

**ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
RELATING TO**

**\$453,775,000**

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

**\$634,940,000**

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

**\$161,930,000**

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

**(CUSIP Number 79730A)**

**Introduction**

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

This Annual Report for the Fiscal Year ended June 30, 2011 is provided by the City of San Diego (the “City”), on behalf of itself and the Public Facilities Financing Authority of the City of San Diego (the “Authority”), pursuant to the Continuing Disclosure Certificates (the “Certificates”) between the City and The Bank of New York Mellon Trust Company, as Trustee (the “Trustee”), relating to the Outstanding Sewer Bonds, entered into to allow the respective underwriters to comply with Securities and Exchange Commission Rule 15c2-12.

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

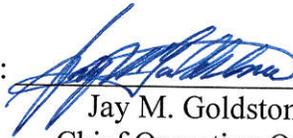
The City is acting as the Dissemination Agent for each of the above stated issuances. The City does not have any obligation to update this report other than as expressly provided in the Continuing Disclosure Certificate for each of the above stated issuances.

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

**DATED:** 3/22, 2012

CITY OF SAN DIEGO

By:



Jay M. Goldstone  
Chief Operating Officer

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

## **FINANCIAL AND OPERATING DATA**

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

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

The City of San Diego’s Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2011 (“CAFR”), which includes the City’s Fiscal Year 2011 audited financial statements was electronically transmitted to the Electronic Municipal Market Access (“EMMA”) System of the Municipal Securities Rulemaking Board (“MSRB”) on March 1, 2012.

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**METROPOLITAN SUB-SYSTEM  
CITY AND PARTICIPATING AGENCIES FLOW AND CAPACITY RIGHTS  
Fiscal Year ended June 30, 2011  
(Unaudited)**

Participating Agencies	Estimated Population <sup>(1)</sup>	Capacity Rights (in mgd)	% of Total Capacity	Average Flow (mgd)	% of Total Average Flow
City of Chula Vista	241,479	20.864	8.182%	16.488	9.723%
City of Coronado	16,901	3.250	1.274%	1.658	0.978%
City of Del Mar	4,584	0.876	0.344%	0.566	0.334%
City of El Cajon	98,000	10.915	4.280%	7.705	4.544%
City of Imperial Beach	29,250	3.755	1.473%	2.258	1.331%
City of La Mesa	58,545	6.993	2.742%	5.042	2.973%
City of National City	58,900	7.487	2.936%	4.430	2.613%
City of Poway	47,056	5.894	2.312%	3.277	1.933%
East Otay Mesa Sewer Maintenance District <sup>(2)</sup>	375	1.000	0.392%	0.026	0.015%
Lakeside/Alpine Sanitation District <sup>(2)</sup>	40,313	4.841	1.898%	3.231	1.905%
Lemon Grove Sanitation District	27,000	3.027	1.187%	2.258	1.331%
Otay Water District	5,080	1.287	0.505%	0.378	0.223%
Padre Dam Municipal Water District	70,800	6.225	2.441%	2.514	1.483%
Spring Valley Sanitation District <sup>(2)</sup>	82,500	10.353	4.060%	7.445	4.391%
Wintergardens Sewer Maintenance District <sup>(2)</sup>	12,000	1.309	0.513%	0.969	0.572%
<b>SUBTOTAL</b>	<b>792,783</b>	<b>88.078</b>	<b>34.540%</b>	<b>58.245</b>	<b>34.349%</b>
City of San Diego	1,319,155	166.922	65.460%	111.324	65.651%
<b>TOTAL</b>	<b>2,111,938</b>	<b>255.000</b>	<b>100.000%</b>	<b>169.568</b> <sup>(3)</sup>	<b>100.000%</b>

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

(2) These facilities use the San Diego County Facility Plan for their population figures.

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

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

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

**(In Million Gallons)**

**Fiscal Year ended June 30, 2002 through Fiscal Year ended June 30, 2011  
(Unaudited)**

<b>Fiscal Year Ended June 30</b>	<b>City Flow Through Point Loma Plant</b>	<b>Participating Agency Flow Through Point Loma Plant</b>	<b>City Flow Through Escondido Plant <sup>(2)</sup></b>	<b>City Flow Through San Elijo Plant <sup>(2)</sup></b>	<b>Reclaimed Water Through North City Plant</b>	<b>City Flow Through South Bay Plant</b>	<b>Total System Flow</b>	<b>Average MGD For The Year</b>
2002	43,395	21,326	1,316	0	958	0	66,995	184
2003	42,567	22,188	1,353	0	1,201	1,637	68,946	189
2004	40,665	21,688	1,342	32	1,182	1,702	66,611	182
2005	43,817	23,124	1,439	32	522	1,726	70,660	194
2006	42,240	22,270	1,279	32	1,259	1,632	68,712	188
2007	38,295	21,886	1,106	32	1,544	2,949	65,812	180
2008	37,207	21,849	1,096	32	1,749	3,210	65,143	178
2009	36,752	21,174	1,065	32	2,402	3,106	64,531	177
2010	36,995	20,488	1,022	32	1,931	2,986	63,454	174
2011	37,607	21,259	1,058	32	1,872	3,026	64,855	178

(1) Wastewater System consists of the Metropolitan Sub-System (collects and treats the wastewater generated by the City and 15 other agencies) and the Municipal Sub-System (all elements required for the collection and conveyance of the wastewater generated by the City).

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

Source: Public Utilities Department, City of San Diego.

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**WASTEWATER SYSTEM**  
**HISTORICAL SOURCES OF SEWER SERVICE CHARGE REVENUES <sup>(1)</sup>**

**Fiscal Years Ending June 30, 2007 through June 30, 2011**

**(\$ In Thousands)**

**(Unaudited)**

<u>Sources</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Single Family Domestic	\$95,757	\$104,565	\$112,564	\$125,924 <sup>(2)</sup>	\$119,482
Other Domestic	74,851	77,921	88,426	94,101	90,221
Commercial	65,245	71,376	68,640	70,908	68,198
Industrial	4,840	6,171	6,866	8,172	7,050
Treatment Plant Service for Others <sup>(3)</sup>	<u>59,043</u>	<u>65,015</u>	<u>41,978</u> <sup>(4)</sup>	<u>77,298</u>	<u>66,943</u>
<b>TOTAL</b>	<u><u>\$299,736</u></u>	<u><u>\$325,048</u></u>	<u><u>\$318,474</u></u>	<u><u>\$376,403</u></u>	<u><u>\$351,894</u></u>

(1) Constitutes a component of System Revenues; does not include capacity charges or other operating revenues which are included in calculating Net System Revenues.

(2) Last year of a multi-year rate increase (see "Wastewater System Approved Rate Increases for Single Family Residential, Multifamily and Commercial and Industrial Customers" table); no future approved rate increases in place.

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

(4) The decrease in Fiscal Year 2009 was due to accumulation of prior years' credits, based on actual expenditures, applied to Sewer Service Charge revenues from Participating Agencies in FY 2009.

Sources: CAFRs for Fiscal Years 2007 through 2009 "Total" line items, Comptroller's Office for Fiscal Years 2010 through 2011 "Total" line item, and for all other items.

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**MUNICIPAL SUB-SYSTEM  
TEN LARGEST CUSTOMERS <sup>(1)</sup>  
Fiscal Year Ended June 30, 2011  
(Unaudited)**

	Sewer Billings	Percent of Total Operating Revenues <sup>(2)</sup>
U.S. Navy	\$10,975,859	3.07%
C.P. Kelco	5,201,794	1.45%
University of California, San Diego	3,152,033	0.88%
R.J. Donovan Correctional Facility	1,604,679	0.45%
Federal Government <sup>(3)</sup>	1,514,568	0.42%
City of San Diego	1,256,133	0.35%
San Diego Unified School District	987,806	0.28%
County of San Diego	885,750	0.25%
Coca Cola Bottling Company	828,705	0.23%
Marine Park Corp	802,769	0.22%
<b>TOTAL <sup>(4)</sup></b>	<b>\$27,210,096</b>	<b>7.60%</b>

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

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

(3) Excludes the United States Navy.

(4) Amounts may not total due to rounding.

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

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**WASTEWATER SYSTEM**  
**APPROVED RATE INCREASES FOR SINGLE FAMILY RESIDENTIAL,**  
**MULTIFAMILY AND COMMERCIAL AND INDUSTRIAL CUSTOMERS**  
**Through Fiscal Year Ending June 30, 2011**  
**(Unaudited)**

<u>Effective Date</u>	<u>Single Family Domestic</u> <sup>(1)</sup>	<u>All Classes % Rate Increase</u>	<u>Uniform Base Fee</u>	<u>Single Family Residential \$/HCF water</u>	<u>Multifamily (Other Domestic) Usage Fee \$/HCF water</u>	<u>Commercial &amp; Industrial Customers</u> <sup>(2)</sup>		
						<u>\$/HCF Monthly Wastewater Flow</u>	<u>\$/LB Total Suspended Solids</u>	<u>\$/LB Chemical Oxygen Demand</u>
October 1, 2004 <sup>(3)</sup>	\$32.72	N/A	\$10.53	\$2.563	\$3.461	\$2.5613	\$0.3994	\$0.1436
March 1, 2005	\$35.17	7.50%	\$11.32	\$2.755	\$3.721	\$2.7534	\$0.4294	\$0.1544
May 1, 2007	\$38.32	8.75%	\$12.31	\$2.890	\$4.038	\$3.0257	\$0.4431	\$0.1801
November 1, 2007 - Shames <sup>(4)</sup>	\$39.49	3.05%	\$12.69	\$2.978	\$4.161	\$3.1180	\$0.4566	\$0.1856
May 1, 2008	\$42.94	8.75%	\$13.80	\$3.239	\$4.525	\$3.3908	\$0.4966	\$0.2018
May 1, 2008 – Shames <sup>(4)</sup>	\$44.25	3.05%	\$14.22	\$3.338	\$4.663	\$3.4942	\$0.5117	\$0.2080
May 1, 2009	\$47.35	7.00%	\$15.21	\$3.571	\$4.990	\$3.7388	\$0.5475	\$0.2225
May 1, 2010	\$50.67	7.00%	\$16.28	\$3.821	\$5.339	\$4.0005	\$0.5859	\$0.2381

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

(2) Commercial and Industrial Customers' monthly charges are based upon volume of flow, total suspended solids (TSS), and chemical oxygen demand (COD) included effective October 1, 2004.

(3) Reflects restructuring of sewer service charges which adds COD as a cost parameter, and a uniform base fee for all single family residential customers, multifamily residential customers and commercial and industrial customers.

(4) On June 16, 2004, a class action lawsuit, Shames v. City of San Diego, was filed against the City alleging that until October 2004 (when the city revised its sewer rate structure - See footnote (2)), single family residential customers were overcharged for sewer service, while other customers were undercharged. On May 18, 2007, the Superior Court for the County of San Diego approved an agreement to settle the lawsuit. This requires the City to reimburse "eligible" single family residential customers a total of \$40 million (less \$5 million for attorney's fees and other costs). The monthly credit for eligible SFR customers ended in December 2011 and the two 3.05% rate increases for all City sewer customers sunset on February 29, 2012.

Source: Public Utilities Department, City of San Diego.

**WASTEWATER CUSTOMER ACCOUNTS RECEIVABLE AND SHUT-OFFS**  
**For Fiscal Years Ending June 30, 2007 to 2011**  
**(\$ In Thousands)**  
**(Unaudited)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Sewer Service Charge Revenue	\$299,736	\$325,048	\$318,474	\$376,403	\$351,894
Accounts Receivable <sup>(1)</sup>	\$21,541	\$21,101	\$20,112	\$23,024	\$15,547
Accounts Receivable Over 120 Days <sup>(1)(2)</sup>	\$2,485	\$2,193	\$2,567	\$2,985	\$3,115
Number of Shut-Offs <sup>(3)</sup>	20,451	22,420	23,650	26,875	23,271

(1) Excludes amounts payable by Participating Agencies.

(2) Estimated.

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

Sources: CAFR for Sewer Service Charge Revenue, Fiscal Years 2007-2009; Comptroller's Office for Fiscal Years 2010-2011 Sewer Service Charge Revenue; and Public Utilities Department, City of San Diego, for all other line items.

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**MUNICIPAL SUB-SYSTEM  
SEWER UTILITY FUND  
HISTORICAL CAPACITY CHARGE REVENUES  
Fiscal Years Ending June 30, 2007 through June 30, 2011  
(\$ In Thousands)  
(Unaudited)**

Fiscal Year	Equivalent Dwelling Units	Capacity Charge Revenues <sup>(1)</sup>
2007	4,966	\$16,610
2008	3,492	\$11,851
2009 <sup>(2)</sup>	2,651	\$10,361
2010	1,230	\$5,068
2011	2,474	\$9,256

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

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

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

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## RATE HISTORY FOR SEWER CAPACITY CHARGES

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

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

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

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

Source: Public Utilities Department, City of San Diego.

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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS <sup>(1)</sup>**  
**(\$ In Thousands)**

**Fiscal Years Ending June 30, 2007 through June 30, 2011**  
**(Audited, except as otherwise noted)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>OPERATING REVENUES</b>					
Sewer Service Charges:					
Inside City:					
Domestic <sup>(2)</sup>	\$ 170,608	\$ 182,486	\$200,990	\$ 220,025	\$ 209,703
Commercial and Industrial <sup>(2)</sup>	70,085	77,547	75,506	79,080	75,248
Outside City:					
Treatment Plant Service for Others <sup>(2)</sup>	59,044	65,015	41,978 <sup>(3)</sup>	77,298	66,943
Subtotal: Sewer Service Charges <sup>(4)</sup>	<u>\$ 299,736</u>	<u>\$ 325,048</u>	<u>\$ 318,474</u>	<u>\$ 376,403</u>	<u>\$ 351,894</u>
Services provided to City departments <sup>(2)(5)</sup>	-	-	-	2,237	2,189
Total Charges for Services <sup>(5)</sup>	<u>\$ 299,736</u>	<u>\$ 325,048</u>	<u>\$ 318,474</u>	<u>\$ 378,640</u>	<u>\$ 354,083</u>
Other Operating Revenues <sup>(5)</sup>	5,014	3,071	4,097	3,485	3,648
<b>TOTAL OPERATING REVENUES</b>	<b><u>\$ 304,750</u></b>	<b><u>\$ 328,119</u></b>	<b><u>\$ 322,571</u></b>	<b><u>\$ 382,125</u></b>	<b><u>\$ 357,731</u></b>
<b>OPERATING EXPENSES</b>					
Maintenance and Operations	\$ 111,086	\$ 110,492	\$ 119,470	\$ 136,820	\$ 134,696
Administration	79,164	91,158	71,300	80,879	63,875
Depreciation	69,696	71,138	76,554	66,523	63,488
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 259,946</u></b>	<b><u>\$ 272,788</u></b>	<b><u>\$ 267,324</u></b>	<b><u>\$ 284,222</u></b>	<b><u>\$ 262,059</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b><u>\$ 44,803</u></b>	<b><u>\$ 55,331</u></b>	<b><u>\$ 55,247</u></b>	<b><u>\$ 97,903</u></b>	<b><u>\$ 95,672</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Earnings on Investments	\$12,505	\$17,757	\$13,454	\$10,162	\$7,454
Federal Grant Assistance	65	134	-	175	380
Other Agency Grant Assistance	-	-	167	165	-
Gain (Loss) on Sale / Retirement of Capital Assets	(9,004)	(2,057)	(3,525)	(558)	(1,961)
Debt Service Interest Expense	(44,735)	(48,571)	(46,151)	(53,348)	(51,112)
Other	3,093	4,524	5,244	7,750	6,404
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b><u>\$ (38,076)</u></b>	<b><u>\$ (28,213)</u></b>	<b><u>\$ (30,811)</u></b>	<b><u>\$ (35,204)</u></b>	<b><u>\$ (38,835)</u></b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b><u>\$ 6,727</u></b>	<b><u>\$ 27,118</u></b>	<b><u>\$ 24,436</u></b>	<b><u>\$ 62,699</u></b>	<b><u>\$ 56,837</u></b>
Capital Contributions	59,784	25,359	28,780	21,346	12,345 <sup>(6)</sup>
Transfers In	7,738	714	616	316	147
Transfers from Governmental Funds	80	9	1,238	-	-
Transfers Out	(220)	(1,214)	(59)	(119)	(10)
Transfers to Governmental Funds	(2,162)	(5,585)	(3,550)	(883)	(192)
<b>CHANGE IN NET ASSETS</b>	<b><u>\$ 71,948</u></b>	<b><u>\$ 46,401</u></b>	<b><u>\$ 51,461</u></b>	<b><u>\$ 83,359</u></b>	<b><u>\$ 69,127</u></b>
Net Assets at Beginning of Year	<u>\$1,821,630</u>	<u>\$1,893,578</u>	<u>\$1,939,979</u>	<u>\$1,991,440</u>	<u>\$2,074,799</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$1,893,578</u></b>	<b><u>\$1,939,979</u></b>	<b><u>\$1,991,440</u></b>	<b><u>\$2,074,799</u></b>	<b><u>\$2,143,926</u></b>

Footnotes (Unaudited)

- (1) Terms used in this table are derived from the City's CAFR for the indicated year. Certain terms included in this table do not have the meanings ascribed to them in the Installment Purchase Agreement. Also, amounts included in this table reflect the application of generally accepted accounting principles ("GAAP") and, as such, do not match tables in the Official Statement that were not prepared in accordance with GAAP.
- (2) Unaudited.
- (3) Reflects cumulative credits from prior years due to Participating Agencies.
- (4) Fiscal Years 2007 - 2009 Audited; Fiscal Years 2010 - 2011 Unaudited.
- (5) Commencing Fiscal Year 2010, charges for services provided to City departments are included in the "Charges for Services" line item; in prior years, such charges were included under "Other Operating Revenues" line item.
- (6) Reflects fewer developer contributed infrastructure asset installations and related capacity fee receipts.

Sources: Audited data from CAFRs for Fiscal Years 2007 through 2011. Unaudited data from the Comptroller's Office, City of San Diego.

**SEWER UTILITY FUND RESERVES**  
**Fiscal Year Ended June 30, 2011**  
**(\$ In Thousands)**  
**(Unaudited)**

<b><u>Fund</u></b>	<b><u>Reserve Amount</u></b>
Rate Stabilization Fund	\$21,300
Operating Reserve	33,926
Capital Reserve	5,000
Appropriated Reserve	3,500
Dedicated Reserve for Efficiencies and Savings	<u>36,273</u>
Total	<u>\$99,999</u>

Source: Public Utilities Department, City of San Diego.

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

(\$ In Thousands)  
Fiscal Years 2007 through 2011  
(Unaudited)

Fiscal Year Ended June 30	System Revenues <sup>(2)</sup>	Total Maintenance and Operations Costs of the Wastewater System <sup>(3)</sup>	Net System Revenues	<u>Senior Debt Service</u>			<u>All Obligations</u> <sup>(1)</sup>		
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Senior Debt Service Coverage</u>	<u>Total Debt Service</u>	<u>Aggregate Debt Service Coverage</u>
2007	\$343,921	\$202,632	\$141,289	\$28,760	\$48,291	\$77,051	1.83	\$96,408	1.47
2008	\$361,511	\$211,449	\$150,062	\$30,250	\$46,805	\$77,055	1.95	\$94,555	1.59
2009	\$353,447	\$197,380	\$156,067	\$31,700	\$45,356	\$77,056	2.03	\$94,305	1.65
2010	\$406,076	\$220,701	\$185,375	\$43,320	\$59,909	\$103,229	1.80	\$109,288	1.70
2011	\$380,575 <sup>(4)</sup>	\$198,773	\$181,802	\$42,620	\$59,868	\$102,488	1.77	\$108,547	1.67

(1) All Obligations include Senior Obligations, Subordinated Obligations and the Existing State Revolving Fund Loans.

(2) System Revenues as defined in the legal documents for the Outstanding Sewer Bonds include Operating and Non-Operating receipts (i.e. interest earnings, capacity charges, and other income) as well as Transfers and the cash-based components of Capital Contributions.

(3) Total Maintenance and Operations Costs as defined in the legal documents for the Outstanding Sewer Bonds include expenses related to maintenance and operations, administration, and transfers to other funds (including Governmental Funds, Rate Stabilization Fund, and other Funds).

(4) Revised from \$380,375 subsequent to the issue of the Fiscal Year 2011 CAFR.

Source: Statistical Section (Unaudited) of the Fiscal Year 2011 CAFR.

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## **Labor Relations**

### **General**

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

As of July 1, 2011, there were 865.6 regular full time employees of the Public Utilities Department (Wastewater Branch), of which 495.9 were represented by the MEA, and 325.3 were represented by AFSCME Local 127. The remaining 44.4 employees were unrepresented. The two bargaining units represent approximately 95% of the Public Utilities Department's employees (Wastewater Branch).

### **Contracts for Fiscal Year 2010 through 2012**

*MEA:* On April 14, 2009, the City Council approved the terms of a labor agreement with MEA for fiscal years 2010 and 2011. The terms included a general salary freeze and a reduction in overall compensation of approximately 6%. MEA implemented its 6% reduction principally through a 52 hour mandatory furlough and a 3% salary reduction or a waiver of the City's 3% match to the employee's mandatory SPSP contribution. On April 25, 2011, the City Council approved a one year extension that continues the 6% reduction through Fiscal Year 2012.

*Local 127:* On November 29, 2010, the City Council approved the terms of a labor agreement with Local 127 for Fiscal Years 2011 and 2012. The terms include the continuation of the general salary freeze and a reduction in overall salary of approximately 6% that was imposed on Local 127 in Fiscal Year 2010. Local 127 implemented its 6% reduction principally through the elimination of a 5.4% retirement offset contribution.

*POA:* On July 12, 2010, the City Council approved the terms of a labor agreement with POA for Fiscal Years 2011 and 2012. The terms include the continuation of the general salary freeze and a reduction in overall compensation of approximately 6% that was imposed on POA in Fiscal Year 2010. POA implemented its 6% reduction principally through the elimination of a 4.1% retirement offset contribution and a 1.5% salary reduction. The terms reduce the retirement calculation factor for new hires to 3% at 55 with a proportionally reduced retirement factor of 2.5% at age 50 for all employees hired on or after July 1, 2009. Additionally, final compensation for new hires will be calculated using the highest average base salary earned over three one year periods for employees hired on or after January 1, 2012.

*Local 145:* On April 14, 2009, the City Council approved the terms of a labor agreement with Local 145 for Fiscal Years 2010 and 2011. The terms include a general salary freeze and a reduction in overall compensation of approximately 6%. Local 145 implemented its 6% reduction principally through the elimination of a 4.3% retirement offset contribution. On October 17, 2011, the City Council approved the terms of a labor agreement with Local 145 for Fiscal Year 2012. The terms include the continuation of the salary freeze, the 6% reduction and a reduction in the retirement calculation factor to 3% at 55 with a proportionally reduced retirement factor of 2.5% at age 50 for all

new employees. Additionally, final compensation will be calculated using the highest average base salary earned over three one year periods for employees hired after January 1, 2012.

*Local 911:* On June 21, 2010, the City Council approve the terms of a labor agreement with Local 911 for Fiscal Year 2011. The terms continued the general salary freeze and a reduction in overall compensation of approximately 6% that was implemented in Fiscal Year 2010. Local 911 implemented its 6% reduction principally through a 52 hour mandatory furlough and a 3% reduction of the retirement offset contribution. The terms reduce the retirement calculation factor to 3% at 55 with a proportionally reduced retirement factor of 2.5% at age 50 for all employees. Additionally, final compensation will be calculated using the highest average base salary earned over three one year periods for employees hired after June 30, 2011. The terms also eliminated the SPSP benefit for employees hired after January 1, 2011. On October 17, 2011, the City Council approved a one year extension that continued the 6% reduction through Fiscal Year 2012.

*DCAA:* On April 14, 2009, the City Council approved the terms of a labor agreement with the DCAA for Fiscal Years 2010 and 2011. The terms include a general salary freeze and a reduction in overall compensation of approximately 6%. DCAA implemented its 6% reduction principally through a 32 hour mandatory furlough and the elimination of a 3.2% retirement offset contribution. On October 17, 2011, the City Council approved a one year extension that continues the 6% reduction through Fiscal Year 2012.

*Unrepresented:* Unrepresented employees took the same general salary freeze and overall compensation reduction of approximately 6% as other employees. The 6% reduction was principally implemented through a mix of reduced or eliminated retirement offset contributions, salary reductions, or a waiver of the City's 3% match to the employee's mandatory SPSP contribution.

### **Retiree Health Agreements**

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 agreement, 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.

## Insurance and Liability Claims

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

The table below sets forth the accrued estimated liabilities and expenditures for liability claims of the Wastewater System for Fiscal Years 2007 through 2011.

**LIABILITY CLAIMS BUDGET AND EXPENDITURES**  
**Fiscal Years Ending June 30, 2007 through June 30, 2011**  
**(Unaudited)**

<u>Fiscal Year</u>	<u>Budget</u>	<u>Expenditures</u> <sup>(1)</sup>
2007	\$2,589,000	\$1,052,219
2008	\$1,283,412	\$1,612,392
2009	\$1,283,412	\$884,769
2010	\$900,202	\$1,339,687
2011	\$1,001,422	\$2,016,934

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

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

***In addition, see Note 15 “Risk Management” in the City’s Fiscal Year 2011 CAFR.***

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## Investment of Funds (As of 1/31/2012)

### 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 January 31, 2012, approximately 11% of the pool investments mature within 62 days, 14% within 92 days, 24% within 184 days, 40% within 1 year, 79% within 2 years, 99% within 3 years, and 100% within 4 years (on a cumulative basis). As of January 31, 2012, the City Pool had a weighted average maturity of 1.33 years (484 days) and its weighted average yield was 0.62%. 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 0.39 years and the Core portfolio had a duration of 1.71 years as of January 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 0.39% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.71% 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.

The following table sets forth the City Pool results at January 31, 2012.

**CITY OF SAN DIEGO POOLED INVESTMENT FUND**  
**at January 31, 2012**  
**(\$ in Thousands)**  
**(Unaudited)**

<b>Investment Instrument</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Percent of Total<sup>(1)</sup></b>
U.S. Treasury Notes	\$ 1,041,332	\$ 1,047,163	45.49%
Agency Discount Notes	80,975	81,092	3.54
Agency Notes & Bonds	761,814	764,154	33.27
Commercial Paper	99,764	99,634	4.36
Corporate Notes & Bonds	147,892	147,655	6.46
Local Agency Investment Fund	49,429	49,429	2.16
Repurchase Agreement	45,023	45,023	1.96
Negotiable Certificates of Deposit	25,000	25,010	1.09
Certificates of Deposit (CDARS)	10,000	10,000	0.44
Asset Backed Securities	28,160	28,160	1.23
<b>TOTAL INVESTMENTS</b>	<b>\$2,289,389</b>	<b>\$2,297,320</b>	<b>100.00%</b>

(1) Based on book value

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

***In addition, for Fiscal Year 2011 information refer to Note 3, “Cash and Investments”, in the City’s Fiscal Year 2011 CAFR.***

## Pension Plan

The Table below sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2007 through 2011.

**CITY OF SAN DIEGO  
SCHEDULE OF FUNDING PROGRESS  
Fiscal Years 2007 through 2011  
(\$ In thousands)  
(Unaudited)**

<b>Valuation Date (June 30)</b>	<b>Valuation Assets</b>	<b>AAL</b>	<b>Funded Ratio</b>	<b>UAAL</b>
2007	\$4,413,411	\$5,597,653	78.84%	\$1,184,242
2008	\$4,660,346	\$5,963,550	78.15%	\$1,303,204
2009	\$4,175,229	\$6,281,636	66.47%	\$2,106,407
2010	\$4,382,047	\$6,527,224	67.13%	\$2,145,177
2011	\$4,739,399	\$6,917,417	68.51%	\$2,178,018

Source: 2007-2011 CAFRs, Comptroller's Office, City of San Diego

*In addition, see Note 12 "Pension Plans" in the City's Fiscal Year 2011 CAFR.*

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## Wastewater System Share of Contribution to Pension System and NPO

### WASTEWATER SYSTEM PENSION CONTRIBUTION Fiscal Years 2008 through 2012 (\$ In Millions)

Fiscal Year ending June 30	ARC <sup>(1)</sup>	Total City Pension Contribution <sup>(2)</sup>	Department Rate Case Projection <sup>(3)</sup>	Actual/ Budgeted <sup>(2)</sup>
2008	\$140.1	\$166.6 <sup>(4)</sup>	\$14.4	\$10.2 <sup>(5)</sup>
2009	\$165.7	\$163.6 <sup>(4)</sup>	\$14.4	\$7.6 <sup>(5)</sup>
2010	\$155.2	\$193.9 <sup>(4)</sup>	\$14.4	\$12.7 <sup>(5)</sup>
2011	\$230.9	\$230.4 <sup>(4)</sup>	\$14.4	\$16.4 <sup>(5)</sup>
2012	\$231.2 <sup>(6)</sup>	\$232.8 <sup>(4)</sup>	N/A	\$15.4 <sup>(5)</sup>

- (1) Includes core pension ARC and POB Plan ARC. Per IRS guidelines, the City may not pre-fund the POB Plan. Therefore, plan contributions may differ from the ARC in any given year. See footnote 4.
- (2) Fiscal Year 2008 through 2011: Audited; Fiscal Year 2012: Budgeted.
- (3) Reflects projections as of the date of the 2007 Rate Case, which covered Fiscal Years 2008 – 2011. No Rate Case in place for Fiscal Year 2012.
- (4) Fiscal Year 2008: Includes \$137.7 million core pension contribution per SDCERS June 30, 2006 Actuarial Valuation, \$1 million POB Plan contribution, and \$27.9 million in additional voluntary contributions. Fiscal Year 2009: Includes \$161.7 million core pension contribution per SDCERS June 30, 2007 Actuarial Valuation, \$1.2 million POB Plan contribution, and \$700,000 in additional voluntary contributions. Fiscal Year 2010: Includes \$154.2 million core pension contribution per SDCERS June 30, 2008 Actuarial Valuation, \$1.4 million POB Plan contribution, and \$38.3 million in additional contributions related to the McGuigan Settlement. Fiscal Year 2011: Includes \$229.1 million core pension contribution per SDCERS June 30, 2009 Actuarial Valuation and \$1.3 million POB Plan contribution. Fiscal Year 2012: Includes \$231.2 million core pension contribution per SDCERS June 30, 2010 Actuarial Valuation and a budgeted \$1.6 million POB Plan contribution.
- (5) The Sewer Utility Fund's proportionate share to fully fund the City's pension contribution (excluding contributions for the POB Plan), was 6.16% for Fiscal Year 2008, 4.68% for Fiscal Year 2009 and 7.37% for Fiscal Year 2010. The Department contributes to the POB Plan only if its employees receive benefits thereunder. Fiscal Year 2011 amount, assuming the Sewer Utility Fund's proportionate share to fully fund the City's pension contribution (excluding contributions for the POB Plan), is 7.04%. Fiscal Year 2012 budgeted amount, assuming the Sewer Utility Fund's proportionate share to fully fund the City's pension contribution (excluding contributions for the POB Plan), is 6.66%. The Sewer Utility Fund's proportionate share is established during the development of the Budget and may increase or decrease during the year and from year to year depending on a variety of factors, including the number of covered employees attributable to the Sewer Utility Fund, the retirement benefits accruing to such employees and end-of-the-year payroll adjustments. The Department was not required to contribute to the POB Plan in Fiscal Years 2008 or 2009 and POB contributions of approximately \$33,000 and \$63,000 respectively were made for Fiscal Years 2010 and 2011. The Department's contribution to the POB Plan, if any, for Fiscal Year 2012 will be determined at the end of the fiscal year.
- (6) The POB Plan ARC has not yet been determined for Fiscal Year 2012, and accordingly has not been included.

Source: Table: Fiscal Years 2008 through 2011 (with the exception of Department Rate Case Projection)- CAFRs, Comptroller's Office, City of San Diego  
 Fiscal Year 2008 through 2011: Rate Case Projection, Public Utilities Department, City of San Diego.  
 Fiscal Year 2012: Adopted Budget, Financial Management Department, City of San Diego  
 Footnotes: Comptroller's Office, City of San Diego, and Financial Management, City of San Diego

***In addition, see Note 12 "Pension Plans" in the City's Fiscal Year 2011 CAFR.***

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## Postemployment Healthcare Benefits

### WASTEWATER SYSTEM RETIREE HEALTH CONTRIBUTION Fiscal Years 2008 through 2012 (\$ In Millions)

Fiscal Year ending June 30	ARC	Total City Retiree Health Contribution <sup>(1)(2)</sup>	Rate Case Projection	Actual/ Budgeted <sup>(3)</sup>
2008	\$91.6	\$53.6	\$4.4	\$4.2
2009	\$104.5	\$49.5	\$6.7	\$3.9
2010	\$113.4	\$56.7	\$9.1	\$5.0
2011	\$120.3	\$58.9	\$9.1	\$5.6
2012	\$98.5	\$57.8 <sup>(4)</sup>	N/A <sup>(5)</sup>	\$4.9

(1) Fiscal Year 2008 through 2011: Audited. Fiscal Year 2012: Budgeted.

(2) Includes pay-as-you-go expenses, contribution 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) Consists of the Sewer Utility Fund's proportionate share of pay-as-you-go postemployment healthcare benefits and its proportionate share of contributions to CalPERS for OPEB. The Sewer Utility Fund's proportionate share of OPEB for Fiscal Year 2008 was 7.84%, Fiscal Year 2009 was 7.88%, Fiscal Year 2010 was 8.87%, and for Fiscal Year 2011 was 9.66%.

(4) The Sewer Utility Fund's proportionate share may increase or decrease depending on a variety of factors, including the number of covered employees attributable to the Sewer Utility Fund and the retirement benefits accruing to such employees.

(5) The 2007 Rate Case covered Fiscal Years 2008 – 2011; no Rate Case in place for Fiscal Year 2012.

Source: Table: Fiscal Year 2008 through 2011 (with the exception of Rate Case Projection): CAFRs, Comptroller's Office, City of San Diego.

Fiscal Year 2008 through 2011: Rate Case Projection, Public Utilities Department, City of San Diego.

Fiscal Year 2012: Adopted Budget, Financial Management Department, City of San Diego.

Footnotes: Comptroller's Office, City of San Diego, and Financial Management, City of San Diego

***In addition, see Note 13 "Other Postemployment Benefits" in the City's Fiscal Year 2011 CAFR.***