeding calendar year, both dates inclusive; provided that the first Bond Year with respect to the Series 2012A Bonds shall commence on the Closing Date and end on April 1, 2013.

"Bonds" means the Series 2012A Bonds and any Additional Bonds, authorized by and at any time outstanding pursuant to the Indenture.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in San Diego, California or New York, New York are authorized or required by law to close, or (iii) a day upon which the Trustee is authorized by law to remain closed.

"Closing Date" means the date of delivery of the Series 2012A Bonds to the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or, where pertinent, its statutory predecessor, the Internal Revenue Code of 1954, as amended (the "1954 Code"). Reverences to the Code and Sections of the Code include relevant applicable regulations and proposed regulations under the Indenture and under the 1945 Code, as amended from time to time, and any successor provision to those Sections, regulations or proposed regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Bonds.

"Costs of Issuance" means all expenses directly or indirectly incurred in connection with the authorization, execution and delivery of the Expansion Lease, the Lease and the Indenture (including any supplements or amendments) and the Bonds, including but not limited to all related compensation, fees and expenses (including but not limited to fees and expenses for

legal counsel) of the Authority, the District and the City, initial fees and expenses of the Trustee (including but not limited to fees and expenses for legal counsel), compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation, reproduction and publication of documents, other related out-of-pocket expenses of the Authority, the District and the City, and costs of printing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Damaged Improvement" shall have the meaning contained in the Lease as described under the subheading "THE LEASE — Damage, Destruction, Title Defect and Condemnation".

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amounts: (a) the principal amount of all Outstanding Bonds coming due and payable by their terms in such period; and (b) the interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

"Defeasance Obligations" means (a) Federal Securities and (b) pre-refunded fixed interest rate municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the issuer thereof has given irrevocable instruction concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or Federal Securities; (iii) the principal of and interest on the Federal Securities (plus any cash) in the escrow fund for such municipal obligations are sufficient to meet the liabilities of the municipal obligations; (iv) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the Federal Securities are not available to satisfy any other claims, including those of or against the trustee or escrow agent; and (vi) the municipal obligations are rated, at the time of original deposit to the escrow for the defeasance of the Bonds, by two Rating Agencies not lower than the rating then maintained by the respective Rating Agency on such Federal Securities.

"District" means the San Diego Unified Port District, a public body, corporate and politic, duly organized and existing under and by virtue of the laws of the State of California.

"Event of Default," with respect to the Indenture, means any of the events described under the "THE INDENTURE — Events of Default; Notice" herein and, with respect to the Lease, means any of the events described under "THE LEASE — Default" herein.

"Expiry Date" means May 1, 2028, except as extended or sooner terminated pursuant to the terms of the Lease, or such other date or dates as set forth in an amendment to the Lease.

"Federal Securities" means (a) direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to timely payment of principal

and interest by the United States of America, including without limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds that have been stripped by request to the Federal Reserve Bank of New York in book-entry form; (b) any security issued by an agency or instrumentality of the United States of America which is selected by the Authorized Representative of the City and which is rated, at the time of initial deposit to the escrow fund for the defeasance of Bonds and upon any substitution or subsequent deposit to such escrow fund, by two Rating Agencies not lower than the rating then maintained by the respective Rating Agency on the obligations described in (a) of this definition; and (c) any evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts thereof (a "Federal Certificate"), 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.

"Financing Documents" means the Lease, the Expansion Lease, and the Indenture.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority or the City, as applicable, as its official fiscal year period.

"Independent Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the City, and who, or each of whom:

(a) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Authority or the City;

(b) does not have a substantial financial interest, direct or indirect, in the operations of the Authority or the City; and

(c) is not connected with the Authority or the City as a member, officer or employee of the Authority or the City, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority or the City.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Interest Account" means the account by that name established in the Revenue Fund pursuant to the Indenture.

"Lease Year" means the period from April 2 to and including the following April 1 during the term of the Lease; except that the initial Lease Year means the period from the Closing Date to and including April 1, 2013.

"Loss of Use and Occupancy Fund" means the special fund of that name held by the Trustee and established pursuant to the Facility Lease

"Net Proceeds" means amounts derived by the City from any policy of casualty insurance with respect to any portion of the Leased Property, or the proceeds of any taking of the Leased Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

"Office" means, with respect to the Trustee, the designated corporate trust office of the Trustee which is initially located in Los Angeles, California, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate agency business shall be conducted.

"Operating Agreement" means the 1998 Convention Center Management Agreement, made and entered on September 17, 1998, by and between the District and the City, as initially executed and as it may from time to time be amended or supplemented in accordance with its terms.

"Original Purchaser" means the original purchaser(s) of the Series 2012A Bonds upon their delivery by the Trustee on the Closing Date.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of described under "THE INDENTURE — Miscellaneous — Limitation of Rights to Parties and Bond Owners" herein) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, as described under the subheading "THE INDENTURE — Defeasance — Deposit of Money or Defeasance Obligations with Trustee to Defease Bonds" herein, including Bonds (or portions thereof) described under the subheading "THE INDENTURE — Miscellaneous — Limitation of Rights to Parties and Bond Owners" herein; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner," whenever used in the Indenture with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

"Permitted Encumbrances" means, as of any particular time:

(a) (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Lease, permit to remain unpaid; (ii) the Lease, the Expansion Lease and the Indenture, as each may be amended from time to time pursuant to its terms; (iii) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (iv) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, which (A) exist as of the date of recordation of the Lease or (B) are established thereafter, including without limitation, in a supplement or amendment to the Lease which adds Added Property or Substituted Property to the Leased Property, which Added Property or Substituted Property is subject to such restriction, and no restriction in (A) and (B) substantially interferes with City's right to use and occupy such real property; and (v) rights granted by the City pursuant to the Lease as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property" in the front part of this Official Statement; and

(b) in all cases will not result in abatement of Base Rental Payments payable by the City under the Lease.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(i) Federal Securities;

(ii) 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, and

(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).

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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 or federally-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts shall 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 ;

(vii) 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;

(viii) 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 (i) or (ii) of this definition and having maturities equal to or less than 5 years from the date of delivery, which shall have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and shall 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 shall 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 shall be entitled to rely on each such undertaking;

(ix) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii) and (viii) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii) (iii) and (viii) of this definition and which money market fund is rated, at the time or purchase, by two Rating Agencies in the highest Rating Category;

(x) 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 (i) and (ii) above 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;

(xi) 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;

(xii) 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;

(xiii) Investments in 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;

(xiv) Investments in the City's pooled investment fund;

(xv) Investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code of the State;

(xvi) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xiii) 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);

(xvii) 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

(xviii) 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.

"Principal Account" means the account by that name established in the Revenue Fund pursuant to the Indenture.

"Rating Agency" means Moody's, S&P or Fitch.

"Rating Category" means one of the generic categories of rating by a Rating Agency applicable to a Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

"Record Date" means, with respect to any Interest Payment Date, the first (1st) calendar day of the month of such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"Removal" means the release of all or a portion of the Leased Property from the leasehold as provided in the Lease.

"Revenue Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture and all accounts and funds in the Indenture.

"Revenues" means (a) all Base Rental Payments, prepayments, insurance proceeds, condemnation proceeds and the money, if any, in the Loss of Use and Occupancy Fund created under the Lease and (b) the Revenue Fund and all interest and other income deposited therein, pursuant to the Indenture.

"Series," or "series" whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

"Substitution" means the release of all or a portion of the Leased Property from the leasehold of the Lease, and the lease of substituted real property and improvements under the Lease as provided in the Lease.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the

Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Agreement" means the Tax Compliance Agreement of the Authority and City, dated the Closing Date, with respect to tax matters relating to the Series 2012A Bonds.

"Written Certificate," "Certificate," "Written Request," "Request" and "Written Requisition" of the Authority or the City mean, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

THE INDENTURE

Certain of provisions of the Indenture are summarized below; this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Equal Security

In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture shall be deemed to be and shall constitute a contract between the Authority and the Owners from time to time of the Bonds; and the covenants and agreements set forth in the Indenture to be performed on behalf of the Authority shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

Issuance of Bonds

Transfer and Exchange of Bonds.

So long as a Bond is not held in a Book-Entry only system by DTC or another Securities Depository, any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Transfer of any Bond shall not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with

respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the Authority.

Any Bond may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond shall not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. The Trustee may require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the Authority.

Conditions for the Issuance of Additional Bonds.

The Authority may at any time issue Additional Bonds pursuant to a Supplemental Indenture, payable from the Revenues as provided in the Indenture and secured by a pledge of and charge and lien upon the Revenues as provided in the Indenture equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued under the Indenture, and subject to the following specific conditions, which are conditions precedent to the issuance of any such Additional Bonds:

(a) No Event of Default or abatement of Base Rental Payments shall be continuing after giving effect to the issuance of the Additional Bonds and the application of the proceeds thereof.

(b) The Supplemental Indenture shall require that the proceeds of the sale of such Additional Bonds shall be applied to finance or refinance capital improvements, or for the refunding or repayment of any Outstanding Bonds or other obligations of the City issued to finance or refinance capital improvements permitted under the JPA Agreement, including the payment of costs and expenses of and incident to the authorization and sale of such Additional Bonds. The Supplemental Indenture may also provide that a portion of such proceeds shall be applied to the payment of the interest due or to become due on said Additional Bonds during the estimated period of any construction and for a period of not to exceed twelve (12) months thereafter.

(c) The aggregate principal amount of Bonds issued and at any time Outstanding under the Indenture shall not exceed any limit imposed by law, by the Indenture or by any Supplemental Indenture.

(d) The Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the City under the Lease in each Fiscal Year shall at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(e) If the additional facilities, if any, to be leased in connection with the issuance of such Additional Bonds are not part of, or included in, the Leased Property described in the

Lease and the Expansion Lease, then the Lease and Expansion Lease shall have been amended to include such additional facilities in the definition of Leased Property.

Nothing in the Indenture shall prevent payment of Debt Service on any Series of Additional Bonds from being secured and payable from sources or funds, or by property, instruments or documents, not applicable to the Bonds or any one or more Series of Additional Bonds.

Proceedings for Authorization of Additional Bonds.

Whenever the Authority and the City shall determine to execute and deliver any Additional Bonds pursuant to the Indenture, the Authority and the Trustee shall enter into a Supplemental Indenture providing for the issuance of such Additional Bonds, specifying the maximum principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds. The Supplemental Indenture shall prescribe the form or forms of such Additional Bonds and, subject to the provisions of the Indenture, shall provide for the distinctive designation, denominations, method of numbering, dates, interest rates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional Bonds shall be issued, the City and the Authority shall file or cause to be filed the following documents with the Trustee:

(a) An opinion of Bond Counsel to the effect: (i) that such Bond Counsel has examined the Supplemental Indenture and the amendment to the Lease and to the Expansion Lease required by the Indenture; (ii) that the execution and delivery of the Additional Bonds have been duly authorized by the Authority and approved by the City; (iii) that the execution and delivery of each of the Indenture, the amendment to the Lease and to the Expansion Lease has been duly authorized by the Authority and approved by the City; (iv) that each of the Indenture and the amendment to the Lease and to the Expansion Lease will be, assuming the due authorization, execution and delivery by the other party to each such document, a valid and binding obligation of the Authority and, in the case of the amendment to the Lease, of the City, subject to customary qualifications; and (v) that each of the Supplemental Indenture, the amendment to the Lease and to the Expansion Lease and the issuance of the Additional Bonds will not, by itself, cause interest on the Bonds to be included in the gross income of the Holders thereof.

(b) A Certificate of the City that the requirements of the Indenture described herein under the subheading "Issuance of Bonds — Conditions for the Issuance of Additional Bonds" have been met and that the Base Rental Payments sufficient to pay Debt Service in each year on all of the Bonds, including the Additional Bonds, to be Outstanding will not exceed the fair rental value of the Leased Property.

(c) A Certificate of the City stating that the insurance required by the Lease as described under "THE LEASE — Maintenance; Taxes; Insurance and other Charges — Insurance" herein and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A

BONDS — Fire and Extended Coverage Insurance," "— Use and Occupancy Insurance" and "— Title Insurance" in the front part of this Official Statement is in effect.

Upon the delivery to the Trustee of the foregoing instruments and upon the Trustee's receipt of Certificates of the City and of the Authority stating that all applicable provisions of the Indenture have been complied with (so as to permit the execution and delivery of the Additional Bonds in accordance with the Supplemental Indenture then delivered to the Trustee), the Trustee shall execute and deliver said Additional Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the Written Request of the Authority.

Limitations on the Issuance of Obligations Payable from Revenues.

The Authority will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, however denominated, payable in whole or in part from Revenues except the following:

(a) Bonds of any Series authorized pursuant to the Indenture;

(b) Obligations which are junior and subordinate to the payment of the Debt Service and any other amounts payable under the Indenture and related to the Bonds; which subordinated obligations are payable as to principal, premium, interest, reserve fund requirements, if any, and other amounts payable under the Indenture, only out of Revenues after the prior payment of all amounts then required to be paid under the Indenture from Revenues for payment of Debt Service for the Bonds and any other amounts payable under the Indenture and related to the Bonds, as the same become due and payable and at the times and in the manner as required in the Indenture.

Application of Proceeds

Establishment and Application of Costs of Issuance Fund.

The Trustee shall establish, maintain and keep separate and apart from all other funds held by the Trustee a separate fund designated as the "Costs of Issuance Fund". Not withstanding any other provision of the Indenture, the Cost of Issuance Fund is not pledged to, nor does it secure, the Bonds.

The moneys in the Costs of Issuance Fund shall be used by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the City in the form of Exhibit B to the Indenture and stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On December 1, 2012, or upon the earlier Written Request of the City, all amounts remaining in

the Costs of Issuance Fund shall be transferred by the Trustee to the Revenue Fund to be used for the payment of interest on the Bonds.

Validity of Bonds.

The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Lease. The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

Revenues; Funds and Accounts; Payment of Principal and Interest

Pledge and Assignment; Revenue Fund.

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues including any other amounts (including proceeds of the sale of the Bonds) held in the Revenue Fund are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied in such sums and for such purposes as are permitted under the Indenture. This pledge shall constitute a pledge of and charge and lien upon the Revenues for the payment of Debt Service on the Bonds in accordance with the terms of the Indenture. Said pledge shall constitute a first lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds: (i) all of the Revenues and (ii) all of the rights of the Authority in the Lease (except for certain rights to indemnification set forth in the Lease), and in the Expansion Lease (except for certain rights to indemnification set forth in the Indenture). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority, all of the obligations of the City under the Lease. The assignment of the Lease and the Expansion Lease to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting under the Indenture shall be subject to the provisions of the Indenture. The Trustee shall not be responsible for any representations, warranties, covenants or obligations of the Authority.

(c) The Trustee agrees to provide written notice to the City at least five Business Days prior to each Lease Payment Date of the amount, if any, on deposit in the Revenue Fund which shall serve as a credit against, and shall relieve the City of making, the Base Rental Payments due from the City on such Lease Payment Date.

(d) Subject to the provisions of the Indenture described "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Investment of Funds Under the Indenture," in the front part of this Official Statement, all Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such Funds. Within the Revenue Fund there shall be established an Interest Account and a Principal Account. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund.

Revenue Fund. All money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts and funds within the Revenue Fund (each of which is created and each of which the Trustee covenants and agrees to cause to be maintained) in the following order of priority:

(i) Interest Account; and
(ii) Principal Account.

All money in each of such accounts and funds shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes under the Indenture.

Interest Account. On or before each Interest Payment Date, and on or before each redemption date, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest coming due and payable on all Outstanding Bonds on such date.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest coming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. On or before each April 1, commencing April 1, 2013, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the principal amount (including the payment of principal with respect to any mandatory

sinking account payments) of all Outstanding Bonds maturing or subject to mandatory sinking account payments on such April 1. On or before each redemption date, the Trustee shall transfer from the Revenue Fund and deposit in the Principal Account the principal amount of the Bonds to be redeemed, and premium, if any. No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Bonds maturing by their terms on such April 1. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption, and premium, if any.

Redemption Fund. The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium on the Bonds to be redeemed pursuant to the provisions of the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions" in the front part of this Official Statement; provided, however, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, in accordance with the terms of the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Purchase in Lieu of Redemption*" in the front part of this Official Statement.

Insurance and Condemnation Fund; Title Insurance

Establishment of Fund. Upon the receipt of any proceeds of insurance or eminent domain with respect to any portion of the Leased Property, the Trustee shall establish and maintain an Insurance and Condemnation Fund, to be held and applied under the Indenture as described below.

Application of Insurance Proceeds. Any Net Proceeds of insurance against accident to or destruction of the Leased Property collected by the City in the event of any such accident or destruction shall be paid to the Trustee by the City pursuant to the Lease and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund. If the City fails to determine and notify the Trustee in writing of its determination, within forty-five (45) days following the date of such deposit, to replace, repair, restore, modify or improve the Leased Property, then such Net Proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds pursuant to the provisions of the Indenture described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement to the extent that such Net Proceeds permit. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, upon receipt of Written Requisitions of the City, as agent for the Authority, which: (i) states with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper

charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal; and (ii) specifies in reasonable detail the nature of the obligation. Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Any balance of the proceeds remaining after such work has been completed as certified by the City to the Trustee shall after payment of amounts due the Trustee be paid to the City.

Application of Eminent Domain Proceeds. If all or any part of the Leased Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the provisions of the Lease as described under "THE LEASE — Damage, Destruction, Title Defect and Condemnation" herein and shall be applied and disbursed by the Trustee as follows:

(i) If the City has not given written notice to the Trustee, within forty-five (45) days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for the replacement of the Leased Property or such portion thereof, the Trustee shall transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the Bonds pursuant to the provisions of the Indenture described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement .

(ii) If the City has given written notice to the Trustee, within forty-five (45) days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for replacement of the Leased Property or such portion thereof, the Trustee shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation, upon the filing of Written Requisitions of the City as agent for the Authority in the form and containing the provisions of the Indenture described above under "Application of Insurance Proceeds". Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property or any portion thereof for the benefit of the Owners, shall be applied and disbursed by the Trustee as follows:

(i) If the City determines that the title defect giving rise to such proceeds has not materially affected the City's right to the use and possession of the Leased Property and will not result in an abatement of Base Rental Payments by the City under the Lease, upon Written Request of the City to the Trustee to the effect that the annual fair rental value of the Leased Property, notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental Payments becoming due under the Lease in the then current Lease Year or any subsequent Lease Year, the Trustee shall pay such proceeds to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the

preceding sentence, then such amounts shall be transferred to the Redemption Fund and used to redeem Bonds pursuant to the terms of the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Purchase in Lieu of Redemption*" in the front part of this Official Statement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

(ii) If any portion of the Leased Property has been affected by such title defect and if the City certifies in writing that such title defect will result in an abatement of Base Rental Payments by the City under the Lease, then upon Written Request of the City: either (A) such insurance proceeds shall be used by the City to remove the title defect, or (B) the Trustee shall, if not notified in writing by an Authorized Representative of the City within 90 days of the receipt by the Trustee of the insurance proceeds that the City will use the proceeds to remove the title defect, deposit such proceeds in the Redemption Fund and such proceeds shall be applied to redeem Bonds in the manner provided in the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement.

(iii) Any excess proceeds with respect to title insurance remaining after application pursuant to the terms of the Indenture shall be paid to the City to be used for any lawful purpose.

Other Covenants

Punctual Payment.

The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Against Encumbrances.

The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes. Nothing in this section shall in any way limit the City's ability (i) to encumber its assets other than Leased Property or (ii) to encumber the Leased Property in accordance with the terms of the Lease.

Power to Issue Bonds and Make Pledge and Assignment.

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records.

The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Lease and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during business hours and under reasonable circumstances.

Compliance with Indenture.

The Trustee will not execute or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture, and the Authority will not suffer or permit any default by it to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by it.

Tax Covenants for Series 2012A Bonds.

The Authority covenants to and for the benefit of the Owners of the Series 2012A Bonds that, notwithstanding any other provisions of the Indenture (other than as described under the subheading "Miscellaneous — Liability of Authority Limited to Revenues" herein), it will:

(a) neither make or use nor cause to be made or used any investment or other use of the proceeds of the Series 2012A Bonds or the moneys and investments held in the funds and accounts established under the Indenture which would cause the Series 2012A Bonds to be arbitrage bonds under section 103(b) and section 148 of the Code or which would otherwise cause the interest payable on the Series 2012A Bonds to be includable in gross income for federal income tax purposes;

(b) not take or cause to be taken any other action or actions, or fail to take any action or actions, which would cause the interest payable on the Series 2012A Bonds to be includable in gross income for federal income tax purposes;

(c) at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on the Series 2012A Bonds will be excluded from the gross income, for federal income tax purposes, of the Owners pursuant to section 103 of the Code; and

(d) not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Series 2012A Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

In furtherance of the provisions of the Indenture relating to tax covenants, the Authority shall execute, deliver and comply with the provisions of the Tax Agreement for Series 2012A Bonds, and by its acceptance of the Indenture the Trustee acknowledges receipt of such Tax Agreement. The Trustee agrees it will invest funds held under the Indenture in accordance with the terms of the Indenture (this covenant shall extend throughout the term of the Series 2012A Bonds, to all funds and accounts created under the Indenture and all moneys on deposit to the credit of any fund or account).

Rebate Fund for the Series 2012A Bonds.

(a) The Trustee shall establish and maintain, when required, a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund for the Series 2012A Bonds, which is not pledged to the Bonds. Neither the Authority nor the Owner of any Bonds shall have any rights in or claim to such money. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary to comply with instructions of the City given pursuant to the terms and conditions of the Tax Agreement. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement) for the Series 2012A Bonds, for payment to the federal government of the United States of America.

All amounts deposited into or on deposit in the Rebate Fund shall be governed by the provisions of the Indenture relating to tax covenants and to the Rebate Fund for the Series 2012A Bonds and by the Tax Agreement (which is incorporated in the Indenture by reference for purpose of administration of the Rebate Fund). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the Written Request of the City including supplying all necessary information in the manner provided in the Tax Agreement, and shall have no liability or responsibility to enforce compliance by the Authority or City with the terms of the Tax Agreement or any other tax covenants contained in the Indenture. The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Trustee shall have no independent duty to review such calculations or enforce the compliance by the City with such rebate requirements. The Trustee shall have no duty or obligation to determine the applicability of the Code and shall only be obligated to act in accordance with Written Request provided by the City.

(b) Upon the City's Written Request, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the City, if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Requirement for the Series 2012A Bonds. Computations of the Rebate Requirement shall be furnished by or on behalf of the City in accordance with the Tax Agreement. The Trustee shall supply to the City all necessary information in the manner provided in the Tax Agreement, to the extent such information is reasonably available to the Trustee.

(c) The Trustee shall 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 under the Indenture or from other moneys provided to it by the City.

(d) At the Written Request of the City, the Trustee shall invest all amounts held in the Rebate Fund in Permitted Investments. Moneys shall not be transferred from the Rebate Fund except as provided in paragraph (e) below. The Trustee shall not be liable for any consequences arising from such investment.

(e) Upon receipt of the City's Written Request, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the City so directs, the Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds as directed by the City's Written Request; provided, however, only moneys in excess of the Rebate Requirement may, at the written direction of the City, be transferred out of the Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Fund after each five year remission to the United States, redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the City.

(f) Notwithstanding any other provision of the Indenture, including in particular the provisions relating to the defeasance of Bonds, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of the provisions of the Indenture relating to tax covenants and to the Rebate Fund for the Series 2012A Bonds and the Tax Agreement shall survive the defeasance or payment in full of the Series 2012A Bonds.

Collection of Amounts Due Under Lease; Amendments.

The Trustee shall promptly collect all amounts due from the City pursuant to the Lease. Subject to the provisions of the Indenture, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights under the Indenture as assignee of the Authority, for the enforcement of all of the obligations of the City under the Lease.

The Authority shall not amend, modify or terminate any of the terms of the Lease or the Expansion Lease, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent only if it

determines the requirements of the Lease relating the amendment thereof have been complied with.

Waiver of Laws.

The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Further Assurances.

The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Events of Default and Remedies

Events of Default; Notice.

The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal, redemption premium, if any or sinking fund installments of any Bonds when and as the same shall become due and payable, whether at maturity as expressed in the Indenture, by proceedings for redemption (other than with respect to conditional redemption as permitted by the Indenture) or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such sixty (60) day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in the Lease.

If an Event of Default occurs under the Indenture, the Trustee shall give notice, at the expense of the City, of such Event of Default to the Owners. Such notice shall state that an Event of Default has occurred and shall provide a brief description of such Event of Default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Owners. Such notice provided shall be given by first-class mail, postage prepaid, to the Owners within 30 days of the Trustee's receipt of knowledge of the occurrence of such Event of Default.

Remedies Upon Event of Default.

(a) Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, and upon the written request of the Owners of not less than 50% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, and payment of its fees and expenses, including the fees and expenses of its counsel, shall in its own name and as the Trustee of an express trust:

(1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners under the Indenture, and require the Authority or the City to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under the Lease and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Lease or the Indenture, as the case may be;

(2) bring suit upon the Bonds;

(3) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Owners of Bonds; or

(4) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds under the Indenture.

(b) Upon the occurrence of an Event of Default, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers for the Revenues, ex parte, and without notice, and the Authority consents to the appointment of such receiver upon the occurrence of an Event of Default. In the case of any receivership, insolvency, bankruptcy, or other judicial proceedings affecting the Authority or the City, the Trustee shall be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have the claims of the Trustee and the Bond Owners allowed in such proceedings, without prejudice, however, to the right of any Bond Owner to file a claim on his or her own behalf; provided, the Trustee shall be entitled to compensation and reimbursement for the reasonable fees and expenses of its counsel and indemnity for its reasonable expenses and liability from the Authority, the City or the Bond Owners, as appropriate.

(c) Notwithstanding the foregoing, neither the Indenture nor the Bonds provide for the remedy of acceleration of principal or interest due with respect to the Bonds prior to their stated due dates.

Application of Revenues and Other Funds After Default.

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners.

The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, the Trustee shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or

remedy vested in the Trustee or in such Owners under the Bonds, the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings . All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings.

Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would expose it to liability.

Limitation on Bond Owners' Right to Sue.

Notwithstanding any other provision of the Indenture, no Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Lease or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Lease or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings

at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority.

Nothing in the Indenture as described under the subheading "Events Of Default And Remedies — Limitation on Bond Owners' Right to Sue" or in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings.

If any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive.

No remedy conferred upon or reserved to the Trustee or the Owners of the Bonds in the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default.

No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Parties Interested In the Indenture.

Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Authority, the Trustee,

their officers, employees and agents, and the Owners any right, remedy or claim under or by reason of the Indenture, or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the City, the Authority, the Trustee, their officers, employees and agents, and the Owners.

Remedies Subject to Provisions of Law and Tax Agreement.

All rights, remedies and powers provided by the Indenture and the Lease may be exercised only to the extent that the exercise thereof (a) does not violate any applicable provision of the City Charter and other applicable law, and all of the provisions of the Indenture are intended to be subject to the City Charter and all other applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this instrument or the provisions of the Indenture invalid or unenforceable under the provisions of the City Charter or other applicable law; and (b) does not violate the Tax Agreement, unless waived by the Owners of not less than the majority in the aggregate principal amount of the Bonds then Outstanding.

Modification or Amendment of the Indenture

Amendments Permitted.

(a) The Indenture and any of the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding which are affected by the amendment, shall have been filed with the Trustee; provided, however, no such modification or amendment without the consent of the Owners of all of the Bonds then Outstanding which would be affected thereby, shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or (iv) deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Consent of the Owners may be obtained as provided in the Indenture.

(b) In addition to any Supplemental Indenture authorized pursuant to the Indenture, the Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority in the Indenture, or to close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Additional Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code.

(v) to permit the Trustee to comply with any duties imposed upon it by law;

(vi) to provide for the refunding or advance refunding of any Bonds, so long as such amendment is not inconsistent with the provisions of the Indenture relating to the defeasance of Bonds;

(vii) to evidence the appointment of a separate trustee or the succession of a new trustee under the Indenture;

(viii) to make any amendments appropriate or necessary to provide for or facilitate the delivery of credit enhancement for any Bonds;

(ix) to allow for the issuance of Additional Bonds in accordance with the Indenture; or

(x) for any other reason, provided such modification or amendment does not, in the judgment of the Trustee, materially adversely affect the interests of the Owners of the Bonds then Outstanding.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by paragraphs (a) or (b) under this subheading which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

(e) Provision of the Indenture described under this subheading are subject to the provisions of the Indenture described under the subheading "Modification or Amendment of the Indenture — City's Consent to Supplemental Indentures" herein.

Consent of Owners.

(a) If at any time the Authority (or the City on behalf of the Authority) shall request the Trustee to enter into any Supplemental Indenture requiring consent of the Owners, the Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice (unless waived by the affected Owners in their consent) of the proposed Supplemental Indenture to be mailed to each affected Owners, as shown in the Registration Books at the close of business on the 15th day preceding that mailing and at its address as it appears on the Registration Books on that 15th day preceding the mailing. The notice shall describe briefly the nature of the proposed amendments and enclose a draft of the proposed amendments.

If the Supplemental Indenture will not take effect so long as any particular Bonds remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of determining the required consents.

(b) Bonds owned or held by or for the account of the Authority or the City shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in this in the Indenture as described under this subheading "Modification or Amendment of the Indenture", and shall not be entitled to consent to or take any other action provided in the Indenture as described under this subheading "Modification or Amendment of the Indenture"; provided, however, that the Trustee shall not be deemed to have knowledge that any Bond is owned or held by or for the account of the Authority or the City unless the Authority or the City is the registered Owner or the Trustee has received written notice that any other registered Owner is holding for the account of the Authority or City.

(c) The Trustee shall not be subject to any liability to any Owner of Bonds by reason of the Trustee's failure to mail, or the failure of any such Owner to receive, the notice required by the Indenture as described under this subheading. Any failure of that nature shall not affect

the validity of the Supplemental Indenture when there has been consent thereto as provided in the Indenture as described under this subheading.

(d) If the Trustee shall receive, within a period not exceeding one year as prescribed by the City upon behalf of the Authority, following the mailing of the notice (unless waived by the affected Owners in their consent), an instrument or document or instruments or documents, in a form or forms to which the Trustee does not object reasonably, purporting to be executed (as provided in the Indenture) by the Owners of not less than a majority in aggregate principal amount of the affected Outstanding Bonds, the Trustee shall execute and deliver the Supplemental Indenture in substantially the form of the draft thereof to which reference is made in the notice (with changes from such draft which, in the judgment of the Trustee, are not to the material prejudice of the Trustee or the Holders of the Bonds), without liability or responsibility to any affected Owner, regardless of whether that Owner shall have consented thereto; provided that purchasers of Additional Bonds that are sold pursuant to a disclosure document that both (i) describes the nature of the proposed Supplemental Indenture and states that copies of the draft thereof are attached to the disclosure document or are available upon request made to the Trustee and (ii) states conspicuously that the purchasers of such Additional Bonds, by their purchase of such Additional Bonds, are deemed to have consented to such Supplemental Indenture (including the changes from such draft form, as are permitted in the Indenture), shall be deemed to have received notice of such amendments and to have provided their consent to such amendments, as required by the Indenture. The instrument or document or instruments or documents described in this paragraph shall refer to the proposed Supplemental Indenture in the draft form described in the notice and shall consent specifically to the Supplemental Indenture in substantially that draft form together with the changes from such draft form as are permitted in the Indenture.

Any such consent shall be binding upon the Owner of the Bonds giving the consent and upon any subsequent Owner of that Bond and of any Bond issued in exchange therefor (regardless of whether the subsequent Holder has notice of the consent to the Supplemental Agreement).

At any time after the Owners of the required percentage of the Bonds shall have filed their consents with the Trustee to the Supplemental Indenture as provided in the Indenture, the Trustee shall make and file with the Authority and City a written statement that the Owners of the required percentage of the Bonds have filed those consents and such written statement shall be conclusive evidence that the consents have been so filed. Prior to the Trustee filing such written statement, a consent may be revoked in writing by the Owner who gave the consent or by a subsequent Owner of the Bonds by a written revocation received by the Trustee.

City's Consent to Supplemental Indentures.

Anything in the Indenture to the contrary notwithstanding, so long as the City is not in default under the Lease, a Supplemental Indenture under the Indenture shall not become effective unless and until the City shall have consented in writing to the execution and delivery

of such Supplemental Indenture. In this regard, the Trustee shall cause notice of the proposed execution and delivery of any Supplemental Indenture, together with a copy of the proposed Supplemental Indenture, to be mailed by first-class mail to the City at least 30 days prior to the proposed date of execution and delivery of any Supplemental Indenture.

Effect of Supplemental Indenture.

Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds.

Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Amendment of Particular Bonds.

The provisions of the Indenture as described under this subheading "Modification or Amendment of the Indenture" shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by him.

Defeasance

Discharge of Indenture.

(a) Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

(i) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(ii) by depositing with the Trustee, in trust, at or before maturity, Defeasance Obligations in the necessary amount and in accordance with the terms of the Indenture to pay or redeem such Bonds; or

(iii) by delivering to the Trustee, for cancellation by it, such Bonds.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority evidenced by a Written Certificate of the Authority (or of the City upon behalf of the Authority), filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied (except for those provisions surviving by reason of those provisions of the Indenture described under paragraph (c) below in the event that the Bonds are deemed to be paid and discharged pursuant to the provisions of the Indenture described under the subheading "Deposit of Money or Securities with Trustee to Defease Bonds" below). In such event, upon the Written Request of the Authority (or of the City upon behalf of the Authority), the Trustee shall execute and deliver to the Authority and City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other Leased Property held by it pursuant to the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of the Outstanding Bonds of a particular Series, or of a particular maturity or particular Bonds within a Series, the Debt Service due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, pledge, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied (subject to provisions of the Indenture described in paragraph (c) below).

Bonds or interest installments, for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee (through deposit by the City of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof, shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) under this subheading.

(b) If, in connection with a redemption of all or any part of the Bonds, or in connection with providing for payment of all or any part of the Bonds pursuant to the Indenture as described herein under the subheading "Defeasance", moneys and/or Defeasance Obligations are deposited with the Trustee sufficient to pay Debt Service on all or a portion of the Bonds being defeased in accordance with the provisions of the Indenture described under the subheading "Deposit of Money or Securities with Trustee to Defease Bonds" below to any date after the first date on which such Bonds may be redeemed, the City on behalf of the Authority may expressly reserve and retain the right to subsequently change the date on which any such Bonds are to be redeemed. The City may further reserve and retain the right to restructure the moneys and/or Defeasance Obligations held by the Trustee for payment such Bonds as provided in the Indenture as described in paragraphs (c), (d) or (e) under the subheading "Deposit of Money or Securities with Trustee to Defease Bonds" below, and to apply any of the proceeds, which are available following such restructuring and are not needed to pay Debt Service on the Bonds being defeased, for any lawful purpose.

(c) If the City desires to reserve and retain any such rights, it shall so advise the Trustee at the time of the deposits of such funds with the Trustee and the Trustee shall include a statement of such reserved and retained rights in the notice given to Owners pursuant to the Indenture. Notwithstanding the foregoing, any provisions of the Indenture which relate to:

(i) the maturity of Bonds;
(ii) the interest payments and dates thereof;
(iii) the optional and mandatory redemption provisions;
(iv) the credits against the mandatory sinking fund requirements;
(v) the exchange, transfer and registration of Bonds;
(vi) the replacement of mutilated, destroyed, lost or stolen Bonds;
(vii) the safekeeping and cancellation of Bonds;
(viii) the nonpresentment of Bonds;
(ix) the holding of moneys in trust;
(x) the repayments to the Authority from the escrow fund;
(xi) the timely payment of any rebate of arbitrage earnings to the United States and any other provisions which relate to exclusion of interest on the Bonds from gross income for federal income tax purposes; and
(xii) the duties of the Trustee in connection with all of the foregoing and payment of its fees and expenses;

shall remain in effect and shall be binding upon the Authority, the Trustee and the Owners, notwithstanding the release, discharge and satisfaction of the Indenture. The provisions of the

Indenture described under this paragraph (c) shall survive the release, discharge and satisfaction of the Indenture.

Deposit of Money or Defeasance Obligations with Trustee to Defease Bonds.

(a) Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and available for such purposes.

(b) Subject to the provisions of paragraphs (c) and (d) of subheading, any Outstanding Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid, within the meaning and with the effect expressed in paragraph (a) under the subheading "Discharge of the Indenture" above, if:

(i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the City upon behalf of the Authority shall have given to the Trustee written instructions, accepted in writing by the Trustee, to mail as provided in the Indenture notice of redemption of such Bonds (other than Bonds which have been purchased or otherwise acquired by the City and delivered to the Trustee as provided in the Indenture prior to the mailing of such notice of redemption);

(ii) there shall have been deposited with the Trustee (or another trust company selected by the City which meets the requirements of the Indenture), in trust for the Owners of such Bonds, either (A) money in an amount which shall be sufficient, or (B) Defeasance Obligations (including any Defeasance Obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient (without regard to further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, which earnings are to be held likewise in trust and so committed, except as provided in the Indenture), in the case of either (A) or (B) to pay the Debt Service then due and that becomes due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be;

(iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the City upon behalf of the Authority shall have given written instructions to the Trustee in form satisfactory to it to mail a notice to the Owners of such Bonds, within 15 days of the date on which the Bonds are deemed to be paid and discharged, at their address as it appears on the Registration Books on that date on which such Bonds are deemed to be paid and discharged. The notice shall: (A) state the numbers of the Bonds deemed to be paid and discharged, or shall state that all Bonds of a particular Series are deemed to be paid and discharged; (B) that the deposit required by (ii) above has been made

with the Trustee and that said Bonds are deemed to have been paid in accordance with the terms of the Indenture described under this subheading; and (C) state such maturity or redemption date upon which moneys are expected to be available for the payment of the Debt Service on said Bonds (other than Bonds which have been purchased or otherwise acquired by the City and delivered to the Trustee as provided in the Indenture provided prior to the mailing of the notice of redemption referred to in clause (i) under this subheading);

(iv) except for defeasance with only money pursuant to paragraph (ii)(A) above, the Trustee shall have received a report of an independent firm of certified public accountants or a financial consulting firm of recognized standing in the field of municipal bonds to the effect that the amount of principal of and interest when due on the Defeasance Obligations and any money deposited at the same time with the Trustee pursuant to paragraph (ii)(B) above shall be sufficient to pay when due the Debt Service due and to become due on said Bonds prior to and on the redemption or maturity date thereof, as the case may be; and

(v) if the Bonds deemed paid with Defeasance Obligations were issued as obligations the interest on which was excluded from gross income for federal tax purposes, then the City shall furnish to the Trustee an opinion of Bond Counsel to the effect that the provisions for paying such Bonds (assuming compliance by the Authority, the City and the Trustee with their duties under the Indenture and any related escrow agreement) will not, by itself, cause such Bonds to lose such exclusion.

Any notice of redemption mailed pursuant to (i) with respect to Bonds which constitute less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond.

Defeasance Obligations shall consist of securities which are not subject to redemption prior to their maturity other than at the option of the holder thereof, or shall consist of securities as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given (or irrevocable instructions to give such notice have been given) and such securities are not otherwise subject to redemption prior to such specified date.

(c) The Trustee shall, if so directed by the City, (i) prior to the maturity date of Bonds that have been deemed to have been paid in accordance with the provisions of the Indenture described under this subheading (the "Defeased Bonds") which are not to be redeemed prior to their maturity date or (ii) prior to mailing of the notice of redemption referred to in clause (i) above with respect to any Defeased Bonds which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee for such Defeased Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and apply the proceeds thereof to the purchase of such Defeased Bonds and the Trustee shall immediately thereafter cancel all such Defeased Bonds so purchased; provided, however, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after such purchase and cancellation of such Defeasance Bonds must be determined by the Trustee to be sufficient to pay when due the Debt Service due or to become due on all remaining unpaid Defeased Bonds, in

respect of which such moneys and Defeasance Obligations are being held by the Trustee, on or prior to the redemption date or maturity date thereof, as the case may be.

(d) If, at any time (i) prior to the maturity date of Defeased Bonds which are not to be redeemed prior to their maturity date or (ii) prior to the mailing of the notice of redemption referred to in clause (i) with respect to any Defeased Bonds which are to be redeemed on any date prior to their maturity, the City shall purchase or otherwise acquire any such Defeased Bonds and deliver such Defeased Bonds to the Trustee prior to their maturity date or redemption date, as the case may be, the Trustee shall immediately cancel all such Defeased Bonds so delivered; and such delivery of Defeased Bonds to the Trustee shall be accompanied by Written Direction from the City to the Trustee as to the manner in which such Defeased Bonds are to be applied against the obligation of the Trustee to pay or redeem Defeased Bonds. Such directions of the City shall also specify the portion, if any, of such Defeased Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to pay Defeased Bonds upon their maturity date or dates and the portion, if any, of such Defeased Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to redeem Defeased Bonds on any date or dates prior to their maturity.

(e) If on any date: (i) as a result of any purchases, acquisitions and cancellations of Defeased Bonds as provided in the Indenture as described under this subheading the total amount of moneys and Defeasance Obligations remaining on deposit with the Trustee under the Indenture as described under this subheading is in excess of the total, determined by the Trustee, which would have been required to be deposited with the Trustee on such date in respect of the remaining unpaid Defeased Bonds in order to satisfy paragraph (b)(ii) under this subheading, the Trustee shall, if requested by the City in Written Certificate, sell specified Defeasance Obligations and transfer the amount of such excess as directed by the City; or (ii) the City directs the Trustee in Written Certificate to sell and re-invest specified Defeasance Obligations as directed by the City;

<u>then</u> before any such excess is so transferred or any such Defeasance Obligations sold and re-invested, as applicable, the Trustee shall have received a report, of an independent firm of certified public accountants or a financial consulting firm of recognized standing in the field of municipal bonds, to the effect that the amount of money and the principal of and interest when due on the Defeasance Obligations remaining on deposit with the Trustee after such transfer or sale or re-investment, as applicable, shall be sufficient to pay when due the Debt Service due and to become due on said unpaid Defeased Bonds on or prior to the redemption or maturity date thereof, as the case may be.

(f) Except as otherwise provided under this subheading, neither Defeasance Obligations nor moneys deposited with the Trustee pursuant to this subheading nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust by the Trustee solely for, the payment of the Debt Service on the Defeased Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee (i) to the extent such cash

will not be required at any time for such purpose as determined by the Trustee, shall be transferred as directed by the City, and (ii) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable and as directed by the City, be reinvested by the Trustee in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the Debt Service due on said remaining unpaid Defeased Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be transferred as directed by the City.

Miscellaneous

Liability of Authority Limited to Revenues.

Notwithstanding anything in the Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

Limitation of Rights to Parties and Bond Owners.

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the City, the Authority and the Owners of the Bonds.

Unclaimed Funds.

Notwithstanding any provisions of the Indenture, and subject to applicable provisions of State law, any moneys held by the Trustee in trust for the payment of the principal of, premium, if any, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the City free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee shall (at the written request and cost of the City) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof. Thereafter, the Owner of such Bond shall look only to the

City for payment and then only to the extent of the amount so returned to the City without any interest thereon, and the Trustee shall have no responsibility with respect to such money. During any period in which the Trustee holds such unclaimed money, the Trustee shall not be required to invest such money; nonetheless if the Trustee should invest such money any earnings on such amounts shall be remitted to the City as such earnings are realized.

Waiver of Notice; Requirement of Mailed Notice.

Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Severability of Invalid Provisions.

If any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The Authority declares that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Acts of Owners.

(a) Any request, direction, consent or other instrument provided to be signed and executed by the Owners may be in any number of concurrent writings of similar tenor and may be signed or executed by such Owners in person or by an agent appointed in writing. Proof of the execution of any such request, direction or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Indenture and shall be conclusive in favor of the Trustee, Authority and City, with regard to any action taken by them, or either of them, under such request or other instrument.

(i) The fact and date of the execution by any person of any such writing may be proved by: (A) the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; or (B) any other method satisfactory to the Trustee; and

(ii) The ownership of any Bonds may be proved by: (A) the Registration Books; (B) while a Bond is held in book-entry only system, by an affidavit of a person stating that such person is the beneficial owner of a stated principal amount of Bonds, or by an affidavit of an agent of such person, with copy of the written appointment as agent, stating the name of such person and the principal amount of his/her beneficial ownership; (C) while a Bond is held in a book-entry only system, written communication from The Depository Trust Company, or its successor depository, stating the name of the beneficial owner of a stated principal amount of the Bonds; or (D) by any other method satisfactory to the Trustee.

(b) Any action taken or suffered by the Trustee pursuant to any provision hereof, upon the request or with the assent of any person (or agent of such person) who at the time is the Holder or a beneficial owner of any Bond or Bonds, as evidenced under subsection (a) above, shall be conclusive and binding upon all future Holders or beneficial owners of the same Bond or Bonds.

(c) Any request, consent, or other instrument or writing of the Owner of any Bond, as evidenced under subsection (a) above, shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Holidays.

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, shall be a legal holiday or a day on which the Authority, the City, the Trustee or banking institutions in the State are authorized by law or otherwise to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which the Authority, the City, the Trustee or such banking institutions are authorized by law or otherwise to remain closed, with the same force and effect as if done on the nominal date provided in the Indenture, and no interest shall accrue for the period after such nominal date.

Waiver of Personal Liability.

No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Governing Law.

The Indenture shall be governed by and construed in accordance with the laws of the State.

THE LEASE

Certain provisions of the Lease are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Lease.

The Leased Property

Lease of the Leased Property; Title to Leased Property

The Authority subleases to the City, and the City subleases from the Authority, the Leased Property, all on the conditions and terms set forth in the Lease. The City agrees and covenants that during the term of the Lease, except as provided in the Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated thereby and so as to permit the Authority to carry out its agreements and covenants contained the Lease and in the Indenture, and the City thereby further agrees and covenants that during the term of the Lease that it will not abandon or vacate the Leased Property.

During the term of the Lease, title to all moveable property (i) that is located on, in or about the Leased Property on the Closing Date, or (ii) that is placed on, in or about Leased Property by the City at any time thereafter during the term of the Lease, shall remain the property of the City (or property of the City's tenant, as provided in the lease between the City and such tenant). During the term of the Lease, the Authority shall, pursuant to the Expansion Lease, hold leasehold title to the Leased Property and any and all additions which comprise fixtures, repairs, replacements or modifications thereof, except for any items added to the Leased Property by the City pursuant to the terms of the Lease.

If both the Trustee's and the City's estate under the Lease or any other lease relating to the Leased Property or any portion thereof shall at any time for any reason become vested in one owner, the Lease and the estate created thereby shall not be destroyed or terminated by the doctrine of merger unless the City and the Trustee so elect as evidenced by recording a written declaration so stating; and unless and until the City and the Trustee so elect, the Authority shall continue to have and hold a leasehold estate in the Leased Property pursuant to the Expansion Lease throughout the term thereof and the term of the Lease, and the Lease shall be deemed and constitute a sublease of the Leased Property. The City covenants not to permit or consent to any such merger as long as any Bonds are Outstanding.

Quiet Enjoyment.

The parties to the Lease mutually covenant that the City, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Lease and is not in default under the Lease, shall at all times during the term of the Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

Right of Entry and Inspection.

The Authority shall have the right to enter the Leased Property and inspect the Leased Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease and for all other lawful purposes.

Additions and Improvements to Leased Property; Mechanics Liens.

The City shall have the right during the term of the Lease to make any additions or improvements to the Leased Property, to attach fixtures, structures or signs, and to affix any personal property to the Leased Property, so long as the fair rental value of the Leased Property is not thereby reduced. Title to all fixtures, equipment or personal property, which is placed by the City in or on the Leased Property, shall remain in the City to the extent that such items may be removed from the Leased Property without damage thereto. Title to any personal property, improvements or fixtures placed in or on any portion of the Leased Property by any sublessee or licensee of the City shall be controlled by the sublease or license agreement between such sublessee or licensee and the City, which sublease or license agreement shall not be inconsistent with the Lease.

In the event the City shall at any time during the term of the Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the City shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens against the Leased Property or the Authority's interest therein, except for Permitted Encumbrances. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City shall forthwith pay and discharge or cause to be paid and discharged such judgment.

Substitution, Addition or Removal of Leased Property.

(a) The City and the Authority may amend the Lease and Expansion Lease to: (i) substitute real property and/or improvements (the "Substituted Property") for all or a portion of the existing Leased Property; (ii) remove all or a portion of real property (including undivided interests therein) or improvements ("Removal") from the definition of Leased Property; or (iii) to add real property and/or improvements (the "Added Property") to the Leased Property, upon compliance with all of the applicable conditions set forth in paragraph

(b). After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected shall be released from the leasehold under the Lease and under the Expansion Lease.

(b) No Substitution, Addition or Removal shall take place under the Lease and under the Expansion Lease until the City delivers to the Authority and the Trustee each of the following:

(i) executed counterparts (in proper recordable form) of amendments to the Expansion Lease and the Lease, containing: (A) in the event of a Removal, a legal description of all or part of the Leased Property to be released; (B) in the event of a Substitution, a legal description of the Substituted Property to be substituted in its place; and (C) in the case of an Addition, a legal description of the Added Property.

(ii) a certificate of the City, evidencing that the annual fair rental value (which may be based on, but not limited to, the construction or acquisition cost or replacement cost of such Substitution or Addition to the City) of the property that will constitute the Leased Property after such Substitution, Addition, or Removal, will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current Lease Year or in any subsequent Lease Year during term of the Lease. At the sole discretion of the City, in the alternative, in the event of a Substitution only, the certificate of the City may evidence that the annual fair rental value of the new property is at least equal to that of the Substituted Property.

(iii) an Opinion of Counsel to the effect that: (A) the amendments to the Lease and to the Expansion Lease in connection with such Substitution, Addition or Removal of property have been duly authorized, executed and delivered and constitute the valid and binding obligations of the City and the Authority enforceable in accordance with their terms; and (B) the Substitution, Addition or Removal is authorized or permitted under the Lease.

(iv) with respect to a Substitution or an Addition of property, a leasehold owner's title insurance policy or policies or a commitment for such policy or policies or an amendment or endorsement to an existing title insurance policy or policies, resulting in title insurance with respect to the Leased Property after such Substitution or Addition in an amount at least equal to the aggregate principal amount of Bonds Outstanding; each such insurance instrument, when issued, shall name the Authority and Trustee as the insured, and shall insure the leasehold estate of the Authority and the Trustee, as assignee of the Authority, in such real property subject only to Permitted Encumbrances.

(v) in the event of a Substitution or Addition, an opinion of the City Attorney of the City to the effect that the exceptions, if any, contained in the title insurance policy referred to in (iv) above (A) constitute Permitted Encumbrances and (B) do not substantially interfere with the use and occupancy of the Substituted Property or Added Property described in such policy by the City for the purposes of leasing or using the Substituted Property or Added Property.

(vi) an Opinion of Bond Counsel that the Substitution, Addition and/or Removal will not, in and of itself, cause the interest on any Bonds to be includable in gross income of the Owners thereof for federal income tax purposes.

(vii) a Certificate of the City stating that the City has complied with the requirements of the Lease pertaining to fire and extended coverage insurance and use and occupancy insurance with respect to the Substituted or Added Property.

(viii) in the event the Added Property is under construction at the time such property is added to the Lease, the following additional conditions shall be satisfied: (A) interest on the Additional Bonds issued to finance such property may be capitalized for a period of at least six months past the estimated completion date of the property; and (B) the City shall have entered into a construction contract for the Added Property

(ix) in the event of a Substitution or Addition, a certified copy of a resolution duly adopted by the City Council of the City authorizing the amendments to the Lease and to the Expansion Lease in connection with such Substitution or Addition.

Term Of The Lease

Commencement of the Lease; Term of Lease.

The term of the Lease shall commence on the Closing Date, and shall end on the Expiry Date, unless the Expiry Date is extended or is sooner terminated as provided under the Lease. If on the Expiry Date, the stated rental payable under the Lease shall not be fully paid and all Bonds shall not be fully paid and defeased as provided under the Indenture, or if the rental payable under the Lease shall have been abated at any time or for any reason, then the term of the Lease shall be extended until the first Business Day following the day the rental payable under the Lease shall be fully paid and all Bonds shall be fully paid and defeased as provided under the Indenture; provided, however, that the term of the Lease shall be extended until all Bonds have been fully paid and defeased as provided under the Indenture, except the term of the Lease shall in no event be extended beyond April 1, 2033.

If prior to the Expiry Date, the rental payable under the Lease shall be fully paid and all Bonds shall have been fully paid or defeased in accordance with the Indenture, the term of the Lease shall end immediately upon the City providing written notice from the Trustee to the Authority to the effect that all Bonds have been fully paid or defeased in accordance with the Indenture.

The City shall take possession of the Leased Property on the Closing Date, and the obligation of the City to pay Base Rental Payments and Additional Rental shall commence on the Closing Date, subject to the limitations of the Lease.

Tax Covenants

Tax Covenants for Series 2012A Bonds.

(a) The City covenants that it will use, and will restrict the use and investment of, the proceeds of the Series 2012A Bonds in such manner and to such extent as may be necessary so that: (1) the Series 2012A Bonds will not (A) constitute private activity bonds arbitrage bonds or hedge bonds under Section 141, 148 or 149 of the Code, or (B) be treated other than as obligations to which Section 103 of the Code applies, and (ii) the interest thereon will not be treated as a preference item for purposes of the federal alternative minimum tax.

(b) The City further covenants (i) that it will take or cause to be taken such actions that may be required of it for the interest on the Series 2012A Bonds to be and remain excluded from gross income for federal income tax purposes, (ii) that will not take or authorize to be taken any actions that would adversely affect that exclusion, and (iii) that it, or persons acting for it, will, among other acts of compliance, (A) apply the proceeds of the Series 2012A Bonds to governmental purposes, (B) restrict the yield on investment property, (C) make timely and adequate payments to the federal government as required under the Tax Agreement, (D) maintain books and records and make calculations and reports, and (E) refrain from certain uses of those proceeds and, as applicable, of property financed with such proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code.

(c) The Authorized Representative of the City is authorized under the Lease: (i) to make or effect any election, selection, designation, choice, consent, approval, or waiver on behalf of the City with respect to the Series 2012A Bonds as the City is permitted or required to make or give under the federal income tax laws, including, without limitation thereto, any of the elections provided for in Section 148(f)(4)(B) and (C) of the Code or available under Section 148 of the Code, for the purpose of assuring, enhancing or protecting favorable tax treatment or status of the Series 2012A Bonds or interest thereon or assisting compliance with requirements for the purpose, reducing the burden or expense of such compliance, reducing the rebate amount or payments of penalties or making payments of special amounts in lieu of making computations to determined by that officer, which action shall be in writing and signed by the Authorized Representative, (ii) to take any and all other actions, make or obtain calculations, make payments and make or give reports, covenants and certifications of and on behalf of the City, as may be appropriate to assure the exclusion of interest from gross income and the intended tax status of the Series 2012A Bonds, and (iii) to set forth in the Tax Agreement and/or in one or more appropriate certificates of the City, for inclusion in the transcript of proceedings for the Series 2012A Bonds, the reasonable expectations of the City regarding the amount and use of all the proceeds of the Series 2012A Bonds, the facts, circumstances and estimates on which they are based, and other facts and circumstances relevant to the tax treatment of the interest represented by the Series 2012A Bonds.

(d) The City may create, or may direct the Trustee to create, such accounts or sub-accounts in any fund or account held under the Indenture as it shall deem necessary or advisable in order to comply with the foregoing covenants and Tax Agreement.

Rental Payments

Rental Payments.

The City agrees, subject to the terms of the Lease, to pay to the Trustee, as assignee of the Authority pursuant to the Indenture, without deduction or offset of any kind, as rental for the use and occupancy of the Leased Property, the following amounts at the following times:

Base Rental Payments.

The City shall pay, from any and all legally available funds, to the Trustee, as assignee of the Authority, the Base Rental Payments with respect to the Leased Property at the times and in the amounts set forth in the Base Rental Payment Schedule attached to the Lease as Exhibit B and incorporated therein. Each semi-annual Base Rental Payment represents rent paid in arrears for the City's right to use the Leased Property for the period ending on the Lease Payment Date on which such Base Rental Payment is payable. The obligation of the City to pay Base Rental Payments (and Additional Rental) shall commence on the Closing Date.

If the term of the Lease shall have been extended pursuant to the terms thereof, Base Rental Payment installments shall continue to be due on the third Business Day preceding any date payment of principal of or interest on any Bonds is due, continuing to and including the date of termination of the Lease.

Additional Rental.

The City shall also pay, as rental under the Lease in addition to the Base Rental Payments, to the Authority or the Trustee, as hereinafter provided, such amounts, if any, in each year as shall be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Expansion Lease or the Lease or the assignment of the Lease pursuant to the Indenture or the respective interests in the Leased Property and the lease of the Leased Property by the Authority to the City under the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Bonds), fees of auditors, accountants, attorneys or engineers, insurance premiums, rebate amounts payable to the United States pursuant to the Tax Agreement, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Bonds or the Indenture, or otherwise incurred in connection with the administration of the Lease or of the Indenture.

(i) The foregoing Additional Rental, if any, shall be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the Trustee or the Trustee on behalf of the Authority, for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the City not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the City for such amounts.

(ii) The Authority may issue bonds and may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Authority shall be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. Any taxes levied against the Authority with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property shall be included in the Additional Rental payable under the Lease. Any taxes levied against the Authority with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing other bonds of the Authority or any trust agreement or indenture other than the Indenture, and any other expenses directly attributable to any facilities other than the Leased Property, shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Rental payable under the Lease. Any expenses of the Authority not directly attributable to any particular project of the Authority shall be equitably allocated among all such projects, including the Leased Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a certificate of the Authority in making any determination that costs are payable as Additional Rental under the Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Consideration for Leasehold Estate and Fair Rental Value.

Payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Lease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the City from funds of the City lawfully available therefor for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Leased Property by the City for and during such Lease Year.

The City has determined and certified to the Trustee and the Authority on the Closing Date that such total rental in any Lease Year is not in excess of the total fair rental value of the Leased Property for such Lease Year. In making such determination, the City has considered a variety of factors including: (i) the uses and purposes served by the Leased Property and the benefits therefrom that will accrue to the City by reason of the Lease and to the general public by reason of the City's use and occupancy of the Leased Property, including the general public's

use of portions of the Leased Property; (ii) the replacement costs of the existing improvements on the Leased Property; and (iii) third-party or City appraisals.

The parties acknowledge under the Lease that the parties may amend the Lease from time to time to increase the Base Rental Payments payable under the Lease so that Additional Bonds may be executed and delivered pursuant to the provisions of the Lease and of the Indenture. Notwithstanding anything to the contrary contained in the Lease, the Lease may not be amended in a manner such that the sum of Base Rental Payments (including Base Rental Payments payable pursuant to such amendment) and Additional Rental with respect to Outstanding Bonds and Additional Bonds, in any Lease Year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the City under the Lease for such Lease Year, after giving effect to the application of proceeds of any Additional Bonds executed and delivered in connection therewith.

Application of Rental Payments.

All rental payments received shall be applied: first to the Base Rental Payments due under the Lease (including any prepayment premium components); and thereafter to all Additional Rental due under the Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Lease.

Rental Abatement.

(a) Except to the extent of (i) amounts held by the Trustee in the Interest Account, or Principal Account of the Revenue Fund, (ii) amounts received in respect of use and occupancy insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and occupancy by the City of any portion of the Leased Property, rental payments due under the Lease with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the case of abatement relating to the Leased Property, the amount of annual rental abatement shall be such that the resulting Base Rental Payments in any Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value for each Lease Year of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of an Authorized Representative of the City. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of title defect or substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

(b) In the event the City shall assign, transfer or sublease any or all of the Leased Property or other rights under the Lease, as permitted by the Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Leased Property shall first be allocated to the Lease as described under "SECURITY AND SOURCES OF PAYMENT — Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property" in the front part of this Official Statement.

(c) Any abatement of rental payments pursuant to the Lease as described under this subheading shall not be considered an Event of Default as defined in the Lease, but shall result in the extension of the Expiry Date by a period equal to the period of abatement for which Base Rental Payment has not been paid in full (but in no event later than April 1, 2033), and Base Rental Payment for such extension period shall be equal to the unpaid Base Rental Payments during the period of abatement but without interest thereon. The City waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease by virtue of any such interference and the Lease shall continue in full force and effect.

(d) In the event that rental is abated, in whole or in part, pursuant to the Lease as described under this subheading due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the Net Proceeds, if any, the City agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

(e) The City acknowledges and agrees under the Lease that during any period of abatement with respect to all or any part of the Leased Property, the Trustee on behalf of the City shall use the proceeds of use and occupancy insurance (or moneys in the Loss of Use and Occupancy Fund) and moneys on deposit in the Insurance and Condemnation Fund and the Revenue Fund to make payments of principal and interest on the Bonds.

(f) The City has the option, but not the obligation, to deliver Substituted Property for all or a portion of the Leased Property pursuant to the Lease during any period of abatement.

Prepayment of Base Rental Payments.

The Authority grants an option to the City to prepay the principal component of the Base Rental Payments in full, or in part, without premium.

Said option shall be exercised by the City by giving written notice to the Authority and the Trustee of the exercise of such option at least forty five (45) days prior to the due date of such Base Rental Payment. Such option shall be exercised in the event of prepayment in full, by depositing with said notice cash in an amount, which, together with amounts then on deposit in the Insurance and Condemnation Fund and the Revenue Fund, will be sufficient to pay the

aggregate unpaid Base Rental Payments on said due date as set forth in Exhibit A to the Lease, together with any Base Rental Payments then due but unpaid, or, in the event of prepayment in part, by depositing with said notice cash equal to the amount desired to be prepaid (the principal component of which shall be an amount divisible by $5,000) together with any Base Rental Payments then due but unpaid. In the event of prepayment in part, the partial prepayment shall be applied against Base Rental Payments in such manner as the City shall determine and if the City shall fail to make such determination, starting with the next succeeding payment dates. Base Rental Payments due after any such partial prepayment shall be in the amounts set forth in a revised Base Rental Payment Schedule which shall be provided by, or caused to be provided by, the City to the Trustee and which shall represent an adjustment to the schedule set forth in Exhibit B attached to the Lease taking into account said partial prepayment.

Obligation to Make Rental Payments.

The agreements and covenants on the part of the City contained in the Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the agreements and covenants contained in the Lease agreed to be carried out and performed by the City.

THE OBLIGATION OF THE CITY OF SAN DIEGO TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Additional Bonds.

In addition to the Series 2012A Bonds to be executed and delivered under the Indenture, the Authority may, from time to time at the request of the City, but only upon satisfaction of the conditions to the execution and delivery of Additional Bonds set forth in the Indenture, enter into a Supplemental Indenture to authorize Additional Bonds the proceeds of which may be used as provided in the Indenture and as provided in the Supplemental Indenture; provided that prior to or concurrently with the execution and delivery of the Additional Bonds, the City and the Authority shall have entered into an amendment to the Lease providing for an increase in the Base Rental Payments to be made under the Lease to pay Debt Service on such Additional Bonds, subject to the limitations set forth in the Lease pertaining to fair rental value.

Maintenance; Taxes; Insurance and other Charges

Insurance.

(a) The City shall adjust all moneys which may become due and payable under any policies contemplated by the Lease as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Fire and Extended Coverage Insurance" and "— Use and Occupancy Insurance" in the front part of this Official Statement, may compromise any and all claims thereunder and shall cause the deposit of the Net Proceeds with the Trustee for application as provided in the Lease or in the Indenture. The Trustee shall not be responsible for the sufficiency of any insurance required under the Lease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City.

(b) Any insurance policy issued pursuant to the Lease as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Fire and Extended Coverage Insurance" in the front part of this Official Statement shall be so written or endorsed as to make losses, if any, payable to the City, the Authority and the Trustee as their respective interests may appear and the Net Proceeds of such insurance shall be applied as provided in the Lease as described under "-Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds". The Net Proceeds, if any, of such insurance policy shall, to the extent that such proceeds are paid on account of loss or damage to the Leased Property, be payable to the Trustee and deposited in the Insurance and Condemnation Fund and applied as described in the Indenture. The Net Proceeds, if any, of the insurance policy described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Use and Occupancy Insurance" in the front part of this Official Statement shall, to the extent that such proceeds relate to the use and occupancy of the Leased Property, be payable to the Trustee and deposited in the Revenue Fund. Each insurance policy provided for in the Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority and the Trustee without first giving written notice thereof to the Authority and the Trustee at least 60 days in advance of such intended cancellation or modification. If the insurance carrier cannot include this notice provision, the policy shall require the insurance company to so notify the Authority and the Trustee.

(c) By the date each year that is 30 days after the effective date of the insurance policies, the City shall certify that the type of insurance required by the Lease is in place, subject to subsequent confirmation of the certificates and endorsements. The City shall file a certificate with the Trustee not later than nine months following the effective date of the insurance policies each year, commencing in 2013, certifying that the insurance required by the Lease is in full force and effect and that the Trustee and the Authority are named as loss payees on each insurance policy which the Lease requires to be so endorsed.

(d) As an alternative to providing the insurance required the Lease as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Fire and Extended Coverage Insurance" in the front part of this Official Statement, or any portion thereof, through a commercial insurance policy, the City may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State other than the City. Before such self-insurance method or plan may be provided by the City, and annually thereafter on or before April 1 of each year so long as such method or plan is being provided to satisfy the requirements of the Lease, the City shall file with the Trustee:

(i) a Written Certificate of the City describing such self-insurance method or plan; and

(ii) a Written Certificate of the manager of the City's risk management department stating that, in the opinion of the signer, such self-insurance method or plan is in accordance with the requirements of this Section and, when effective, will afford reasonable coverage for the risks required to be insured against under the Lease as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Fire and Extended Coverage Insurance" in the front part of this Official Statement.

In the event of loss covered by any such self-insurance method or plan, the liability of the City with respect to the damaged portion of the Leased Property shall be limited to the amounts in the self-insurance reserve fund or funds created under such method or plan.

(e) (i) As an alternative to providing the insurance as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Use and Occupancy Insurance" in the front part of this Official Statement through a commercial insurance policy, the City has the option to deposit in a special fund entitled "Loss of Use and Occupancy Fund" an amount of money sufficient to pay the Base Rental Payments for a 24-month period but not exceeding the total remaining Base Rental Payments. Such special fund shall be held by the Trustee, shall constitute a part of Revenues, and shall be used by the Trustee or released to the City, as provided in the Lease.

(ii) The Trustee shall use such special fund to pay principal of and interest on the Bonds during any period of time when the payment of rent under the Lease is abated pursuant thereto.

(iii) The Trustee shall release the money held in this special fund to the City upon the earlier to occur of: (A) receipt of a Written Request from the City stating that: (I) the City has purchased a commercial policy of use and occupancy insurance required by the Lease; (II) such policy is in full force and effect; and (III) such policy complies with the applicable requirements of the Lease; or (B) upon the payment or provision for the payment of all Outstanding Bonds pursuant to the Indenture.

(iv) The Trustee shall invest such special fund in Permitted Investments, upon the Written Request of the City. The investments held in such special fund shall be valued by the Trustee annually as of each April 1, at the market value thereof. Deficiencies in the amount on deposit in such special fund resulting from a decline in market value shall be restored by the City no later than the subsequent annual valuation date, unless the City prior to such date delivers a Written Certificate to the Trustee containing the certifications required by the Lease.

Advances.

In the event the City shall fail to maintain the full insurance coverage required by the Lease or shall fail to keep the Leased Property in good repair and operating condition, the Authority may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority shall become Additional Rental, which amounts the City agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Damage, Destruction, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds.

(a) If prior to the termination of the term of the Lease, (i) the Leased Property or any improvements in or on the Leased Property are damaged (each of which is hereinafter called "Damaged Improvements") by a peril covered by a policy of insurance described the Lease as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Fire and Extended Coverage Insurance" in the front part of this Official Statement (an "Insured Peril"); or (ii) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the City or the Authority in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority will cause the Net Proceeds of any insurance claim (other than use and occupancy insurance as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS — Use and Occupancy Insurance" which shall be directly transferred to the Trustee for deposit in the Revenue Fund pursuant to the Lease) or condemnation award to be transferred to the Trustee for deposit in the Insurance and Condemnation Fund established pursuant to the Indenture and applied by the Trustee as follows:

(A) *Net Proceeds Exceeding Costs*. Within 120 days of the date of said Insured Peril, the City shall obtain a written estimate(s) of the (i) cost of the repair, replacement and reconstruction of the Damaged Improvements (collectively referred to herein as the "Reconstruction"); and (ii) Net Proceeds available to pay such costs. Copies of such estimate(s) shall be made available to the Trustee at the Trustee's request. If the 120 day period is insufficient to obtain said estimates, the period shall be reasonably extended by the Authorized

Representative of the City. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the estimated costs of Reconstruction, the Damaged Improvements shall be repaired, replaced and reconstructed to the same or better quality as existed before the damage occurred. The City shall commence and manage the Reconstruction and shall complete the Reconstruction as soon as reasonably possible after the occurrence of such damage. Any balance of Net Proceeds remaining after the Reconstruction has been completed shall be transferred by the Trustee to the Redemption Fund established under the Indenture and applied, as directed by the City, to redeem Outstanding Bonds in the manner provided by the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement.

(B) *Costs Exceeding Net Proceeds*. If the estimated costs of Reconstruction exceed the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property), the City, in its sole discretion, may elect to budget and appropriate to the Reconstruction the amount of such excess, whether the same is greater or less than the estimated excess, and to manage the Reconstruction as set forth in paragraph (a)(5) under this subheading. The City shall exercise this election by written notice thereof delivered to the Trustee within 30 days after the City obtains said written estimate(s).

(C) *Net Proceeds Sufficient to Redeem All Bonds*. If the City does not exercise the election to reconstruct pursuant to paragraph (a)(2) above and Net Proceeds are at least sufficient to redeem all Outstanding Bonds pursuant to the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement , such Net Proceeds shall be transferred by the Trustee to the Redemption Fund established under the Indenture and used to redeem all Outstanding Bonds in the manner provided by the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement . If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the amount necessary to redeem all Outstanding Bonds, the City shall be entitled to the amount of proceeds remaining after redemption of all Outstanding Bonds ("Excess Proceeds") and shall have the option (i) to distribute the Excess Proceeds to the Reconstruction and to manage the Reconstruction pursuant to paragraph (a)(5) below; or (ii) if required by law or if the City so elects, to demolish any remaining improvements on the Leased Property and remove all debris from the Leased Property.

(D) *Net Proceeds Insufficient to Redeem All Bonds*. If the City does not exercise the election to reconstruct pursuant to paragraph (a)(2) above and Net Proceeds are insufficient to redeem all Outstanding Bonds pursuant to the Indenture as described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement, the City, in its sole discretion, may elect to budget and appropriate funds to cause the redemption of the remaining Outstanding Bonds and the Net

Proceeds, together with such funds, shall be transferred to the Trustee with directions to apply the proceeds to the Redemption Fund established under the Indenture to redeem all Outstanding Bonds in the manner by the Indenture described under "THE SERIES 2012A BONDS — Redemptions Provisions — *Mandatory Sinking Fund Redemption*" in the front part of this Official Statement; provided, that if the City elects not to appropriate funds for the redemption of the remaining Outstanding Bonds, the City shall apply Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) to the Reconstruction. If the City, in its sole discretion, elects to budget or appropriate funds for the redemption of the remaining Outstanding Bonds, the City shall transfer such funds to the Trustee for deposit in the Redemption Fund established pursuant to the Indenture.

(E) *Management of Reconstruction*. If the Leased Property or any part thereof becomes Damaged Improvements, the City shall promptly cause, manage and supervise the Reconstruction. Nothing described under this subheading shall be construed to preclude the City from agreeing to issue a joint contract for, or otherwise cooperating in, the Reconstruction of any of the Damaged Improvements.

(b) The proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property shall be applied in accordance with the Indenture as described under "THE INDENTURE — Insurance and Condemnation Fund; Title Insurance — *Application of Insurance Proceeds*" above.

Disclaimer of Warranties; Use of the Leased Property

Disclaimer of Warranties.

THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE CITY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event shall the Authority or its assigns be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the City's use of the Leased Property as provided by the Lease.

Use of the Leased Property.

The City will not use, operate or maintain the Leased Property in violation of any applicable law or in a manner contrary to that contemplated by the Lease. The City shall provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the City agrees to comply in all respects (including, without limitation, with respect to

the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; provided, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the City adversely affect the leasehold estate of the Authority in and to the Leased Property or its interest or rights under the Lease.

Assignment

Assignment by Authority.

The parties understand that certain of the rights of the Authority under the Lease will be assigned to the Trustee pursuant to the Indenture and accordingly the City agrees to make all payments due under the Lease to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Lease or otherwise) that the City may from time to time have against the Authority or the Trustee. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Authority or the Trustee to protect their interests in the Leased Property during the term of the Lease.

Assignment by City.

The Lease and the interest of the City in the Leased Property may not be assigned or encumbered by the City except as permitted by the Lease as described under "SECURITY AND SOURCES OF PAYMENT — Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Leased Property" in the front part of this Official Statement.

Default and Remedies

Default.

The following events shall be "Events of Default" under the Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Lease, any one or more of the following events:

(i) the City shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Lease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Lease shall not constitute an Event of Default;

(ii) subject to the provisions of the Lease described in paragraph (c) below, the City shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Lease; or

(iii) the City shall breach any other terms, covenants or conditions contained in the Lease or in the Indenture, and shall (i) fail to remedy any such breach with all reasonable dispatch within a period of 60 days after written notice thereof from the Trustee to the City; or (ii) if the failure stated in the notice cannot be corrected within such period, the City shall fail to institute corrective action within such 60-day period and diligently pursue the same to completion; or

(iv) the City's interest in the Lease or any part thereof be assigned, sublet or transferred without the written consent of the Trustee (except as otherwise permitted by the Lease), either voluntarily or by operation of law; or

(v) the City or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the City shall make a general or any assignment for the benefit of its creditors; or

(vi) the City shall abandon or vacate the Leased Property or any portion thereof (except as permitted by the Lease).

Upon the happening of any Event of Default, the Trustee, as assignee of the rights of the Authority pursuant to the Indenture, may exercise those remedies granted to it pursuant to law or under the Lease, subject to the terms of the Lease. The Trustee, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(i) To terminate the Lease in the manner provided in the Lease on account of default by the City, notwithstanding any retaking of possession or re-letting of the Leased Property as hereinafter provided for in the paragraph below, and to retake possession of the Leased Property. In the event of such termination, the City agrees to surrender immediately possession of the Leased Property, without let or hindrance, and to pay the Trustee all damages recoverable at law that the Trustee may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Leased Property. Neither notice to pay rent nor to deliver up possession of the Leased Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Trustee for the purpose of obtaining possession of the Leased Property nor the appointment of a receiver upon initiative of the Trustee to protect the Trustee's interest under the Lease shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law or acts of the parties to the Lease, unless and until the Trustee shall have given written notice to the City of the election on the part of the Trustee to terminate the Lease.

(ii) Without terminating the Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the Lease to be kept or performed by the City, and/or (ii) to exercise any and all rights to retake possession of the Leased Property. In the event the Trustee does not elect to terminate the Lease in the manner provided for under the Lease, the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the City and to pay the rent to the end of the term of the Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Lease as described above for the payment of rent under the Lease (without acceleration), notwithstanding the fact that the Trustee may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Lease and notwithstanding any retaking of possession of the Leased Property by the Trustee or suit in unlawful detainer, or otherwise, brought by the Trustee for the purpose of obtaining possession of the Leased Property. Should the Trustee elect to retake possession of the Leased Property as provided in the Lease, the City irrevocably appoints the Trustee as the agent and attorney-in-fact of the City to re-let the Leased Property, or any items thereof, from time to time, either in the Trustee's name or otherwise, upon such terms and conditions and for such use and period as the Trustee may deem advisable and the City indemnifies and agrees to save harmless the Trustee from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any retaking of possession of and re-letting of the Leased Property by the Trustee or its duly authorized agents in accordance with the provisions contained in the Lease. The City agrees that the terms of the Lease constitute full and sufficient notice of the right of the Trustee to re-let the Leased Property in the event of such reentry without effecting a surrender of the Lease, and further agrees that no acts of the Trustee in effecting such re-letting shall constitute a surrender of termination of the Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the City, the right to terminate the Lease shall vest in the Trustee to be effected in the sole and exclusive manner provided for in subparagraph (1). The City further waives the right to rental obtained by the Trustee in excess of the rental specified in the Lease and conveys and releases such excess to the Trustee as compensation to the Trustee for its services in re-letting the Leased Property or any items thereof.

The City waives any and all claims for damages caused or which may be caused by the Trustee in taking possession of the Leased Property as provided in the Lease and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be on or about the Leased Property.

Notwithstanding anything to the contrary contained in the Lease, the Trustee shall not re-enter or re-let the Leased Property upon an Event of Default unless the Trustee or its sublessee agrees to perform the City's obligations under any then existing sublease, license, management contract, or other agreement substantially relating to the Leased Property, unless the other party to such sublease, license, management contract, or other agreement is in default

thereunder. The Authority expressly waives the right to receive any amount from the City pursuant to Section 1951.2(a)(3) of the California Civil Code. The City and Authority and its successors and assigns shall honor the exclusive rights of the City under the Lease to use the Leased Property, subject to the exercise of any and all rights to retake possession of the Leased Property upon the happening of any Event of Default pursuant to the Lease.

Each and all of the remedies given to the Trustee under the Lease or by any law now or hereafter enacted are cumulative, and the single or partial exercise of any right, power, or privilege under the Lease shall not impair the right of the Trustee to other or further exercise thereof or the exercise of any or all other rights, powers, or privileges. If the City Charter, any statute or rule of law shall limit the remedies given to the Trustee under the Lease, the Trustee nevertheless shall be entitled to whatever remedies are allowable under the City Charter, any statute or rule of law, except those specifically waived in the Lease. All rights, remedies and powers provided by under the provisions of the Lease relating to default may be exercised only to the extent that the exercise thereof does not violate any applicable provision of the City Charter or law, and all of the provisions of the Lease relating to default are intended to be subject to all applicable mandatory provisions of the City Charter and law which may be controlling and to be limited to the extent necessary so that they will not render the Lease or the provisions of the Lease invalid or unenforceable under the provisions of the City Charter and any applicable law.

Notwithstanding any other provision of the Lease or the Indenture, in no event shall the Trustee have the right to accelerate the payment of any Base Rental Payment under the Lease and, without limiting the generality of the foregoing, the Trustee specifically waives its rights under Section 1951.2 of the California Civil Code to accelerate payment of any Base Rental Payment in the event of default by the City. In the event the Trustee shall prevail in any action brought to enforce any of the terms and provisions of the Lease, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Trustee in attempting to enforce any of the remedies available to the Trustee under the Lease. All damages and other payments received by the Trustee as described under this subheading shall be applied in the manner set forth in the Indenture as described under "THE INDENTURE — Events of Default and Remedies — Application of Revenues and Other Funds After Default" herein.

Waiver.

Failure of the Trustee to take advantage of any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice that may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Trustee to insist upon performance by the City of any term, covenant, or condition of the Lease, or to exercise any rights given the Trustee on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rental payments under the Lease shall not be, or be construed to be, a waiver of any term, covenant, or condition of the Lease.

Remedies Subject to Provisions of Law and Tax Agreement.

All rights, remedies and powers provided by the Lease may be exercised only to the extent that the exercise thereof (a) does not violate any applicable provision of the City Charter and other applicable law, and all of the provisions of the Lease are intended to be subject to the City Charter and all other applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this instrument or the provisions hereof invalid or unenforceable under the provisions of the City Charter or other applicable law; and (b) does not violate the Tax Agreement, unless waived by the Owners of not less than the majority in the aggregate principal amount of the Bonds then Outstanding.

Miscellaneous

Net Lease.

The Lease is a triple net lease. It is the purpose and intent of the Authority and the City that lease payments under the Lease shall be absolutely net to the Authority so that the Lease shall yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the City except as specifically otherwise provided in the Lease. The Authority shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Lease except as expressly set forth in the Lease, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Leased Property which may arise or become due during the term of the Lease shall be paid by the City.

Amendments to the Lease and the Expansion Lease.

The Lease may be amended in writing as may be mutually agreed by the Authority and the City, subject to the written approval of the Trustee determining that such amendment does not materially adversely affects the rights of the Owners; provided however, any amendment which has a material adverse affect on the right of the Owners shall not be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the affected Bonds Outstanding; and provided further that no such amendment shall (i) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment (except a reduction to reflect prepayment or defeasance of any Bonds pursuant to the Indenture, so long as the remaining Base Rental Payments are at least sufficient to pay Debt Service on Outstanding Bonds), without the prior written consent of the Owner of each Series of Bonds so affected; or (ii) reduce the percentage of the value of the Bonds Outstanding, the consent of the Owners of which is required for the execution of any amendment of the Lease.

The Lease and the rights and obligations of the Authority and the City under the Lease may also be amended or supplemented at any time by an amendment of the Lease or supplement to the Lease which shall become binding upon execution without the written

consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed in the Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved in the Lease to or conferred in the Lease on the Authority or the City, and which in either case shall not, in the judgment of the Trustee, materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease or in regard to questions arising under the Lease which the Authority or the City may deem desirable or necessary and not inconsistent herewith, and which shall not, in the judgment of the Trustee, materially adversely affect the interests of the Owners;

(c) to effect a Substitution, Addition or Removal in accordance with the Lease; and

(d) to facilitate the issuance of Additional Bonds;

(e) after prepayment or defeasance of any Bond, to revise Base Rental Payment Schedule to be sufficient to pay Debt Service on Bonds then Outstanding; and

(f) to make any other addition, amendment or deletion which does not, in the judgment of the Trustee, materially adversely affect the interests of the Owners.

The Authority agrees that it will not amend the Expansion Lease, except as provided as follows:

(a) The Authority may amend the Expansion Lease as mutually agreed by the District and the Authority, subject to the written approval of the Trustee determining that such amendment does not materially adversely affects the rights of the Owners; provided, however, any amendment which has a material adverse affect on rights of the Owners shall not be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the affected Bonds Outstanding; and provided further that no such amendment shall change the 1998 Expansion Expiry Date (as defined in the Expansion Lease), without the prior written consent of the Owner of each Series of Bonds so affected.

(b) The Expansion Lease and the rights and obligations of the Authority under the Lease may also be amended or supplemented at any time by an amendment or supplement which shall become binding upon execution without the written consents of the Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Authority to be observed or performed under the Lease and other agreements, conditions,

covenants and terms thereafter to be observed or performed by the District or the Authority, or to surrender any right or power reserved to or conferred in the Lease on the District or the Authority, and which in either case shall not, in the judgment of the Trustee, materially adversely affect the interests of the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease or in regard to questions arising under the Lease which the District or the Authority may deem desirable or necessary and not inconsistent herewith, and which shall not, in the judgment of the Trustee, materially adversely affect the interests of the Owners;

(iii) to effect a Substitution, Addition or Removal in accordance with the Lease; and

(iv) to make any other addition, amendment or deletion which does not, in the judgment of the Trustee, materially adversely affect the interests of the Owners.

Discharge of City.

Upon the payment to the Owners of all Outstanding Bonds in accordance with the provisions of the Indenture described herein under the subheading "Defeasance", all of the obligations of the City under the Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

[Date of Closing]

To: City of San Diego
San Diego, California

Convention Center Expansion Financing Authority
San Diego, California

We have served as bond counsel to our client the City of San Diego (the "City") and not as counsel to any other person in connection with the issuance by the Convention Center Expansion Financing Authority (the "Authority") of its $_____ Lease Revenue Refunding Bonds, Series 2012A (the "Bonds"), dated the date of this letter.

The Bonds are authorized under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code and issued pursuant to the Indenture, dated as of June 1, 2012 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined in this letter are used as defined in the Indenture.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Bonds, a copy of the signed and authenticated Bond of the first maturity, the Indenture, the Facility Lease, the Expansion Lease and such other documents, opinions, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Bonds constitute the valid and binding limited obligations of the Authority as provided in the Indenture.

2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of principal and interest on the Bonds and any Additional Bonds which may subsequently be issued under the Indenture, of the Revenues and other amounts held by the Trustee in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.

3. The Facility Lease has been duly authorized, executed and delivered by the City and the Authority and constitutes the valid and binding obligations of the City

and of the Authority, respectively, enforceable against the City and Authority in accordance with the terms thereof. The obligation of the City to make the Base Rental Payments during the term of the Facility Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor, and does not constitute a debt of the City or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, portions of the interest on the Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion as to any other tax consequences regarding the Bonds.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined, (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the City and the Authority and (iii) the correctness of the legal conclusions contained in the legal opinion letters of the City Attorney, General Counsel to the Authority and counsel to the District delivered in connection with this matter.

In rendering those opinions with respect to the treatment of the interest on the Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the City and the Authority. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Facility Lease are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

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

Bonds, the Indenture or the Facility Lease. Furthermore, we express no opinion with respect to the status or quality of title to, or interest in, any of the real, personal or intangible property and other assets described in the Facility Lease, or subject to the pledge or lien granted in the Indenture, or the accuracy or sufficiency of the description contained in the Facility Lease and Indenture of, or the priority of, or the remedies available to enforce, any pledge or lien on any such assets.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Bonds has concluded on this date.

Respectfully submitted,

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APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

None of the City, the Authority, the Trustee, the Underwriters or their lawyers, can or do give any assurances that DTC, the Participants or others will distribute payments of principal of or interest on the Series 2012A Bonds paid to DTC or its nominee as the Registered Owner of the Series 2012 Bonds, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the City, the Authority, the Trustee, the Underwriters or their lawyers is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2012A Bonds or an error or delay relating thereto.

The following information concerning The Depository Trust Company (*"DTC"*) and DTC's book-entry system has been obtained from sources that the City, the Authority and the Underwriters believe to be reliable, but neither the City, the Authority, the Underwriters, nor their lawyers take responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in this Official Statement and in APPENDIX C — "SUMMARY OF LEGAL DOCUMENTS."

The Depository Trust Company, New York, NY, will act as securities depository for the Series 2012A Bonds. The Series 2012A 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 Bond certificate will be issued for each maturity of each Series of the Series 2012A 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. 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 its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2012A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012A Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 2012A 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 Series 2012A Bonds, except in the event that use of the book-entry system for the Series 2012A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012A 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 2012A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012A 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 2012A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Series 2012A Bonds may wish to ascertain that the nominee holding the Series 2012A 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 notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2012A Bonds within 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 Series 2012A 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 City, as the issuer of the Series 2012A Bonds, 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 Series 2012A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2012A 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 City or the Paying Agent, on 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 Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, 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 2012A Bonds at any time by giving reasonable notice to the City, the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Series 2012A Bonds are required to be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2012A Bonds will be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

Risks Regarding the Book-Entry Only System

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE SERIES 2012A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN (EXCEPT "TAX MATTERS") TO THE REGISTERED HOLDERS OF THE SERIES 2012A BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2012A BONDS. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS

CONTEXT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2012A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Each person for whom a Participant acquires an interest in the Series 2012A Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

NONE OF THE CITY, THE AUTHORITY, THE TRUSTEE, THE UNDERWRITERS OR THEIR ATTORNEYS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, THE SELECTION OF THE BENEFICIAL INTERESTS IN THE SERIES 2012A BONDS TO BE REDEEMED IN THE EVENT OF REDEMPTION OF LESS THAN ALL SERIES 2012A BONDS OF A PARTICULAR MATURITY OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE SERIES 2012A BONDS. NO ASSURANCE CAN BE GIVEN BY THE CITY, THE AUTHORITY, THE TRUSTEE, THE UNDERWRITERS OR THEIR ATTORNEYS THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES, INCLUDING REDEMPTION NOTICES (REFERRED TO ABOVE), RECEIVED AS THE REGISTERED OWNER OF THE SERIES 2012A BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the Authority determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the Series 2012A Bonds, and the Authority does not select another qualified securities depository, the Authority shall deliver one or more Series 2012A Bonds in such principal amount or amounts, in authorized denominations, and registered in whatever name or names, as DTC shall designate. In such event, transfer and exchanges of Series 2012A Bonds will be governed by the provisions of the Indenture.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Certificate") is executed and delivered by the City of San Diego (the "City") as of June __, 2012 in connection with $_____ principal amount of Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the "Series 2012A Bonds"). The Series 2012A Bonds are being issued pursuant to the terms of the Indenture (as defined herein). The City hereby covenants and agrees as follows:

1. Purpose of Certificate. This Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Bondowners and Beneficial Owners of the Series 2012A Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below). The City is the only Obligated Person (as defined in the Rule) for the Series 2012A Bonds.

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 have the following meanings:

"Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Certificate.

"Authority" means the Convention Center Expansion Financing Authority.

"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 2012A Bonds (including persons holding Series 2012A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2012A 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.

"Indenture" means the Indenture, dated as of June 1, 2012, by and between the Authority and the Trustee.

"MSRB" means the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

"Notice Event" means any of the events listed in Section 5(a) and (b) of this Certificate.

"Participating Underwriter" means any of the original purchasers of the Series 2012A Bonds required to comply with the Rule in connection with the offering of the Series 2012A Bonds.

"Official Statement" means the Official Statement dated _____, 2012, prepared and distributed in connection with the initial sale of the Series 2012A 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 interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

"Trustee" means The Bank of New York Mellon Trust Company, N.A. or any successor trustee under the Indenture.

3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 285 days (or the next succeeding business day, if that day is not a business day) after the end of the City's fiscal year (which currently ends June 30th), commencing with the report for the fiscal year ending June 30, 2012 (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 of this Certificate.

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 of this Certificate; 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).

(b) Not later than 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 one has been appointed). If the City is unable to provide to the MSRB an Annual

Report by the date specified in subsection (a) above, the City shall send a notice to the MSRB in substantially the form of Exhibit A to this Certificate.

(c) The Dissemination Agent (if one has been appointed) 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.

(d) 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 of such failure to the MSRB in an electronic format as prescribed by the MSRB.

4. Content of Annual Reports. The City's Annual Report shall contain or include 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) of this Certificate, 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) To the extent not included in the financial statements, the following types of information will be provided in one or more reports in a format similar to that in the Official Statement:

(i) A table presenting a summary of the City's operating budget for the latest available fiscal year.

(ii) A table presenting assessed valuation of taxable property in the City.

(iii) A table presenting secured tax levies and collections.

(iv) A table presenting the City's outstanding general obligation and general fund lease obligations and any short-term borrowings.

(v) A table presenting aggregate annual scheduled lease payments or rental payments with respect to outstanding lease revenue bonds and certificates of participation payable from the general fund of the City.

(vi) A brief description of the San Diego City Employees' Retirement System, including but not limited to its funded status.

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. If the document included by reference is a final official statement, it must be available from the MSRB. 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.

5. Reporting of Notice 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 Notice Events with respect to the Series 2012A Bonds, 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

* *The City has not obtained or provided, and does not expect to obtain or provide, any debt service reserves, credit enhancements or credit or liquidity providers for the Bonds.*

(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 of 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 Notice Events with respect to the Series 2012A 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), other notices or determinations with respect to the tax status of the Series 2012A Bonds, or other events affecting the tax status of the Series 2012A Bonds;

(iii) modifications to rights of holders of the Series 2012A Bonds;

(iv) bond calls **;

(v) release, substitution or sale of property securing repayment of the Series 2012A Bonds;

(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.

** *Any scheduled redemption of Series 2012A Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.*

(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 Notice Event with the MSRB through EMMA.

(d) Notwithstanding the foregoing, notice of the Notice Events described in subsections (a)(vii) and (b)(iv) above need not be given under this Section 5 any earlier than the notice, if any, of the underlying event is given to Bondholders of affected Series 2012A Bonds pursuant to the Indenture.

6. Termination of Reporting Obligation. The City's obligations under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2012A Bonds. If such termination occurs prior to the final maturity of the Series 2012A Bonds, the City shall give notice of such termination in the same manner as for a Notice Event under subsection 5(c).

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.

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 Section 5, 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 2012A 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 2012A 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 majority of outstanding principal amount of the Series 2012A Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners or Beneficial Owners of the Series 2012A 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), 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.

9. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, including the information then contained in Appendix A to the City's official statements relating to debt issuances, 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.

10. Default. In the event of a failure of the City to comply with any provision of this Certificate, any Bondowner or Beneficial Owner of the Series 2012A Bonds may commencing 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 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 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 2012A 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.

11. Duties Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Certificate, and the City agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2012A Bonds.

12. Beneficiaries. This Certificate shall inure solely to the benefit of the City, the Dissemination Agent the Bondowners and Beneficial Owners from time to time of the Series 2012A Bonds, and shall create no rights in any other person or entity.

13. Record Keeping. The City shall maintain records of all Annual Reports and notices of material Notice Events including the content of such disclosure, the names of the entities with whom the such disclosure were filed and the date of filing such disclosure.

14. Governing Law. This Certificate shall be governed by the laws of the State of California and the federal securities laws.

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IN WITNESS WHEREOF, the City of San Diego has executed this Continuing Disclosure Certificate as of the date first set forth herein.

CITY OF SAN DIEGO

By:_____
Authorized Signatory

[Signature page of Continuing Disclosure Certificate]

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272