NEW ISSUE — BOOK-ENTRY-ONLY

RATINGS: Moody's: MIG 1
Standard & Poor's: SP-1+

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 Notes 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 Notes is exempt from State of California personal income taxes. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

$100,685,000
CITY OF SAN DIEGO, CALIFORNIA
2012-13 TAX AND REVENUE ANTICIPATION NOTES, SERIES A
Base CUSIP No. 797236†

Dated: July 2, 2012 **Due: June 28, 2013**

The City of San Diego, California 2012-13 Tax and Revenue Anticipation Notes, Series A (the "Notes") are being issued to finance working capital needs of the City of San Diego (the "City") during the fiscal year beginning July 1, 2012 and ending June 30, 2013 ("Fiscal Year 2012-13"). The Notes are being issued in fully registered form only and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Notes. Ownership interests in the Notes may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof. Purchasers of such beneficial interests will not receive physical delivery of the Notes. Principal of and interest on the Notes will be payable by the Paying Agent (as defined herein) to DTC. DTC will in turn remit such principal and interest to the DTC Participants (as hereinafter defined), who will in turn remit such principal and interest to the Beneficial Owners (as hereinafter defined) of the Notes. See APPENDIX D—"BOOK-ENTRY ONLY SYSTEM" hereto.

The Notes are being issued to provide moneys to help meet Fiscal Year 2012-13 City General Fund expenditures. The Notes are being issued pursuant to a resolution adopted by the City Council of the City on May 21, 2012 (the "Resolution") and the Accompanying Document providing for the terms and conditions of the issuance and sale of the Notes (the "Accompanying Document") to be delivered on the date of issuance of the Notes pursuant to the Resolution. In accordance with California law, the Notes are general obligations of the City payable from taxes, income, revenue, cash receipts and other moneys attributable to the City's Fiscal Year 2012-13 and lawfully available for the payment of the 2012-13 TRANs and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose. The Notes and the interest thereon are secured by a pledge of the portion of these amounts comprising Pledged Moneys (as defined in the Resolution). The City is not authorized, however, to levy or collect any tax for the repayment of the Notes. See "THE NOTES—Security for the Notes" herein.

Interest on and principal of the Notes is payable at the maturity thereof shown in the Maturity Schedule below. The Notes will bear interest at the rates set forth below. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months and will accrue from the date of issuance of the Notes. The Notes are not subject to redemption prior to maturity. See "THE NOTES—General" herein.

MATURITY SCHEDULE

Maturity Date	***Principal Amount***	***Interest Rate***	***Yield***	***CUSIP No.†***
June 28, 2013	$100,685,000	2.50%	0.16%	797236 TG1

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Notes were sold by competitive sale on June 14, 2012, pursuant to an Official Notice Inviting Bids, dated June 6, 2012. For additional information concerning the competitive sale of the Notes, contact the City's financial advisor, Public Resources Advisory Group, Los Angeles, California. The Notes are offered when, as and if issued subject to the legal opinion of Squire Sanders (US) LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by Squire Sanders (US) LLP, Los Angeles, California, as Disclosure Counsel, and by the City Attorney. It is anticipated that the Notes will be available for delivery through the facilities of DTC in New York, New York on or about July 2, 2012.

Dated: June 25, 2012

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations in connection with the offer or sale of the Notes other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. 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 Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be a contract with the purchasers or owners of the Notes. 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 representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement: the Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information in APPENDIX D — "BOOK-ENTRY ONLY SYSTEM" attached hereto has been furnished by The Depository Trust Company and no representation has been made by the City or the Underwriter 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 as to accuracy or completeness. The information and expression of opinion herein are subject to change without notice and neither delivery of the 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 or any other parties described herein since the date hereof. All summaries of the Notes, the Resolution or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

In connection with offering of the Notes, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of such Notes at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Notes to certain dealers and dealer banks and banks acting as agents at prices lower or higher than the public offering price stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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.

MAYOR

Jerry Sanders

CITY COUNCIL

Sherri S. Lightner (District 1)
Kevin Faulconer (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*

BOND COUNSEL/DISCLOSURE COUNSEL

Squire Sanders (US) LLP
Los Angeles, California

FINANCIAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

PAYING AGENT

Deutsche Bank National Trust Company
Los Angeles, California

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OFFICIAL STATEMENT

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INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Notes being offered, 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 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

The purpose of this Official Statement (the "Official Statement"), which includes the cover page and attached Appendices, is to provide certain information concerning the sale and delivery of $100,685,000 aggregate principal amount of City of San Diego, California 2012-13 Tax and Revenue Anticipation Notes, Series A (the "Notes") issued by the City of San Diego (the "City").

The Notes are issued under the authority of Section 92 of the City Charter of the City, Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code (collectively, the "Authorizing Law") and a resolution adopted by the City Council of the City on May 21, 2012, including the completed Accompanying Document thereto (collectively, the "Resolution"). The Notes are being issued to finance the seasonal cash flow deficits in the City's General Fund (the "General Fund") during Fiscal Year 2012-13.

Security and Sources for Payment of the Notes

The Notes, in accordance with California law, are general obligations of the City, payable from the taxes, income, revenue, cash receipts and other moneys of the City attributable to the City's Fiscal Year 2012-13 and lawfully available for the payment of the 2012-13 TRANs and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose ("Unrestricted Revenues"). The City agrees to deposit in a Repayment Fund (as defined herein) from the first Unrestricted Revenues received on and after January 1, 2013, April 1, 2013 and May 1, 2013 (such amounts herein referred to as the "Pledged Moneys") an amount equal to certain percentages of the principal of and interest due on the Notes at maturity as specified in the Resolution. See "THE NOTES—Security for the Notes." The City is not authorized, however, to levy or collect any tax for the repayment of the Notes.

The City was incorporated in 1850. The City is a charter city located in the southwestern portion of the State of California (the "State"). 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, the construction and maintenance of streets and infrastructure, recreational activities and cultural events, and the maintenance and operation of the water and sewer utilities. Certain information regarding City government and finances, including property taxes and other sources of repayment of the Notes, is included in APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION" and economic and demographic data regarding the City and surrounding area is included in APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY".

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 reasonable, there can be no assurance that such expectations will prove to be correct in whole or in part. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when expectations, or events, conditions or circumstances on which such statements are based do or do not occur.

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 proposed budget for Fiscal Year 2013, 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.)

City of San Diego Short-Term Borrowing Program

The City has issued tax and revenue anticipation notes every year since the mid-1960's (except for Fiscal Year 1978-79) to meet its cash flow requirements. In Fiscal Year 2011-12, the City sold an aggregate principal amount of $161 million of tax and revenue anticipation notes. The tax and revenue anticipation notes for Fiscal Year 2011-12 have been fully paid.

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 Notes 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 Paying Agent at 1761 East St. Andrew Place, Santa Ana, CA 92705.

Tax Matters

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law: (i) interest on the Notes 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 Notes is exempt from State of California personal income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Notes.

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 contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Notes are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes.

Miscellaneous

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Except as otherwise defined herein, capitalized terms used in this Official Statement without definition have the respective meanings set forth in the Resolution.

THE NOTES

General

The Notes will be issued in the aggregate principal amount of $100,685,000. The Notes will be issued in book-entry only form and, when delivered, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Notes. Purchasers of the Notes will not receive certificates representing their ownership interest in the Notes purchased. See APPENDIX D—"BOOK-ENTRY ONLY SYSTEM." Beneficial ownership interests in the Notes may be transferred only in accordance with the rules and procedures of DTC.

The Notes will be dated July 2, 2012, will mature on the date set forth on the cover page hereof and will be issued in fully registered form. The Notes are not subject to redemption prior to maturity.

The Notes will be issued in denominations of $5,000 and any integral multiple thereof ("Authorized Denominations") and the Notes will bear interest at the rates set forth on the cover page hereof. Interest on the Notes will be payable at maturity and will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Authority for Issuance

The Notes are being issued under the authority of the Authorizing Law and pursuant to the Resolution and are subject to the terms and conditions of the Resolution (including the Accompanying Document).

Purpose of Issue

Issuance of the Notes will provide moneys to help meet Fiscal Year 2012-13 City General Fund expenditures, including current expenses, and the discharge of other obligations or indebtedness of the City. Substantially all of the proceeds of the Notes are expected to be expended on or about July 2, 2012.

Security for the Notes

The Notes will be issued under and pursuant to the Resolution (including the Accompanying Document). As provided in the Authorizing Law, the Notes are general obligations of the City and shall be payable from the taxes, income, revenue, cash receipts and other moneys of the City attributable to the City's Fiscal Year 2012-13 and lawfully available for the payment of the Notes and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose ("Unrestricted Revenues" herein). Under the Resolution, the Comptroller shall deposit in a 2012-13 TRANs Repayment Fund (the "Repayment Fund") (subject to the provisions set forth in the second succeeding paragraph below) (the "2012-13 TRANs Repayment Fund") the following amounts described in (a) through (c) below, inclusive (the "Pledged Moneys"): (a) from the first Unrestricted Revenues chargeable to the City's General Fund to be received by the City on and after January 1, 2013, and not later than January 31, 2013, an amount equal to twenty-five percent (25%) of the principal and interest due on the Notes at maturity; (b) from the first Unrestricted Revenues chargeable to the City's General Fund to be received by the City on and after April 1, 2013, and not later than April 30, 2013, an amount equal to twenty-five percent (25%) of the principal and interest due on the Notes at maturity; and (c) from the first Unrestricted Revenues chargeable to the City's General Fund to be received by the City on and after May 1, 2013, and not later than May 31, 2013, an amount equal to fifty percent (50%) of the principal and interest due on the Notes at maturity. To the extent that any amounts received as provided in the previous sentence are less than the total dollar amount designated for such deposit, the Comptroller shall deposit into the Repayment Fund additional amounts from any other moneys of the City lawfully available therefor. To the extent any Notes are not paid from the Pledged Moneys, such Notes shall be paid with the interest thereon from any other moneys of the City lawfully available therefor. As provided in the Authorizing Law, the Notes and the interest thereon are a valid lien and charge against and are payable from the first moneys received by the City comprising such Pledged Moneys.

On the Maturity Date, the City shall transfer the Pledged Moneys in amounts sufficient to pay the principal and interest due on the Notes to the Paying Agent for payment to the Holders in accordance with the Resolution, and such Pledged Moneys shall be used to pay the Notes, and the interest thereon when the same shall become due and payable and may not be used for any other purpose; provided, the amounts in the Repayment Fund may be invested in Permitted Investments (as defined herein) so as to be available for disbursement, and earnings on amounts in the Repayment Fund shall be deposited as and when received into the General Fund of the City. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE ACCOMPANYING DOCUMENT—Permitted Investments." Any amounts remaining in the Repayment Fund after repayment of all the Notes and the interest thereon shall be the sole and exclusive property of the City, shall not be subject to any claims by or on behalf of any holder of the Notes and shall be transferred to any account in the General Fund of the City as the Chief Operating Officer or any of his or her respective designees may direct.

Pursuant to Section 53856 of California Government Code, the Notes and the interest thereon will be a lien and charge against and will be payable from such Pledged Moneys. In addition to Pledged Moneys, pursuant to Section 53857 of California Government Code, the Notes will be general obligations of the City, and to the extent not payable from Pledged Moneys, shall be paid, with interest thereon, only from any other moneys of the City lawfully available therefor. The City is not authorized to levy or collect any tax for the repayment of the Notes.

Available Sources of Payment

Pursuant to Section 53858 of California Government Code, no obligations, including the Notes, may be issued thereunder if the principal of and interest on such obligations is in excess of eighty-five percent of the estimated amount of the then uncollected taxes, income, revenue, cash receipts and other moneys which will be available for the payment of such principal and interest, and pursuant to City Charter Section 92, the amount of the obligations may not exceed twenty-five percent of the City's total appropriations for the Fiscal Year 2012-13. See "THE NOTES—Security for the Notes." The City estimates as of June 1, 2012 that the total moneys to be available for payment of the principal of and interest on the Notes, including the Pledged Moneys, will be in excess of $1.15 billion; however, Pledged Moneys will be derived from amounts received by the City prior to the end of the Fiscal Year 2012-13. See "Cash Flows" herein. Except for Pledged Moneys, these moneys will be expended during the course of the Fiscal Year 2012-13, and no assurance can be given that any moneys, other than the Pledged Moneys (to the extent received), will be available to pay the Notes and the interest thereon.

The sources of funds available to the City for the repayment of the Notes, including sales taxes, transient occupancy taxes and property taxes are limited by Constitutional and other legal limitations applicable to the City. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Limitations on Taxes and Appropriations.

Certain information regarding City government and finances, including property taxes, sales taxes and other sources of repayment of the Notes, is included in APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION and economic and demographic data regarding the City and its surrounding area is included in APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION REGARDING THE CITY". Each contains important information concerning the City and should be read in its entirety.

Subordinated Notes

The City agrees in the Resolution and Accompanying Document that it will not issue any obligations under the Authorizing Law payable on parity with the Notes, however, the City reserves the right to issue notes secured by a pledge of and lien on Pledged Moneys subordinate to the Notes (such notes, the "Subordinated Notes"). Any Subordinated Notes shall have a lien on all amounts legally available for payment thereof on a basis junior and subordinate in all respects to the lien of the Notes. Subordinated Notes may be subject to redemption by the City at any time; provided, that no payment or redemption on any Subordinated Note shall be made by the City on any date until all deposits scheduled to be made by the City up to and including such date with respect to the Repayment Fund for the Notes have been so deposited. The Accompanying Document also provides that if in any month the City fails to make a scheduled deposit into the Repayment Fund with respect to the Notes required pursuant to the Accompanying Document, the Paying Agent shall transfer from any account established for any Subordinated Notes to the Repayment Fund such moneys as are necessary to effect the required deposit therein. The City presently expects it will not issue any Subordinated Notes for cash flow borrowing purposes in Fiscal Year 2012-13.

Cash Flows

The City has prepared the following cash flow statements for the General Fund showing actual Fiscal Year 2011-12 amounts through April 30, 2012, and projected amounts for each month thereafter including amounts for Fiscal Year 2012-13 based on the Fiscal Year 2012-13 Proposed Budget. Such cash flow projections could change based on the final form of the City's 2012-13 Final Budget and the City disclaims any obligation to update any of the cash flow projections herein as the result of any future circumstances or events. The aggregate amount needed to repay the Notes is $103.17 million. The City expects to receive in Fiscal Year 2012-13 an estimated $1.25 billion in unrestricted revenues for the General Fund on a cash basis, including proceeds from the sale of the Notes and excluding carryover balances.

The City has relied on internal cash resources (including intrafund borrowing of reserves in accordance with the City Charter), budget control and annual tax and revenue anticipation note borrowings to manage timing differences between the receipt of revenue and the expenditure of general funds. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Reserves." The City currently anticipates that sufficient Pledged Moneys will be available for required Repayment Fund deposits during Fiscal Year 2012-13. In the event of any cash flow shortfalls the City would expect to make budget adjustments or utilize internal or other borrowings.

The projected Fiscal Year 2012-13 cash flow statement reflects that, without the issuance of the Notes the City will experience an estimated cash flow deficit of $96.60 million on or about November 30, 2012. The sources of Pledged Moneys for the repayment of the Notes are described in APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION." The statements in this Official Statement relating the cash flow projections constitute "forward-looking" statements. The cash flow statements do not represent revenues and expenditures in a form matching the proposed budget as set forth in Table A-3.

The cash flow schedules for each Fiscal Year shown include amounts for certain policy funds ("Policy Funds"). These amounts represent City Funds (such as the Public Liability Fund and the Special Promotions Fund), which are separated from the General Fund for administrative purposes but which generally are not restricted by statute, City Charter or other applicable restriction and are available to pay for General Fund expenses and the payment of principal of and interest on the Notes.

CITY OF SAN DIEGO
Fiscal Year 2012 (Projected for May & June)
General Fund Cash Flow Statement (In Thousands)
(Unaudited)

Month	July	August	September	October	November	December	January	February	March	April	May	June	Total
General Fund Beginning Cash Balance	$ 65,560	$ 7,282	$ (1,892)	$ (15,177)	$ (61,575)	$ (78,075)	$ 3,152	$ 36,224	$ 29,360	$ 17,725	$ 11,897	$ 37,666	
RECEIPTS:													
Property Tax	2,358	3,999	4,034	3,764	10,769	97,584	90,610	4,235	7,805	77,829	80,202	2,238	$ 385,427
Triple Flip	-	-	-	-	-	-	26,691	-	-	-	26,691	-	53,382
Sales Tax	16,059	14,483	15,307	10,501	14,562	18,802	11,465	15,287	14,787	10,559	13,823	13,823	169,458
Safety Sales Tax	-	655	567	557	560	685	632	(3,656)	-	-	-	-	-
Transient Occupancy Tax	5,833	9,878	8,408	5,075	5,107	7,054	4,317	5,611	6,065	5,509	7,297	7,297	77,451
Property Transfer Tax	495	-	462	487	421	492	345	881	432	342	744	744	5,845
Licenses and Permits	1,867	2,196	2,097	1,926	1,665	2,392	2,750	4,425	4,223	2,360	6,083	6,083	38,067
Fines, Forfeitures and Penalties	2,561	3,163	3,269	2,468	2,258	2,308	866	2,246	8,957	1,236	656	656	30,644
Investment Income	350	262	213	232	111	281	182	275	118	153	152	152	2,481
Franchise Fees	-	15,921	718	295	14,438	3,056	2,423	15,377	200	153	9,958	6,626	69,165
Rents and Concessions	3,975	5,887	4,507	3,292	3,409	2,595	2,811	2,040	1,937	3,497	2,739	2,739	39,428
Motor Vehicle License Fees	2,838	-	681	-	-	-	-	-	-	-	-	-	3,519
Revenue from Other Agencies	(121)	569	233	521	89	1	215	321	483	184	957	957	4,409
Charges for Current Services	5,148	8,420	12,699	8,770	9,244	8,904	8,345	13,566	10,575	11,109	15,000	73,282	185,062
Other Financing Sources	6,507	2,787	14,751	53	(12)	4,816	-	2,467	9,594	8	16,456	16,456	73,883
Other Revenue [1]	(51)	304	183	187	319	(133)	135	(451)	222	766	711	27,711	29,903
TRAN Note [2]	161,000	-	-	-	-	-	-	-	-	-	-	-	161,000
TOTAL RECEIPTS	208,819	68,524	68,129	38,128	62,940	148,837	151,787	62,624	65,398	113,705	181,469	158,764	1,329,124
DISBURSEMENTS:													
Salaries and Wages	41,122	40,804	51,771	38,650	40,754	38,048	41,173	36,659	53,737	38,081	41,451	41,451	503,701
Retirement Advance [3]	186,486	-	-	-	-	-	-	-	-	-	-	-	186,486
Fringe Benefits	11,170	12,071	4,308	11,180	11,108	11,881	11,780	10,396	5,605	11,326	12,345	12,345	125,515
Supplies and Services	13,586	19,979	21,166	30,830	16,137	14,023	9,501	20,161	13,308	21,703	29,218	24,129	233,741
Data Processing	5,204	1,264	1,206	1,059	638	2,202	4,741	670	940	1,242	1,967	1,967	23,100
Energy	1,479	3,167	2,187	2,504	9,872	1,348	1,794	1,165	1,171	2,999	2,557	2,557	32,800
Capital Outlay	79	413	776	303	931	108	76	437	2,272	103	100	100	5,698
McGuigan Installment Payment	7,971	-	-	-	-	-	-	-	-	-	-	-	7,971
Note - Principal	-	-	-	-	-	-	49,500	-	-	43,850	67,650	-	161,000
Note - Interest	-	-	-	-	-	-	150	-	-	229	412	-	791
TOTAL DISBURSEMENTS	267,097	77,698	81,414	84,526	79,440	67,610	118,715	69,488	77,033	119,533	155,700	82,549	1,280,803
Total Change in Cash	(58,278)	(9,174)	(13,285)	(46,398)	(16,500)	81,227	33,072	(6,864)	(11,635)	(5,828)	25,769	76,215	$ 48,321
General Fund Ending Cash Balance	$ 7,282	$ (1,892)	$ (15,177)	$ (61,575)	$ (78,075)	$ 3,152	$ 36,224	$ 29,360	$ 17,725	$ 11,897	$ 37,666	$ 113,881	
Policy Fund Beginning Cash Balance [4]	$ 83,015	$ 81,051	$ 82,361	$ 83,004	$ 96,507	$ 101,987	$ 103,984	$ 106,767	$ 110,852	$ 106,281	$ 114,234	$ 139,413	
Policy Fund Net Transactions [5]	(1,964)	1,310	643	13,503	5,480	1,997	2,783	4,085	(4,571)	7,953	25,179	(56,398)	
Policy Fund Ending Cash Balance	81,051	82,361	83,004	96,507	101,987	103,984	106,767	110,852	106,281	114,234	139,413	83,015	
Total Ending Cash Balance	**$ 88,333**	**$ 80,469**	**$ 67,827**	**$ 34,932**	**$ 23,912** [6]	**$ 107,136**	**$ 142,991**	**$ 140,212**	**$ 124,006**	**$ 126,131**	**$ 177,079**	**$ 196,896**	
REPAYMENT FUND													
Beginning Cash Balance	$ -	$ -	$ -	$ -	$ -	$ -	$ 49,650	$ -	$ -	$ -	$ -	$ -	
Receipts	-	-	-	-	-	49,650	-	-	-	44,079	68,062	-	
Disbursements	-	-	-	-	-	-	49,650	-	-	44,079	68,062	-	
Ending Cash Balance	$ -	$ -	$ -	$ -	$ -	$ 49,650	$ -	$ -	$ -	$ -	$ -	$ -	

Footnotes:

[1] Other Revenue received in June 2012 includes a projected receipt of $27.0 million litigation settlement.

[2] Note Borrowing: Principal amount of $161.0 million; multiple maturities with final maturity of May 31, 2012.

[3] General Fund portion of the Fiscal Year 2012 ARC payment. This advance includes amounts advanced on behalf of other funds which are refunded to the General Fund throughout the fiscal year.

[4] Beginning cash balance of the policy funds is comprised of amounts available to the General Fund as determined with the advice of the TRANs Tax Counsel.

[5] Policy fund activity is shown in the aggregate (receipts less disbursements).

[6] A maximum deficit of approximately $148.6 million occurred on 11/25/11 resulting in a daily ending cash balance of $12.4 million.

CITY OF SAN DIEGO
Fiscal Year 2013 Projection
General Fund Cash Flow Statement (In Thousands)
(Unaudited)

Month	July	August	September	October	November	December	January	February	March	April	May	June	Total
General Fund Beginning Cash Balance	$ 113,881	$ (21,485)	$ (35,464)	$ (51,416)	$ (80,563)	$ (95,581)	$ (24,874)	$ 31,029	$ 16,656	$ 1,849	$ 17,219	$ 72,314	
RECEIPTS:													
Property Tax	-	5,752	5,438	4,628	8,267	99,313	88,881	3,132	7,815	76,773	80,882	6,254	$ 387,135
Triple Flip	-	-	-	-	-	-	26,691	-	-	-	26,691	-	53,382
Sales Tax	15,258	15,434	19,589	11,847	15,715	18,779	12,561	16,748	16,201	11,038	16,190	12,897	182,257
Transient Occupancy Tax	4,869	10,385	8,479	6,705	6,686	6,279	5,584	5,601	6,671	6,480	7,303	6,280	81,322
Property Transfer Tax	530	530	530	530	530	530	530	530	530	530	530	530	6,360
Licenses and Permits	2,478	2,264	2,076	1,914	1,841	2,001	2,326	3,838	5,565	2,710	2,491	2,397	31,901
Fines, Forfeitures and Penalties	2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603	2,603	31,236
Investment Income	113	113	113	113	113	113	113	113	113	113	113	113	1,356
Franchise Fees	-	17,807	831	4	17,825	822	-	13,121	3,321	109	14,714	3,124	71,678
Rents and Concessions	3,574	4,807	4,569	2,693	2,955	2,536	2,331	2,405	2,293	2,902	3,652	6,499	41,216
Revenue from Other Agencies	723	566	182	370	80	348	253	-	144	197	458	204	3,525
Charges for Current Services	2,584	14,179	9,601	9,994	10,727	9,875	8,314	13,708	14,652	16,547	12,006	58,768	180,955
Other Financing Sources	6,460	2,767	14,645	53	-	4,769	-	2,449	9,525	8	16,337	16,337	73,350
Other Revenue	320	320	320	320	320	320	320	320	320	320	320	320	3,840
TRAN Note Proceeds [1]	103,001	-	-	-	-	-	-	-	-	-	-	-	103,001
TOTAL RECEIPTS	142,513	77,527	68,976	41,774	67,662	148,288	150,507	64,568	69,753	120,330	184,290	116,326	1,252,514
DISBURSEMENTS:													
Salaries and Wages	39,326	58,990	39,326	39,326	39,326	39,326	39,326	39,326	58,990	39,326	39,326	39,326	511,240
Retirement Advance [2]	188,396	-	-	-	-	-	-	-	-	-	-	-	188,396
Fringe Benefits	12,255	5,009	12,255	12,255	12,255	12,255	12,255	12,255	5,009	12,255	12,255	12,255	132,568
Supplies and Services	20,882	21,161	30,467	13,794	14,202	21,093	6,656	24,123	16,299	23,938	22,586	30,042	245,243
Data Processing	6,613	1,772	1,414	1,470	2,538	1,121	7,233	1,054	1,488	936	1,403	4,694	31,736
Energy	2,233	4,371	1,263	3,873	14,156	3,583	3,137	1,980	2,571	2,509	1,835	1,243	42,754
Capital Outlay	203	203	203	203	203	203	203	203	203	203	203	203	2,436
McGuigan Installment Payment	7,971	-	-	-	-	-	-	-	-	-	-	-	7,971
Note - Principal + Interest	-	-	-	-	-	-	25,794	-	-	25,794	51,587	-	103,174
TOTAL DISBURSEMENTS	277,879	91,506	84,928	70,921	82,680	77,581	94,604	78,941	84,560	104,961	129,195	87,763	1,265,518
Total Change in Cash	(135,366)	(13,979)	(15,952)	(29,147)	(15,018)	70,707	55,903	(14,373)	(14,807)	15,369	55,095	28,563	$ (13,004)
General Fund Ending Cash Balance	$ (21,485)	$ (35,464)	$ (51,416)	$ (80,563)	$ (95,581)	$ (24,874)	$ 31,029	$ 16,656	$ 1,849	$ 17,219	$ 72,314	$ 100,877	
Policy Fund Beginning Cash Balance [3]	$ 83,015	$ 81,051	$ 82,361	$ 83,004	$ 96,507	$ 101,987	$ 103,984	$ 106,767	$ 110,852	$ 106,281	$ 114,234	$ 139,413	
Policy Fund Net Transactions [4]	(1,964)	1,310	643	13,503	5,480	1,997	2,783	4,085	(4,571)	7,953	25,179	(56,398)	
Policy Fund Ending Cash Balance	81,051	82,361	83,004	96,507	101,987	103,984	106,767	110,852	106,281	114,234	139,413	83,015	
Total Ending Cash Balance	**$ 59,566**	**$ 46,897**	**$ 31,588**	**$ 15,944**	**$ 6,406**	**$ 79,110**	**$ 137,796**	**$ 127,508**	**$ 108,130**	**$ 131,453**	**$ 211,726**	**$ 183,892**	
REPAYMENT FUND													
Beginning Cash Balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 25,794	$ 25,794	$ 25,794	$ 51,587	$ 103,174	
Receipts	-	-	-	-	-	-	25,794	-	-	25,794	51,587	-	
Disbursements	-	-	-	-	-	-	-	-	-	-	-	103,174	
Ending Cash Balance	$ -	$ -	$ -	$ -	$ -	$ -	$ 25,794	$ 25,794	$ 25,794	$ 51,587	$ 103,174	$ -	

Footnotes:

[1] Note Borrowing: Principal amount of $100.7 million maturing on 06/28/13. Total Note Proceeds of $103.0 million include original issue premium and is net of underwriter's discount.

[2] General Fund portion of the Fiscal Year 2013 ARC payment. This advance includes amounts advanced on behalf of other funds which are refunded to the General Fund throughout the fiscal year.

[3] Beginning cash balance of the policy funds is comprised of amounts available to the General Fund as determined with the advice of the TRANs Tax Counsel.

[4] Policy fund activity is shown in the aggregate (receipts less disbursements).

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE ACCOMPANYING DOCUMENT

The following is a summary of certain provisions of the Resolution, including the Accompanying Document. This summary is not to be considered a full statement of the terms of the Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof.

Resolution to Constitute Contract

In consideration of the purchase and acceptance of any and all of the Notes authorized to be issued under the Resolution by those who will own the Notes from time to time, the Resolution constitutes a contract between the City and the Holders of the Notes; and the pledge made in the Resolution and the Accompanying Document and the covenants and agreements contained in the Resolution including the Accompanying Document to be performed by and on behalf of the City will be for the equal benefit, protection and security of the Holders of any and all of the Notes, all of which will be of equal rank without preference, priority, privilege or distinction of any of the Notes or otherwise over any other thereof, except as expressly provided in or permitted by the Accompanying Document.

Covenants of the City

The City covenants under the Accompanying Document that it will not issue any notes, or otherwise incur any indebtedness, pursuant to the Authorizing Law with respect to its Fiscal Year 2012-13 in an amount which, when added to the interest payable thereon, shall exceed either (i) 85 percent of the estimated amount of the then-uncollected taxes, income, revenue, cash receipts, and other moneys of the City which will be available for the payment of said Notes or other indebtedness and the interest thereon; provided, however, that to the extent that any principal of or interest on such Notes or other indebtedness is secured by a pledge of the amount in any inactive or term deposit of the City, the term of which will terminate during said fiscal year, such principal and interest may be disregarded in computing said limit, or (ii) 25 percent of the City's total appropriations for Fiscal Year 2012-13 within the meaning of City Charter Section 92.

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Notes, the City covenants to comply with each applicable requirement of the Code, necessary to maintain the exclusion of interest on the Notes from gross income for federal income tax purposes. To this end, the City agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax Compliance Certificate prepared for the City by Bond Counsel, as such Tax Compliance Certificate may be amended from time to time. The City further covenants that it will make all calculations relating to any rebate of excess investment earnings on the Note proceeds due to the United States Department of the Treasury in a reasonable and prudent fashion and will segregate and set aside the amounts such calculations indicate may be required to be paid to the United States Department of the Treasury.

Notwithstanding any other provision of the Accompanying Document to the contrary, upon the City's material failure to observe, or refusal to comply with, the foregoing tax covenants, the

Holders of the Notes, and any adversely affected former Holders of the Notes, will be entitled to exercise any right or remedy provided to the Holders under the Accompanying Document.

Paying Agent and Note Registrar

Deutsche Bank National Trust Company will act as Paying Agent for purposes of paying the amount due on the Notes at maturity to the Holders of the Notes and as Note Registrar for the Notes. The Paying Agent may at any time resign and be discharged of the duties and obligations created by the Accompanying Document by giving at least 60 days' written notice to the City. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and signed by the City. In the event of the resignation or removal of a Paying Agent, the City may appoint a successor Paying Agent in accordance with the terms of the Accompanying Document. A successor Paying Agent will be a commercial bank with trust powers or a trust company organized under the laws of any state of the United States or a national banking association, having capital and surplus aggregating at least $100,000,000. Resignation or removal of a Paying Agent will be effective upon appointment and acceptance of a successor Paying Agent. In no event shall the resignation or removal of the Paying Agent become effective prior to the assumption of such resigning or removed Paying Agent's duties and obligations by a successor Paying Agent.

Negotiability, Transfer and Exchange of the Notes

The Holders of the Notes evidenced by registered certificates may transfer or exchange such Notes upon the books maintained by the Note Registrar, in accordance with the Accompanying Document.

The City and any Paying Agent may deem and treat the Holder of any Note as the absolute owner of such Note, regardless of whether such Note is overdue, for the purpose of receiving payment thereof and for all other purposes, and all such payments so made to any such Holder or upon his or her order will satisfy and discharge the liability upon such Note to the extent of the sum or sums so paid, and neither the City nor any Paying Agent will be affected by any notice to the contrary. Cede & Co., as nominee of DTC, or such other nominee of DTC or any successor securities depository or the nominee thereof, will be the Holder of the Notes as long as the beneficial ownership of the Notes is held in book- entry form in the records of such securities depository. See APPENDIX D—"BOOK-ENTRY ONLY SYSTEM."

Permitted Investments

Moneys on deposit in the Repayment Fund will be retained therein until applied to the payment of the principal of and interest on the Notes. Such amounts may not be used for any other purpose, although they may be invested in Permitted Investments ("Permitted Investments"). The Accompanying Document specifically designates the following investments as Permitted Investments, subject to certain limitations more fully described in the Accompanying Document:

(i) Federal Securities;

(ii) Commercial Paper, payable in the United States of America and issued by corporations that are organized and operating in the United States with total assets in excess of $500 million and having a rating in the "A" rating category or better for the issuer's long-term debt as provided by Fitch, Moody's or S&P and "F1", "P-1", "A-1" or better rating for the issuer's short-term debt as provided by Fitch, Moody's or S&P, respectively;

(iii) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which have short-term obligations outstanding which are rated by two or more of Moody's S&P, and Fitch in its respective highest short-term rating categories, a long-term debt rating of not less than the "A" rating category by one or more of Moody's S&P, and Fitch, and a maturity no later than the final maturity of the Notes;

(iv) Negotiable or non-negotiable certificates of deposit issued by a nationally- or state-chartered bank or a state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank, in each case which has, or which is a subsidiary of a parent company which has, obligations outstanding having a rating in the "A" category or better from Moody's, S&P, or Fitch;

(v) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association, or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars ($100,000,000) and with short-term debt rated by two or more of Moody's S&P, and Fitch in their respective three highest short-term rating categories or any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clause (i) 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;

(vi) Shares of beneficial interest issued by diversified management companies, known as money market funds which invest in securities in (i) through and including (v) above, registered with the U.S. Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) and whose fund has received the highest possible rating from S&P and at least either Moody's or Fitch;

(vii) Investment agreements and guaranteed investment contracts with issuers having a long-term debt rating in the "AA" or "Aa2" categories, or better, by S&P or Moody's, respectively;

(viii) The City's Pooled Investment Fund; and

(ix) The Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code of the State.

"Federal Securities" shall mean the following securities:

(i) United States Treasury Bills, bonds, and notes for which the full faith and credit of the United States are pledged for payment of principal and interest;

(ii) Direct obligations issued by the following agencies of the United States Government: the Federal Farm Credit Bank System, the Federal Home Loan Bank System, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Tennessee Valley Authority;

(iii) Mortgage Backed Securities (except stripped mortgage securities) issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association;

(iv) United States Treasury Obligations, State and Local Government Series; and

(v) Issues guaranteed as to timely payment of principal and interest by the full faith and credit of the Federal Deposit Insurance Corporation.

"Structured securities" (including flip notes, range notes, inverse floaters and step-ups) will not be considered Federal Securities. However, floaters (based on single, interest rate based indices) and callable securities of the above-enumerated agencies may be treated as Federal Securities.

Supplemental Resolutions and Supplemental Accompanying Documents

The Accompanying Document and certain of the rights and obligations of the City and of the Holders of the Notes may be amended or supplemented pursuant to a supplemental Accompanying Document executed in accordance with the provisions of the Accompanying Document (a "Supplemental Accompanying Document"), with the written consent of the Holders of at least a majority in principal amount of the Notes outstanding at the time such consent is given; provided, however, that if such supplement or amendment will, by its terms, not take effect so long as any Notes of any particular Series remain outstanding, the consent of the Holders of such Series will not be required. No such supplement or amendment may (i) permit a change in the terms of maturity of the principal of any Notes or of the interest rate thereon or a reduction in the principal amount thereof without the consent of the Holders of such Notes, or (ii) change the dates or amounts of the pledge set forth in the Resolution or the Accompanying Document, or (iii) reduce the percentage of the Holders of the Notes required to approve such Supplemental Accompanying Document without the consent of all of the Holders of the affected Notes, or (iv) change or modify any of the rights or obligations of the Paying Agent without its written consent thereto.

Additionally, a resolution amending the Resolution (a "Supplemental Resolution") may be adopted or a Supplemental Accompanying Document may be executed, without the consent of the Holders, (i) to add covenants and agreements to be observed by the City that are not contrary to or inconsistent with the Resolution or the Accompanying Document, (ii) to add limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Resolution or the Accompanying Document, (iii) to confirm as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by the Resolution or the Accompanying Document, of any moneys, securities or funds or to establish any additional funds or accounts to be held under the Resolution or the Accompanying Document, (iv) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution or the Accompanying Document, (v) to supplement or amend the Resolution or the Accompanying

Document as required to maintain a rating for the Notes from any rating agency, provided that the City obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Accompanying Document does not adversely affect the interests of the Holders, or (vi) to supplement or amend the Resolution or Accompanying Document in any other respect, provided that the City obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Accompanying Document does not adversely affect the interests of the Holders.

Events of Default

Any one or more of the following will constitute an "Event of Default" under the Resolution and the Accompanying Document:

(1) default in the due and punctual payment of the principal of or interest on any Notes when and as the same become due and payable;

(2) default in the performance or observance by the City of any other of the material covenants, agreements or conditions required to be performed or observed by the City pursuant to the Accompanying Document, the Resolution or any of the Notes and the continuation of such default for a period of 60 days after written notice thereof to the City by the Holders of not less than 10 percent in aggregate principal amount of the outstanding Notes; or

(3) filing by the City of a petition for relief under the federal bankruptcy laws.

Whenever any Event of Default shall have happened and be continuing, the Holders of the Notes and any adversely affected former Holders of the Notes and their legal representatives, will be entitled to take any and all actions available at law or in equity to enforce the performance of the covenants in the Accompanying Document and in the Authorizing Law. Nothing in the Accompanying Document will preclude an individual Holder from enforcing such Holder's rights to payment of principal of and interest on such Holder's Notes.

Payment of Unclaimed Moneys to City

Anything in the Accompanying Document to the contrary notwithstanding, any moneys held in trust for the payment and discharge of the Notes that remain unclaimed for a period of one year after the date when such Notes have become due and payable, if such moneys were so held at such date, or for one year after the date of deposit of such moneys if deposited after the date when such Notes became due and payable, will be repaid to the City, as its absolute property and free from trust, and the Holders may thereafter look only to the City for the payment of such Notes from legally available funds; provided, however, that before any such payment is made to the City, the City will create (and thereafter maintain until payment of all of the Notes) a record of the amount so repaid, and the City will cause to be published at least twice, at any interval of not less than seven days between publications, in The Bond Buyer and two other newspapers customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language and of general circulation, in San Diego, California and in the Borough of Manhattan, City and State of New York, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date may be not less than thirty days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the City.

BOOK-ENTRY ONLY SYSTEM

The Notes will be available in book-entry form only in the denomination of $5,000 and any integral multiple thereof. Purchasers of beneficial ownership interests in the Notes ("Beneficial Owners") will not receive Notes representing their interests in the Notes purchased. The Underwriter will confirm original issuance purchases with statements containing certain terms of the Notes purchased. See APPENDIX D—"BOOK-ENTRY ONLY SYSTEM" hereto.

The information concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

LIMITATIONS ON REMEDIES

The rights of the owners of the Notes are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Notes, and the obligations incurred by the City, may become subject to the following: The Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and 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 Notes 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.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county, but was not required to directly address the state statute that provides for the lien in favor of holders of tax and revenue anticipation notes. The City will be in possession of the taxes and other revenues that will be set aside and pledged to repay the Notes and, prior to payment of these funds to the Paying Agent, these funds will be held and invested in the Repayment Fund, which may be invested in the City Investment Pool. In the event of a petition for the adjustment of City debts under Chapter 9 of the Bankruptcy Code, a court might hold that the Holders of the Notes do not have a valid or prior lien on the Pledged Amounts where such amounts are deposited in the City Investment Pool and may not provide the Note owners with a priority interest in such amounts. In that circumstance, unless the Holders could "trace" the funds from the Repayment Fund that have been deposited in the City Investment Pool, the Holders would be unsecured (rather than secured) creditors of the City. There can be no assurance that the Holders could successfully so "trace" the pledged taxes and other revenues.

TAX MATTERS

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law: (i) interest on the Notes 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 Notes is exempt from State of California personal income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Notes.

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 contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Notes 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 certifications and representations or the continuing compliance with the City'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 Notes 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 ("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 may cause loss of such status and result in the interest on the Notes being included in gross income for federal income tax purposes retroactively to the date of issuance of the Notes. The City has covenanted to take the actions required of it for the interest on the Notes 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 Notes, 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 Notes or the market value of the Notes.

Under the Code and Regulations, if the City does not spend all of the proceeds of the Notes within six months after issuance (determined as provided in the Code and Regulations), the City must rebate to the federal government its arbitrage profits, if any, in order for interest on the Notes to be excluded from gross income for federal income tax purposes. The City expects to spend all of the proceeds of the Notes within six months of issuance. If, however, it fails to do so, the City has covenanted to provide for and to set aside any required rebate payment from moneys attributable to Fiscal Year 2012-13. The California Constitution generally prohibits the City from incurring obligations payable from moneys other than moneys attributable to the fiscal year in which such obligations are incurred. Accordingly, if, after the end of the Fiscal Year 2012-13, it is determined that the City's calculations of expenditures of Note proceeds or of rebatable arbitrage profits, if any, were incorrect and that the moneys attributable to Fiscal Year 2012-13 that were set aside were insufficient to meet the recalculated rebate requirement, it is unclear whether the City could be compelled to pay the difference from the moneys attributable to the then current fiscal year. If the amount required to be rebated to the federal government as recalculated is not paid, then it may be determined that, retroactive to the issuance of the Notes, the interest on the Notes is not excluded from gross income for federal income tax purposes. Bond Counsel has assumed that the representations and covenants of the City in the Resolution and in the City's Tax Compliance Certificate concerning the investment and use of Note proceeds and the rebate to the federal government of certain earnings thereon, to the extent required, from legally available moneys, are true and correct and that the City will comply with such covenants (including the covenant that rebate payments due the federal government, if any, will be timely made).

A portion of the interest on the Notes earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Notes 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 Notes. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Notes, are generally subject to IRS Form 1099-INT information reporting requirements. If a 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 Notes. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Notes will not have an adverse effect on the tax status of interest on the Notes or the market value or marketability of the Notes. 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 Notes 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 Notes, if they have incomes above certain thresholds.

Prospective purchasers of the Notes should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Notes at other than their original issuance at the respective prices indicated on the 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 Notes ends with the issuance of the Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the owners of the Notes 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 Notes, under current IRS procedures, the IRS will treat the City as the taxpayer and the beneficial owners of the Notes 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 Notes 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 Notes.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the issuance of the Notes and with regard to the tax-exempt status of the interest on the Notes (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 C, dated and premised on law in effect on the date of issuance of the Notes, will be delivered on the date of issuance of the Notes.

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 Notes, 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 by Squire Sanders (US) LLP, Disclosure Counsel, and by the City Attorney. Bond Counsel and Disclosure Counsel will receive compensation contingent upon the sale and delivery of the Notes.

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 Notes, 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 Notes 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 Notes, 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 Notes 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 now pending against the City or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Notes or in any way contesting or affecting the validity of the Notes or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Notes or the use of the proceeds of the Notes.

There is no controversy now pending against the City or, to the knowledge of its respective executive officers, threatened, which challenges the corporate existence of the City or the title of its executive officers to their respective offices.

To the knowledge of the City, there are pending against the City lawsuits and claims arising in the ordinary course of the City's activities which, taken individually or in the aggregate, could materially adversely affect the City's finances. The City does not believe the aggregate amount of the uninsured liabilities of the City which may result from an adverse ruling in any or all of such claims to have a material adverse effect on its ability to pay principal and interest on the Notes when due. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION—Risk Management and Litigation."

RATINGS

Moody's and S&P have assigned the Notes the rating of MIG 1 and SP-1+, respectively. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes. The City undertakes no obligation to oppose any downward revision, suspension or withdrawal.

UNDERWRITING

The Notes were sold to J.P. Morgan Securities LLC (the "Underwriter") by competitive sale at an aggregate purchase price of $103,000,755.00 (representing the principal amount of such Notes of $100,685,000.00, plus an original issue premium of $2,325,823.50, less underwriters' discount including expenses of $10,068.50). The Underwriter reports the Notes were initially offered to the public at a price resulting in the reoffering yield set forth on the cover of this Official Statement. The public offering price may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Notes to certain dealers and others at prices lower or higher than the offering price indicated herein.

FINANCIAL ADVISOR

Public Resources Advisory Group, Los Angeles, California, served as the Financial Advisor to the City in connection with the execution and delivery of the Notes. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

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, notice of certain Listed 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 E. The City's covenants in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with the Rule. A failure by the City to comply with any of the covenants therein is not an event of default under the Resolution. It is the City's intent to make quarterly updates on actual receipts and expenditures of the General Fund monthly cash flow statements available on EMMA thirty (30) days after the end of each financial quarter while the Notes are outstanding. Upon payment of the Notes, the City's commitment to file such quarterly reports will cease.

The City is 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 Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. 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 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 audited financial statements on October 20, 2011, and provided its annual report in November 2011, approximately seven months following its respective annual reporting dates under its continuing disclosure undertakings. The City is currently in compliance with all of its continuing disclosure undertakings with respect to securities secured by the City's General Fund, the Sewer Utility Fund, and the Water Utility Fund for Fiscal Year 2011.

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.

MISCELLANEOUS

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

There are appended to this Official Statement the City's CAFR, including therein the audited financial statements for Fiscal Year 2011, the proposed form of Continuing Disclosure Certificate, opinion of Bond Counsel, a general description of the City and financial and operating data with respect to the City, and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Notes. 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 in the City since the date hereof.

CITY OF SAN DIEGO

By: /s/ Jay M. Goldstone
Chief Operating Officer

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 "THE NOTES – Security for the Notes" in the front part of this Official Statement, the Notes (as defined in this Official Statement) are general obligations of the City payable from taxes, income, revenue, cash receipts and other moneys attributable to the City's Fiscal Year 2012-13 and lawfully available for the payment of the Notes and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose. The Notes 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.

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

	2007	2008	2009	2010	2011
ASSETS					
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 (as hereinafter defined) 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	Fiscal Year 2012	Fiscal Year 2013
	Actuals on a Budgetary Basis[1]	Adopted Budget	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[5]	3,838
Total General Fund Revenues and Transfers[6][7]	**$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[8]	6,460	16,973	16,564
Transfers	31,158	39,677	51,089
Total General Fund Expenditures and Transfers[6][7][9]	**$1,088,292**	**$1,128,388**	**$1,150,177**

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(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) This number does not reflect receipt of a litigation settlement projected to be received in June 2012 in the amount of $27 million.

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

(7) 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.

(8) 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.

(9) 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 Fiscal Year 2012. 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 throughout 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: Financial Management, City of San Diego.

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 represents approximately 42.4% of the total Fiscal Year 2013 Proposed Budget of $2.71 billion. The proposed

General Fund expenditures represents 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 dissolution of the Redevelopment Agency of the City (the "*Redevelopment Agency*"). 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)]	5.8
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: Financial Management, City of San Diego.

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, expenditures in the proposed General Fund budget for Fiscal Year 2013 increased by $12.2 million to $1.16 billion. The most significant expenditure 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 dissolution of the Redevelopment Agency (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. A 0.4% increase in the property tax revenue shown in the Fiscal Year 2013 May Revision is mainly due to a projected decrease in property tax refunds.

On June 12, 2012, the City Council adopted the Fiscal Year 2013 budget of $1.164 billion, approximately $2.0 million higher than the Fiscal Year May 2013 Revision of $1.162 billion. The most significant additions to the Fiscal Year 2013 May Revision include additional staffing for the Police and Fire-Rescue (lifeguards) departments and funding for economic development activities.

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 Agency. As the Successor Agency, the City is responsible for the winding down of the Redevelopment Agency's 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 outstanding debt service obligations for Petco Park and for the Convention Center. The

Redevelopment Agency's agreements with respect to Petco Park and the Convention Center 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 the Redevelopment Agency if the agreements are not deemed recognizable obligations by the State. If that were to occur, these costs may be offset by increased property tax revenues distributed to the City, given that a portion of the tax increment revenue previously allocated to the Redevelopment Agency 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 San Diego County Auditor/Controller, Oversight Board that supervises the Successor Agency (the "*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 it considers to be objectionable. In addition, the San Diego County Auditor/Controller has not yet completed its certification of the first ROPS document, as required by the Dissolution Act; 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's 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, has been approved by voters. Proposition A prohibits 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. Proposition A could cause the City to lose State funding for City construction projects. In addition to prohibiting the mandatory use of PLAs, Proposition A requires 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 "LIMITATIONS 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. San Diego County (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. 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 Fiscal Year 2012; 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.

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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 the City'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 29.9 million visitors in 2010 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 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 and Electric ("SDG&E"), Cox Communications, Time Warner Cable, and AT&T are the primary sources of franchise fee 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 franchise fee 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 come 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 – Self Insurance – *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 – Self Insurance – *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 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 – Self Insurance – *Workers' Compensation and Long-Term Disability*" herein. The Fiscal Year 2013 Proposed Budget includes a $1.9 million contribution to the Long-Term Disability Fund 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 Notes are payable from State revenues. As explained under "THE NOTES – Security for the Notes" in the front part of this Official Statement, the Notes (as defined in this Official Statement) are general obligations of the City payable from taxes, income, revenue, cash receipts and other moneys attributable to the City's Fiscal Year 2012-13 and lawfully available for the payment of the Notes and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose. The Notes 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.

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 "CITY BUDGET AND RELATED MATTERS – Redevelopment Agencies" above for a discussion of the dissolution of redevelopment agencies.

On June 15, 2012, the Legislature passed a Budget Bill for Fiscal Year 2012-13 and sent the bill to the Governor; however, the Legislature did not pass various bills implementing the Budget Bill's provisions, thus details of the Legislature's Fiscal Year 2012-13 Budget are not currently available. The Governor has until June 27, 2012 to approve or veto the Legislature's Budget.

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 2013 is established at $1.626 billion. Using the Fiscal Year 2013 Proposed 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 $793.9 million, which was $831.7 million lower than the Gann Limit. The impact of the appropriations limit on the City's financial needs in the future is unknown.

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 "CITY BUDGET AND RELATED MATTERS – 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, on June 18, 2012, the City Council approved memoranda of understanding with all recognized employee organizations which would maintain the status quo, including the 6% reduction in compensation for another year. 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.

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

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

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

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

<u>*Unrepresented*</u>: 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 Notes 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 Notes are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change. Prospective purchasers of the Notes 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.

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

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 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.

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[2] The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased by actual contributions made, decreased by actual disbursements made, all items further adjusted with the expected investment returns for the year.

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

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; Financial Management, City of San Diego.

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.

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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," qualified for the June 5, 2012 ballot and was approved by voters. Generally, the amendments will 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 was 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 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.

Several City labor organizations have filed unfair labor practice claims against the City with the California Public Employment Relations Board ("*PERB*") alleging that the City was required to meet and confer with the City's labor unions before Proposition B was placed on the ballot. PERB filed a complaint with the superior court seeking injunctive relief to prevent Proposition B from appearing on the June 5 ballot, which was denied by the court. 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 City also received a stay of the administrative proceedings before PERB and sought to have claims adjudicated by the superior court. This stay was appealed by MEA and the appellate court ruled by the City must exhaust administrative remedies before PERB prior to seeking judicial relief. The City may appeal this ruling. 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 has budgeted an additional amount of approximately $20.6 million for defined contribution payments and a contribution 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, 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. Based upon preliminary employee benefit 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 savings will vary and will not be calculated until the OPEB valuation for fiscal year 2012 is prepared in the Fall of 2012.

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).

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. Depending upon the availability and affordability of the earthquake insurance which the City currently maintains on certain of its 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 Notes

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 Notes; (ii) questioning or affecting the validity of the Notes; or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Notes. 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 National Steel and Shipbuilding Company (NASSCO) shipyard. The action was brought under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. § 9601 *et seq*., 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 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 Notes. 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 Statewide 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.

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	
2010 – 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) On June 20, 2012, the Convention Center Expansion Financing Authority issued $140,440,000 Lease Revenue Refunding Bonds, Series 2012A to refund Lease Revenue Bonds, Series 1998A.
(4) Pending closing on July 3, 2012, the Public Facilities Financing Authority of the City of San Diego will issue $18,745,000 Lease Revenue Refunding Bonds, Series 2012B (Fire and Life Safety Facilities Refunding) to refund Lease Revenue Bonds, Series 2002B.
(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 sold Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds Series 2012A (Capital Improvement Projects) on June 19, 2012, pending closing on July 3, 2012, which will provide the City with 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.

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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 matured 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*
2012	8,241
2013	8,366
2014	6,248
2015	717
2016	529
2017	553
2018	561
2019	587
2020	596
2021	162
Total	$26,560

(1) Table describes commercial rent payable by the City of San Diego under the currently existing lease agreements.
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 Notes 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 "THE NOTES – Security for the Notes" in the front part of this Official Statement, the Notes (as defined in this Official Statement) are general obligations of the City payable from taxes, income, revenue, cash receipts and other moneys attributable to the City's Fiscal Year 2012-13 and lawfully available for the payment of the Notes and interest thereon exclusive of any moneys which when received will be encumbered for a special purpose. The Notes 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 May 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 May 2012
(Not Seasonally Adjusted)

	Calendar Year					May
	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	645,000
Unemployed	30,700	41,200	66,800	73,300	70,400	62,100
Unemployment Rates						
City(1)	4.5%	6.0%	9.6%	10.5%	10.0%	8.8%
County(1)	4.5	6.0	9.6	10.5	10.0	8.8
California(1)	5.3	7.2	11.3	12.4	11.7	10.4
United States(3)	4.6	5.8	9.3	9.6	8.9	7.9

(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 May of 2012 was 707,100, of which approximately 62,100 persons were unemployed. Based on preliminary estimates of the EDD as of June 15, 2012, the City's unemployment rate in May of 2012, on a seasonally unadjusted basis, matched that of the County at 8.8% and was below the unemployment rate of the State, which was 10.4%. However, the City's unemployment rate exceeded that of the United States, which was 7.9%. 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-4-1 sets forth taxable transactions in the City for calendar years 2006 through 2010 and the following Table B-4-2 sets forth taxable transactions in the City for the first quarter of calendar years 2010 and 2011, the most recent period for which State Board of Equalization data is available. See APPENDIX A—"CITY GOVERNMENT AND FINANCIAL INFORMATION – CITY BUDGET AND RELATED MATTERS – 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-4-1
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
Calendar Years 2006 through 2010
(In Thousands)

	2006	2007	2008	2009[1]	2010[1]
Retail and Food Services					
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 and Food Services	$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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TABLE B-4-2
CITY OF SAN DIEGO
TAXABLE TRANSACTIONS
2010 First Quarter and 2011 First Quarter
(in Thousands)

Type of Business	2010 First Quarter	2011 First Quarter
Retail and Food Services		
Apparel	$ 303,864	$ 334,416
General Merchandise	333,345	343,825
Food	202,412	208,380
Eating and Drinking	626,501	661,905
Home Furnishings and Appliances	253,284	266,620
Building Materials	177,005	190,764
Motor Vehicles and Parts	403,874	461,394
Service Stations	346,978	432,373
Other Retail Stores	341,590	368,610
Total Retail and Food Services	$ 2,988,853	$ 3,268,287
All Other Outlets	1,115,131	1,251,086
TOTAL ALL OUTLETS	$ 4,103,984	$ 4,519,373

Source: California State Board of Equalization, Taxable Sales in California.

Total taxable sales in the City during the first quarter of calendar year 2011 increased by approximately 10.1%, compared to the same period of the prior year.

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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 – CITY BUDGET AND RELATED MATTERS – 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.

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APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon delivery of the Notes, Squire Sanders (US) LLP, Bond Counsel to the City, proposes to issue an approving opinion in substantially the following form:

July 2, 2012

City of San Diego
San Diego, California

City of San Diego, California 2012-13
Tax and Revenue Anticipation Notes, Series A

Ladies and Gentlemen:

We have served as bond counsel to our client the City of San Diego, California (the "City") and not as counsel to any other person in connection with the issuance of $100,685,000 aggregate principal amount of the City of San Diego, California 2012-13 Tax and Revenue Anticipation Notes, Series A (the "Notes"), dated the date hereof. The Notes are being issued under and by authority of Section 92 of the City Charter of the City and Article 7.6 of Chapter 4, Part 1, Division 2, Title 5 of the California Government Code, being Sections 53850 through 53858 inclusive (the "Act") and pursuant to a resolution adopted by the City Council of the City on May 21, 2012, including the Accompanying Document thereto (collectively, the "Resolution"). In such connection, we have reviewed the following documents: the Resolution; the Tax Compliance Certificate of the City with exhibits, dated the date hereof (the "Tax Certificate"); the opinion of counsel to the City; certificates of the City and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Notes, the Resolution, the Tax Certificate, 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, as of the date hereof and under existing law, we are of the following opinions:

1. The Notes constitute the valid and binding obligations of the City as provided in the Resolution.

2. The Resolution has been duly adopted and constitutes the valid and binding obligation of the City.

3. The Notes are payable solely from certain taxes, income, revenues, cash receipts and other moneys of the City for the fiscal year ending June 30, 2013 and lawfully available for the

payment of the Notes, and the interest thereon, and are secured by a pledge of certain moneys, all as specified in the Resolution.

4. Interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income taxes; however portions of the interest on the Notes earned by certain corporations may be subject to a corporate alternative minimum tax. We express no opinion as to any other tax consequences regarding the Notes.

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 Authority, and (iii) the correctness of the legal conclusions contained in the legal opinion letter of the City Attorney delivered in connection with this matter.

In rendering those opinions with respect to the treatment of the interest on the Notes under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined. Failure to comply with certain of those covenants subsequent to issuance of the Notes may cause interest on the Notes to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Notes and the enforceability of the Notes and the Resolution 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 Notes or the Resolution.

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 Notes has concluded on this date.

Respectfully submitted,

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The following information concerning the Depository Trust Company, New York, New York and its book-entry system has been obtained from sources the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes 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 security certificate will be issued in the aggregate principal amount of the Notes 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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Notes are to be accomplished by entries made on the books of Direct and

Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 the Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes 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 Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes 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 soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Notes 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 (nor its nominee), Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Notes 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.

NEITHER THE CITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Neither the City nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Notes paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered to DTC.

THE CITY AND THE PAYING AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE CITY OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL, INTEREST OR PREMIUM, IF ANY, EVIDENCED BY THE NOTES PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY 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. NEITHER THE CITY NOR THE PAYING AGENT IS RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE NOTES OR AN ERROR OR DELAY RELATING THERETO.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of July 2, 2012 (the "Disclosure Certificate") is executed and delivered by The City of San Diego (the "City") in connection with the issuance of its $100,685,000 2012-13 Tax and Revenue Anticipation Notes, Series A (collectively, the "Notes"). The Notes are being issued pursuant to that Resolution No. 307453, adopted by the City Council of the City on May 21, 2012 (together with the related Accompanying Document thereto, the "Resolution"). The proceeds of the Notes are being used to finance certain cash flow requirements of the City and pay costs of issuance with respect to the Notes. In connection therewith, the City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Notes and in order to assist the Participating Underwriter in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"EMMA System" means the MSRB's Electronic Municipal Market Access System.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"National Repository" shall mean the MSRB.

"Official Statement" means the Official Statement, dated June 25, 2012, relating to the Notes.

"Participating Underwriter" shall mean any of the original Underwriters of the Notes required to comply with the Rule in connection with offering of the Notes.

"Repository" shall mean each National Repository, if any.

"Rule" shall mean Rule 15c2–12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the City shall give, or cause to be given, notice of the occurrence of any of the following Notice Events with respect to the Notes, not in excess of ten (10) Business Days after the occurrence of such Notice Event, to the MSRB through EMMA:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties *;

(iv) substitution of credit or liquidity providers, or their failure to perform *;

(v) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701-TEB);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes; and

(ix) bankruptcy, insolvency, receivership or similar event of the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer 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).

* *Not applicable.*

(b) Pursuant to the provisions of this Section 3, the City shall give, or cause to be given, notice of the occurrence of any of the following Notice Events with respect to the Notes, *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 3(a)(v), other notices or determinations with respect to the tax status of the Notes, or other events affecting the tax status of the Notes;

(iii) modifications to rights of holders of the Notes;

(iv) bond calls **;

(v) release, substitution or sale of property securing repayment of the Notes;

(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.

** *Not applicable.*

(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 35 any earlier than the notice, if any, of the underlying event is given to holders of affected Notes pursuant to the Resolution.

Section 4. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the City shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

Section 5. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent may resign as Dissemination Agent by providing thirty days written notice to the City. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this

Disclosure Certificate may be waived (provided no amendment that modifies or increases its duties or obligations of the Dissemination Agent shall be effective without the consent of the Dissemination Agent), provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 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 Notes, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Notes in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Notes.

Section 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 8. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any holder or beneficial owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees 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 Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Note owners, or any other party. Other than in the case of negligence, gross negligence or willful misconduct of the Dissemination Agent, the Dissemination Agent shall not have any liability to the Note owners or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from any breach of any obligation of the Dissemination Agent. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Notes, and shall create no rights in any other person or entity.

THE CITY OF SAN DIEGO

By: ____________________________
Authorized Signatory

Attest:

____
City Clerk

APPROVED AS TO FORM:
JAN I. GOLDSMITH, City Attorney

By: ____________________________
Name: __________________________
Deputy City Attorney

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