THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: March 7, 2012 REPORT NO: 12-029

ATTENTION: Budget and Finance Committee
Agenda of March 14, 2012

SUBJECT: Annual Update of the City of San Diego Debt Policy

REQUESTED ACTION:

Accept the report and forward the annual update of the City of San Diego Debt Policy ("City Debt Policy") to City Council for consideration and approval.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

In accordance with Resolution R-303152 adopted in November 2007, the City Debt Policy is reviewed annually and recommended changes are presented to the City Council. As noted in the attached copy of the City Debt Policy (Attachment 1), following are the recommended changes since the last update in April 2011:

1. Updates to reflect the dissolution of the City of San Diego Redevelopment Agency ("RDA") as of February 1, 2012 as a result of the passage of ABX1 26. Key updates include:
    a. Deletion of reference to the development the RDA Debt Policy in the Overview, page 1
    b. Added language on the legislation leading to the dissolution the RDA in Section 3.6, Redevelopment Agency Obligations – Tax Allocation Bonds, pages 8-9
    c. Added language on the impact of the RDA dissolution on the Public Facilities Financing Authority, a joint powers agreement between the City and the RDA in Section 3.8, Marks Roos Bonds, page 9

2. Updates to reflect change to the State Revolving Fund Loan priority status in Section 3.15, pages 11-12

Resolution R-306752 also specified that the annual review include a discussion of developments in the financial markets, City's projected forward calendar of financings for the coming year, and schedules showing all outstanding debt obligations and other long term liabilities of the City and related entities.

Municipal Debt Market Update

Long-term municipal bond market volume in 2011 fell 32% from 2010 levels to $294.7 billion. This compares to record volume of $433.2 billion in 2010. The drop in volume can be partly attributed to the discontinuation of the Build America Bond ("BAB") Program. Other factors include concerns about the stability of municipal government finances which contributed to billions of dollars being pulled from municipal bond mutual funds adding to the already pessimistic view by investors of state and local governments' ability to address short-term budget concerns and longer-term structural budget deficits.

Beginning November 2010 municipal bond funds experienced large outflows of funds. This trend saw a turn-around only by mid-2011. A volatile summer for the global markets due to concerns surrounding the European sovereign debt crisis and possible defaults on their outstanding debt and Washington's inability to readily address the national debt limit extension contributed to the ultimate S&P's downgrade of the U.S. Government Bond Rating from AAA to AA+. This resulted in a flight to quality that sent Treasury and Municipal yields to record lows by September 2011. Due to tax-exempt municipals attractiveness compared to Treasury yields municipal bond funds have seen positive net inflows in 24 of the last 26 weeks (totaling $20 billion in aggregate) since the September 2011 time period.

The declining interest rate trend has continued into 2012. The 20-year municipal Market Data AAA Index (the "MMD Index") fell from 3.39% on November 1, 2011 to 2.85% on March 1, 2012 which is down 54 basis points or 16% from already historically low rates. On the long end of the yield curve, the average 30-year MMD index ended 2011 at approximately 3.55%; in comparison, as of March 1, 2012, the 30-year MMD index was 3.27% down an additional 28 basis points or -8%. Interest rates are expected to generally stay low through 2013 with slight increase in 2014; however they are anticipated to still remain at low levels by historical standards.

Forward Calendar

Refunding Opportunities

With the continued low interest rate environment, Debt Management staff is working on various refunding transactions. On February 14, 2012, the City Council authorized the financing ordinance for the refunding of the Subordinated Water Revenue Bonds, Series 2002. The disclosure document, the preliminary official statement (POS), is expected to be presented for City Council authorization on March 20th, followed by pricing on the refunding bonds in early April and closing by early May 2012. Additionally, as presented at the Budget and Finance Committee meeting on February 29, 2012, staff is also working on the following refunding transactions - 2002 Fire and Life Safety Bonds refunding, 1998 Convention Center Bonds refunding and the CFD No. 1 Special Tax Bonds refunding .

New Money Bond/Note Offerings

As presented at the Budget and Finance Committee on November 16, 2011, Debt Management is currently working on the 2012 Deferred Capital Improvement Projects Lease Revenue Bonds (2012 Deferred CIP Bonds). The 2012 Deferred CIP Bonds are expected to be issued in one or more series in an amount of up to $75 million in net proceeds. The financing package is expected to be presented for City Council approval in early April, with the bonds to be executed and funds available by early-mid June 2012.

The Fiscal Year 2012-13 Tax and Revenue Anticipation Notes are expected to be issued in June 2012 to meet the General Fund cash flow needs of Fiscal Year 2013.

Current projections indicate that a bond issuance to address capital needs of the Water enterprise is necessary in mid 2014. No Wastewater new money bonds are expected to occur until 2016.

Outstanding City Debt, Long Term Liabilities of the City and Related Entities, and Pension and Retiree Healthcare Costs

1. Outstanding City Debt Obligations

   Attachment 2 is a summary of debt obligations that includes General Obligation Bonds, General Fund Backed Lease-Revenue Obligations, and Wastewater and Water System Obligations. [1]

2. Long Term Liabilities of the City's Related Entities

   Attachment 3 is a table of the City's established Special Assessment and Community Facilities (Mello-Roos) District bond issuances and outstanding balances.[2] The bonds are secured solely by the properties in each district and are repaid through revenues generated by the annual levy of special assessments or special taxes on the benefiting properties. These bonds are not City obligations.

   Attachment 4 is Note 5 from the FY 2011 Redevelopment Agency ("RDA") Annual Financial Report and reflects the activities of the RDA as a separate legal entity from the City. Loans from the City are reflected as a long term liability under Governmental Activities Long-Term Debt. A statement on the reporting of the RDA obligations as of January 31, 2012, will be prepared by the Comptroller.

3. Pension and Retiree Healthcare Costs

   According to the June 30, 2011 Annual Actuarial Valuation of SDCERS ("2011 Valuations"), prepared by Cheiron, Inc. dated as of January 6, 2012, the funded ratio (the actuarial value of assets available for benefits to total actuarial accrued liability) of the City's portion of the SDCERS fund was 68.5% and the SDCERS fund had an unfunded actuarial accrued liability ("UAAL") of $2.178 billion. The Citywide Fiscal Year 2012

[1] Source: City of San Diego Annual Budget Fiscal Year 2012
[2] Source: City of San Diego Debt Management Department

Annually Required Contribution ("ARC"), as provided by in the 2010 Valuation, is $231.2 million.

An actuarial valuation of the City's Retiree Healthcare (commonly referred to as "OPEB" for Other Post Employment Benefits) program as of June 30, 2011, prepared by Buck Consultants dated as of November 2, 2011, in connection with compliance with GASB liabilities, indicates an UAAL of $1.132 billion as of June 30, 2011.

FISCAL CONSIDERATIONS:

None specific to this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On April 12, 2011, the City Council reviewed and accepted the 2010 update of the City of San Diego Debt Policy.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

All financing plans and bond issuances are developed consistent with the City Debt Policy recommendations and any exceptions are called out in bond ordinances which are approved by the City Council at publicly noticed hearings.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Not Applicable.

Lakshmi Kommi
Debt Management Director

Jay M. Goldstone
Chief Operating Officer

Attachments:

1. City of San Diego Debt Policy, 2012 (Marked Copy)
2. City of San Diego Fiscal Year 2012 Adopted Budget, Summary of Debt Obligations
3. City of San Diego, Special Assessment/Special Tax Bonds
4. RDA Annual Financial Report Note 5, Governmental Activities Long-Term Debt, Fiscal Year 2011

ATTACHMENT 1

City of San Diego
Debt Policy

Department of Finance

(Marked Copy)

Changed pages – 1, 8, 9, 11, 12, and 14

2012

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OVERVIEW

The City of San Diego (the "City"), through the Chief Financial Officer, executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments, acting with prudence and diligence and with attention to prevailing economic conditions. The City believes that debt is an equitable means of financing projects and represents an important means of meeting fiscal responsibilities.

The debt policy primarily addresses debt instruments/securities issued by the City in public or private bond markets. This is consistent with examples of debt policies of other comparable municipalities, GFOA guidelines, and rating agency guidelines. The debt policies pertain to debt that is typically incurred when capital is raised in the public or private markets, including borrowings from sophisticated qualified institutional buyers, to meet the City's funding needs (the purpose and need for financings is discussed in Chapter 1). Such debt constitutes obligations whereby a third-party has provided funds, which is evidenced by the formal execution of a bond or certificate (or a similar instrument), and is held by the third-party until it is repaid.

The policy does not cover other obligations like contracts payable, notes payable, loans payable (e.g., HUD section 108 loans, SANDAG loans), arbitrage liability, and net pension obligation ("NPO") and/or pension Unfunded Actuarial Liability ("UAL") and Other Post Employment Benefits ("OPEB") UAL. The City's Comprehensive Annual Financial Reports ("CAFRs") provide a complete list of the outstanding long term liabilities. Following are the sections in the CAFR listing the long term liabilities: Governmental Activities Long-Term Liabilities; Business Type Activities Long-Term Liabilities; Discretely Presented Component Units Long-Term Debt; Short-Term Notes Payable; and Third Party Debt (Conduit Debt). Consistent with GASB standards, the NPO is reflected in the Governmental Activities Note 5 of the CAFR as a long term liability. Since Fiscal Year 2008, OPEB-related NPO has been captured in the same section as the NPO. The pension UAL and OPEB UAL are reflected in the Letter of Transmittal of the CAFR.

While various types of debt that may be issued by the City and its related agencies are generally discussed in Chapter 3 – Types of Financing Instruments, guidelines and parameters established under this policy do not encompass debt and other liabilities issued and administered by the San Diego Housing Authority[1] and the former City of San Diego Redevelopment Agency[2].

The policy documents the City's procedures and goals for the use of debt to finance City needs. A regularly updated debt policy, in conjunction with the City's Capital Improvements Program, the Five-Year Financial Outlook, the Investment Policy, and the Cash Reserve Policy, serves as an important tool that supports the use of the City's resources to meet its financial commitments and to maintain sound financial management practices. This policy is enacted in an effort to standardize and plan the issuance and management of debt by the City. While the Debt Policy serves as a guideline for general use, it allows for exceptions in extraordinary conditions.

Appendices of this Debt Policy include: Appendix A, which provides policy direction on Special Districts Formation and Financing; Appendix B, Council Policy 100-12 (Industrial Development Bond Program),

[1] The San Diego Housing Commission administers the Multifamily Mortgage Revenue Bond Program (See Appendix C).

[2] ~~The City of San Diego Redevelopment Agency Debt Policy is currently in development.~~ The City of San Diego Redevelopment Agency was dissolved as of February 1, 2012 (see Section 3.6).

which provides policy direction with regard to Industrial Development Bonds (also refer to Chapter 3, Section 3.9); Appendix C, the San Diego Housing Commission Policy Multifamily Mortgage Revenue Bond Program; and Appendix D, Council Policy 800-14, "Prioritizing CIP Projects."

The primary objectives of this debt policy are to establish guidelines for the use of various categories of debt; create procedures and policies that minimize the City's debt service and issuance costs; retain the highest practical credit ratings; and to provide full and complete financial disclosure and reporting.

The City's Debt Policy is also designed to:

- Establish parameters for issuing and managing debt;
- Provide guidance to decision makers related to debt affordability standards;
- Document the pre- and post-issuance objectives to be achieved by staff;
- Promote objectivity in the debt approval decision making process; and
- Facilitate the actual financing process by establishing important policy decisions in advance.

An annual review of the Debt Policy will be performed and any changes to the Debt Policy will be brought forward for City Council consideration and approval. Further, in the event there are any deviations or exceptions from the Debt Policy when a certain bond issue is structured, those exceptions will be discussed in the staff reports when the bond issue is docketed for City Council's consideration.

CHAPTER I – PURPOSE & NEED FOR FINANCING

1.1 Purpose of Financing

The City borrows money primarily to fund long-term capital improvement projects, essential equipment and vehicle needs, and to refinance existing debt. The issuance of debt to fund operating deficits is not permitted, with the exception of Tax and Revenue Anticipation Notes.[3] Debt will be used to finance eligible projects only if it is the most cost-effective means available to the City.

While the "pay-go" means of using current revenues to pay for capital projects is often considered the preferred means of financing because it avoids interest payments, it may not be entirely equitable. The "pay- go" funding option requires current citizens to pay taxes over long periods of time in order to accumulate reserves sufficient to pay for capital projects. The City would be able to undertake capital projects under this method only if sufficient cash accumulates. Prudent use of debt financing rather than pay-go funding of capital projects can facilitate better allocation of resources and increased financial flexibility.

The three primary borrowing purposes are summarized below:

A. Long-Term Capital Improvements

The City's Public Works unit will prepare a multi-year Capital Improvements Program (CIP) working with individual departments and agencies in accordance with Council Policy 800-14, "Prioritizing CIP Projects" (see Appendix D). The CIP will include projections for the upcoming fiscal years and will be updated during each Annual Budget process or if there are significant changes to the scope and/or cost of projects. In accordance with Council Policy 800-14, future operations and maintenance costs associated with capital improvement projects will be developed and identified prior to submission of the project for approval. The Financial Management Department will work with the Public Works unit to ensure that accurate and complete budgeting of the CIP is prepared as part of the City's Annual Budget process.

Since the aggregate cost of desired capital projects generally exceeds available funds, the capital planning process prioritizes projects and identifies the funding needs. The City will initially rely on internally-generated funds and/or grants and contributions from other governments to finance its capital needs. Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries and if a secure revenue source is identified to repay the debt.

The Debt Management Department, working with City departments within the context of the Capital Improvements Program and the City's Five-Year Financial Outlook, oversees and coordinates the timing, processing, and marketing of the City's borrowing and capital funding activities. Close coordination of capital planning and debt planning will ensure that the maximum benefit is achieved with the limited capital funds. The debt management process will determine the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

[3] The City issues annual Tax and Revenue Anticipation Notes ("TRANS") to meet its cash flow needs. TRANS are not deemed to be debt within the meaning of Section 90 of the City Charter. See Section 3.11 for details.

B. Essential Vehicle and Equipment Needs

In addition to capital projects, the City regularly finances certain essential equipment and vehicles. These assets range from public safety vehicles and garbage trucks to information technology systems. The underlying asset must have a minimum useful life of three years. Short-term financings, including loans and capital lease purchase agreements, are executed to meet such needs.

C. Refinancings/Refunding of Existing Debt

The Chief Financial Officer working with the Debt Management Department will periodically evaluate its existing debt and execute refinancings when economically beneficial. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to refund other obligations, such as pension obligations. See Chapter VIII for refunding considerations.

1.2 Financing Priorities

All borrowing requests or debt refunding proposals shall be reviewed by the Chief Financial Officer. The Department of Finance shall be responsible for analyzing the proposal to determine if it is beneficial to the City and complies with the City's long-term financial planning objectives. Borrowing requests include any debt or refunding proposals made to the City involving a pledge or other extension of the City's credit through the sale of securities, execution of loans or leases, or making of guarantees or otherwise involving directly or indirectly the lending or pledging of the City's credit.

For each financing proposal related to a new capital improvement project, the Department of Finance will work with the Public Works unit to assess the feasibility and the impact of debt to fund the project based on the following assessments:

A. Nature of Project and Use of Funds

Each proposal will be evaluated by comparing the nature of the project and use of funds with competing proposals on the basis of the benefits derived and how it furthers the City's policy objectives as laid out in the City's Annual Budget, Five-Year Financial Outlook, and Capital Improvement Program.

B. Cost-Benefit Analysis of Project:

A cost-benefit analysis will be required for each project.

1. The benefits of a proposed project must be defined and, where appropriate, quantified in monetary terms. The funding sources will be identified and estimated. Where revenues are part of the benefits, all assumptions made in deriving the revenues will be documented. The validity of the assumptions and the risk associated with the revenue streams will be assessed.

2. The costs of the project will be estimated, with the basis documented and the risk associated with the estimates assessed. The uses of funds will be identified and estimated.

3. Identify whether project will increase or reduce ongoing operation and maintenance expenses.

C. Expenditure Plan

A detailed plan for the expenditure of funds will be developed for each project. The underlying assumptions of the project cost expenditure plan will be documented and the risk associated with these projections will be analyzed.

D. Revenue for Debt Service Payment

A detailed plan for the debt repayment will be developed for each project. The underlying assumptions of revenue cash flow estimates will be documented and the risk associated with these revenue streams will be analyzed. Where general fund revenues are proposed to service debt, the impact upon budgets will be assessed.

All requests will be prioritized based upon this evaluation. If the Debt Management Director recommends the financing proposal and the Chief Financial Officer is in concurrence, the Debt Management Department will prepare the financing proposal for the City Council's authorization.

1.3 Asset Life

Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good condition and to maximize a capital asset's useful life, the City will make every effort to set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal. Generally, no debt will be issued for periods exceeding the useful life or average useful lives of projects to be financed.

The City will consider short or long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets, including land. For short-term financing, the physical asset must have a minimum useful life of three years; for long-term financing, the physical asset must have a minimum useful life of ten years.

CHAPTER II - CREDITWORTHINESS OBJECTIVES

2.1 Credit Ratings

The City seeks to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the City's policy objectives. Ratings are a reflection of the general fiscal soundness of the City and the capabilities of its management. By maintaining the highest possible credit ratings, the City can issue its debt at a lower interest cost. To enhance creditworthiness, the City is committed to prudent financial management, systematic capital planning, interdepartmental cooperation and coordination, and long-term financial planning.

Rating agencies consider various factors in issuing a credit rating; these typically include:

- City's fiscal status
- City's general management capabilities
- Economic conditions that may impact the stability and reliability of debt repayment sources
- City's general reserve levels
- City's debt history and current debt structure
- The capital improvement project that is being funded
- Covenants and conditions in the governing legal documents

The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the City's debt rating on outstanding debt. The major source of risk considered by the rating services is the stability and reliability of revenue to service the debt. Projects with volatile or risky debt repayment revenue streams that may adversely impact the City's rating will be avoided.

2.2 Rating Agency Relationships

The Chief Financial Officer is responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort shall include providing periodic updates, both formal and informal, on the City's general financial condition and coordinating meetings and presentations in conjunction with a new debt issuance when determined necessary (see sections 2.3, 5.6, and 5.7). Written disclosure documents to the Rating Agencies shall be approved by the City's Disclosure Practices Working Group[4] ("DPWG").

2.3 Bond Ratings

The Chief Financial Officer, working with the Debt Management Department and, if applicable, a financial advisor, shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating. Obtaining ratings and credit enhancements for new issuances is discussed in Chapter V.

[4] The role of the DPWG in review and approval of disclosure documents is further discussed in Sections 6.3 and 6.4.

CHAPTER III - TYPES OF FINANCING INSTRUMENTS

There are many different types of financing instruments available to the City; long term financing debt obligations like General Obligation Bonds, Lease Revenue Bonds and Revenue Bonds would typically constitute direct debt of the City. The City issues conduit financings to benefit third parties where public benefit can be achieved. The following are brief summaries of different types of long and short term financing instruments that the City may consider.

DIRECT DEBT OBLIGATIONS

3.1 General Obligation Bonds

General Obligation (GO) bonds are secured either by a pledge of full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. GO bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk.

California State Constitution, Article 16 - Public Finance, Section 18, requires that the issuance of a GO bond must be approved by a two-thirds majority of those voting on the bond proposition. Uses of bond proceeds are limited to the acquisition and improvement of real property.

3.2 Certificates of Participation / Lease Revenue Bonds

Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) are lease obligations secured by an installment sale or by a lease-back arrangement between the City and another public entity, where the general operating revenues of the City are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The governmental lessee is obligated to place in its Annual Budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

3.3 Revenue Bonds

Revenue Bonds are obligations payable from revenues generated by an enterprise, such as water or wastewater utilities, public golf courses or parking facilities. Because the debt service is directly paid by the facility, such debt is considered self-liquidating and generally does not constitute a debt of the issuer.

The City's utility Revenue Bonds are payable solely from the City's Water or Wastewater Enterprise Funds and are not secured by any pledge of ad valorem taxes or general fund revenues of the City. In accordance with the agreed upon bond covenants, the revenues generated by these Enterprise

Funds must be sufficient to maintain required coverage levels, or the rates of the enterprise have to be raised to maintain the coverages. The issuance of revenue bonds does not require voter approval.

OTHER DEBT OBLIGATIONS

3.4 Revenue Securitizations

Revenues are said to be securitized when the right to receive the revenues is sold to investors at a discounted price in exchange for an upfront lump sum payment. The current value of the receivable is determined by applying a discount rate to the projected receivable and the buyer of the revenue will offer to buy the receivable at the agreed discount rate.

Revenue securitization may be used as a mechanism to raise monies when the City is able to identify suitable revenue streams. Voter approval is not required. However, a legal validation of the financing may be necessary. The City utilized this mechanism in June 2006 and securitized its future stream of Tobacco Settlement Revenues.

3.5 Pension Obligation Bonds

Pension Obligation Bonds (POBs) are financing instruments used to pay some or all of the unfunded pension liability of a pension plan. POBs are issued as taxable instruments over a 30-40 year term or by matching the term with the amortization period of the outstanding unfunded actuarial accrued liability. The purpose of the pension obligation bond, its structure, and the use of the proceeds will go through an active validation process prior to the sale of the bonds. POBs are not subject to voter approval.

In California, municipal and county POBs have traditionally been issued under the local agency refunding law and considered valid without a vote under a judicially created exception to the State Constitution: Article XVI, Section 18, is a debt limitation exception referred to as "obligations imposed by law." POBs are a general obligation of the City.

POBs allow municipal governments to borrow at a rate that is lower than the assumed actuarial rate that is built into the unfunded actuarially accrued liability (UAAL). Such assumed actuarial rate is used to project the investment rate to be earned on the proceeds of the POBs and the investment rate payable on the UAAL. The City may consider the issuance of POBs if they are cost effective and in the City's overall best financial interest.

FORMER REDEVELOPMENT AGENCY DEBT OBLIGATIONS

3.6 Tax Allocation Bonds

Tax Allocation Bonds are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes from new construction in a designated redevelopment area. The revenue is deposited in a special fund to pay for public improvements within the designated area. Tax Allocation Bonds are not a debt of the City, the State, or any of their political subdivisions.

Due to changes in the law affecting California redevelopment agencies with the passage of ABX1 26 as codified in the California Health and Safety Code, the City of San Diego Redevelopment Agency ("RDA") was dissolved as of February 1, 2012, and its operations substantially eliminated but for the continuation of

certain enforceable RDA obligations to be administered by the City of San Diego as the successor agency. The terms of ABX1 26 requires successor agencies perform all obligations with respect to enforceable debt obligations, which include Tax Allocation Bonds - required debt service, reserve set-asides, and any other payments required under the bond indentures or similar documents governing the issuance of the outstanding Tax Allocation Bonds issued by the former ~~of the former~~ R~~r~~edevelopment A~~a~~gency~~ies~~.

~~Under the California State Law, the City of San Diego Redevelopment Agency (administered by the City's Planning and Community Investment Department, the Centre City Development Corporation and the Southeastern Economic Development Corporation) has the authority to issue Tax Allocation Bonds as a means of financing redevelopment projects. Voter approval is not required.~~

CONDUIT FINANCINGS

3.7 Special Districts Financing

The City's Special Districts primarily consist of Community Facilities Districts ("CFDs") and 1913/1915 Act Assessment Districts ("Assessment Districts"). Special Districts are typically developer initiated, whereby a developer seeks a public financing mechanism to fund public infrastructure required by the City in connection with development permits or agreements, and/or tentative subdivision maps. Special District formation may also be initiated by an established community. Subject to voter approval, once a district is formed special taxes or assessments may be levied upon properties within the district to pay for facilities and services directly, or to repay bonds issued to finance public improvements.

The City will consider requests for Special District formation and debt issuance when such requests address a public need or provide a public benefit. Each application will be considered on a case by case basis, and the Chief Financial Officer may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the City.

Refer to Appendix A – Special District Formation and Financing Policy, for additional information.

3.8 Marks-Roos Bonds

The Marks-Roos Local Bond Pooling Act of 1985 permits two or more public agencies to form a joint-powers authority (JPA) to facilitate the financing of public capital improvements, working capital, or other projects when use of these provisions results in savings in effective interest rate, bond underwriting and issuance costs, or any other significant public benefit can be realized.

The Public Facilities Financing Authority of the City of San Diego was established pursuant to a Joint Exercise Powers Agreement by and between the City and the former Redevelopment Agency of the City. Among the agreements of the dissolved redevelopment agency that are deemed valid by the terms of ABX1 26 (Section 34178) are joint exercise of powers agreements in which the redevelopment agency is a member of the joint powers authority, such as the agreement providing for the establishment and operation of the Public Facilities Financing Authority (see Section 3.6).

The Public Facilities Financing Authority has in the past used Marks-Roos bonds to pool and refund certain assessment district bonds to maximize property owner savings by transforming the existing non-rated land-secured debt into insured revenue bond debt.

3.9 Industrial Development Bonds

Industrial Development Bonds (IDBs) are securities issued to finance the construction or purchase of industrial, commercial or manufacturing facilities to be purchased by or leased to a private user. IDBs are backed by the credit of the private user and generally are not considered liabilities of the governmental issuer (although in some jurisdictions they may also be backed by an issuer with taxing power). While the authorization to issue IDBs is provided by a state statute, the tax-exempt status of these bonds is derived from federal law (Internal Revenue Code Section 103(b) (2)).

The Economic Development Division of the City's Planning and Community Investment Department administers the IDB Program pursuant to Council Policy 100-12 (Appendix B). The City, through the City Charter and under the California Industrial Development Finance Act, has the authority to issue the full range of taxable and tax-exempt conduit revenue private activity industrial development bonds permitted by the Internal Revenue Code. Bonds are also issued in partnership with the California Statewide Communities Development Authority, a joint powers agency.

Since IDBs are tax-exempt municipal bonds, interest rates are substantially lower than commercial financing rates. The bonds also allow long-term amortization periods up to 30 years (depending on the useful life of the assets financed), so a growing company will also devote less cash-flow to service loan principal repayment.

HOUSING AUTHORITY DEBT OBLIGATIONS

3.10 Multifamily Mortgage Revenue Bonds

The Multifamily Bond Program provides below market financing (based on tax exemption of bond interest) for developers willing to set aside a portion of the units in their projects as affordable housing. The issuer of these bonds is the San Diego Housing Authority. The authority to issue bonds is limited under the US Internal Revenue Code. The San Diego Housing Commission has Debt Policy specific to the Multifamily Mortgage Revenue Bond Program administered by the Housing Commission).

Refer to Appendix C – The San Diego Housing Commission Multifamily Mortgage Revenue Bond Program, for additional information.

SHORT-TERM BORROWINGS

3.11 Tax and Revenue Anticipation Notes

Tax and Revenue Anticipation Notes (TRANs) are short-term notes, proceeds of which allow a municipality to cover the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures.

The City annually issues TRANs each June to meet General Fund cash flow needs in the upcoming fiscal year, in anticipation of the receipt of property tax and other revenues later in the fiscal year. The issuance of TRANs is authorized pursuant to section 92 of the City Charter, together with article 7.6 (commencing with section 53850) of Chapter 4, Part 1, Division 2, Title 5 of the California Government Code. The cash flow needs are determined by projections prepared by the City Comptroller, working with the City Treasurer, and reviewed by the Chief Financial Officer. The timing of the note sale, the notes' due date,

and the timing and structuring of repayment will be components of the cash flow and cash management analysis performed by the Department of Finance. As tax payments and other revenues are received, they are used in part to repay the TRANs.

TRANs are not deemed to result in the creation of debt within the meaning of Section 90 of the City Charter. Voter approval is not required.

3.12 Bond Anticipation Notes

Bond Anticipation Notes (BANs) are short-term interest-bearing bonds issued in the anticipation of long-term future bond issuances. The City may choose to issue BANs as a source of interim financing when it is considered by the Chief Financial Officer to be prudent and advantageous to the City. Voter approval is not required.

3.13 Lines and Letters of Credit

A Line of Credit is a contract between the issuer and a bank that provides a source of borrowed monies to the issuer in the event that monies available to pay debt service or to purchase a demand bond are insufficient for that purpose.

A Letter of Credit is an arrangement with a bank that provides additional security that money will be available to pay debt service on an issue. A Letter of Credit can provide the City with access to credit under terms and conditions as specified in such agreements. In the event that a bank facility is being entered into for a long-term capital need, before entering into any such agreements, takeout financing for such lines and letters of credit must be planned for and determined to be feasible by the Chief Financial Officer.

When it is considered by the Chief Financial Officer to be prudent and advantageous to the City, the City may enter into agreements with commercial banks or other financial entities for purposes of acquiring a Line or Letter of Credit. Voter approval is not required.

3.14 Lease – Purchase Financings

The City's Equipment and Vehicle Financing Program (EVFP) provides a mechanism for the short term financing of essential equipment through a lease-purchase mechanism. The lease purchase terms are typically three to ten years. Under this program, the City enters into a master lease agreement with a lessor at the beginning of a fiscal year to finance the lease purchase of essential equipment up to a certain amount. Equipment is funded on an as needed basis through that fiscal year under this master lease agreement. The City may enter into other stand alone operating leases or lease purchase agreements on an as needed basis without voter approval.

LOAN OBLIGATIONS

3.15 State Revolving Fund~~s~~ Loans

The State Revolving Fund (SRF) loan is a low interest loan program for the construction of water and wastewater infrastructure projects. ~~SRF debt service payments are factored into debt service coverage ratios as defined by applicable water and wastewater indentures (see Section 4.3).~~ In 2009 the California

State Water Resources Control Board (State Water Board) modified certain terms of the SRF Loan program. Historically, some of these loans were structured such that the City was required to cash fund 16.7% of the total project cost and received 83.3% of the project cost in the form of loan proceeds from the State. While these were zero percent interest loans, the City was required to pay back 100% of the project cost including the City's contribution of 16.7%. Effective March 2009, for new loans, the City will receive 100% of the project cost and the interest rate will be calculated by taking half of the True Interest Cost (TIC) of the most recent State of California General Obligation Bonds sale. The term of the loans continue to be 20 years.

SRF debt service payments are factored into debt service coverage ratios as defined by applicable water and wastewater indentures (see Section 4.3) and SRF loan covenants~~requirements~~. In accordance with notifications received by the State Water Board, commencing Calendar Year 2010, the debt service on SRF loans ~~are~~is treated on parity with the senior bond obligations~~-~~ requiring maintenance of a coverage ratio of 120%~~-~~.

Compared to traditional bond financing, the City may realize substantial savings as a result of the 20-year amortization period of the SRF Loans. The loans are typically administered by the benefiting department.

3.16 HUD Section 108 Loan Guarantee Program

The U. S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program allows cities to use their annual Community Development Block Grant (CDBG) entitlement grants to obtain federally guaranteed funds large enough to stimulate or pay for major community development and economic development projects.

The Economic Development Department of the City Planning and Community Investments Department administers the implementation and management of the HUD Section 108 Loan Guarantee Program. The program does not require a pledge of the City's General Fund, only of future CDBG entitlements. By pledging future CDBG entitlement grants as security, the City can borrow at favorable interest rates because of HUD's guarantee of repayment to investors who purchase the HUD Section 108 Notes.

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In addition to some of the long and short term financing instruments described above that the City may access, the City may also consider joint arrangements with other governmental agencies when a project serves the public interest beyond the City boundaries. Communication and coordination will be made with other local, state, and federal governments regarding potential jurisdictional overlap, joint projects, tax issues, and other issues that may arise. If the potential does exist, then the possibility of grants or cost sharing will be explored, quantified, and specific financial arrangements and liabilities negotiated. Municipal issuers are authorized to join together to create a separate entity, a Joint Powers Authority (JPA), to issue bonds on behalf of the municipality. The City Council may sit as the governing body of the agency or authority. Other governmental agencies that a municipal issuer can jointly issue bonds include ~~redevelopment agencies and~~ housing authorities. Typically, joint venture debt is repaid through revenues generated by the project and if structured as a JPA, a debt issuance associated with joint venture arrangements does not require voter approval. The City will only be liable for its share of debt service, as specified in a contract executed in connection with the joint venture debt.

CHAPTER IV - AFFORDABILITY TARGETS

Given the significant restrictions in California on local agency revenue sources, especially those imposed under Proposition 218, the City is aware of the need to gauge the effect of ongoing debt service on its budgets and fiscal priorities over time. To provide a debt affordability plan and keep debt levels within acceptable ranges, the City will consider generally accepted debt affordability standards in evaluating when, why, and how much debt should be issued. For each new debt proposal, an analysis of these debt affordability standards will be included in the financing plan brought forward for City Council consideration. Guided by rating agency recommendations, long term debt obligations incorporated in debt ratios include general obligation debt and general fund backed obligations like lease revenue bonds and certificates of participation. While other long term liabilities like unfunded pension liabilities are taken into account in determining the overall credit rating of a municipality, they are not included in these ratios unless they are owed to a third party over a predetermined schedule (e.g. pension obligation bonds). Debt affordability ratios discussed in sections 4.1 and 4.2 below pertain only to the City's long term general fund debt, and coverage ratios in section 4.3 pertain to revenue bonds such as those issued by the City's Water and Wastewater utilities. These affordability ratios and coverage ratios pertain only to debt instruments issued by the City in public or private bond markets.

4.1 Affordability Targets for General Obligation Bonds

As discussed in Chapter 1, in assessing affordability, the City shall examine the direct costs and benefits of the proposed project. The decision on whether or not to assume new general obligation debt shall be based on these costs and benefits, current conditions of the municipal bond market, and the City's ability to afford new debt and service it as determined by an objective analytical approach. This process shall compare generally accepted measures of affordability to the current values for the City. These measures shall include:

- Debt per capita: This is the outstanding principal as a percentage of population.
- Debt as a percent of assessed valuation: This is the outstanding principal as a percentage of assessed valuation.
- Debt service as a percent of operating budget: This is the annual debt service (principal and interest due annually) as a percentage of general fund revenues.

The Debt Management Department shall monitor and strive to achieve and/or maintain these debt statistics at a low to moderate classification. The City shall not assume more tax-supported general purpose debt than it retires each year without conducting an objective analysis regarding the City's ability to assume and support additional debt service payments.

Pursuant to Section 90 of the City Charter, the City may incur general obligation bonded indebtedness for the purpose of acquiring, constructing, or completing any municipal improvements, not including improvements to the City's water facilities, in an amount not to exceed 10% of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also incur indebtedness for the purpose of acquiring or constructing both non-utility related improvements and water related improvements in an amount not to exceed 25% of the total assessed valuation[5].

[5] All voter approved debt is subject to this limit.

4.2 Affordability Targets for General Fund-Supported Debt

The most important affordability ratio used in analyzing the City's debt position with respect to General Fund supported securities' debt (lease revenue obligations and certifications of participation) is the Annual General Fund debt service/lease payment (e.g., payment on lease revenue bonds) as a percentage of available revenue or expenditures. This ratio, which pertains to only general fund backed debt, is often referred to as "lease burden." This analysis excludes enterprise revenue bonds and other obligations supported by dedicated revenue pledges. Additionally, this analysis excludes other General Fund liabilities such as loan obligations or the City's annually required contribution to the pension system or retiree health care costs. Liabilities of City's related agencies are also excluded from the debt affordability ratios.

Review of recent Credit Rating agency guidelines indicate that debt service of more than 10% of available revenues or expenditures is considered above average or high. The City shall strive to maintain its General Fund backed debt service as a percentage of available revenue below 10%. Affordability analysis as determined by this measure will be undertaken when new General-Fund supported debt is issued.

In addition to the City's direct debt burden, debt levels of underlying and overlapping entities such as counties, school districts, and special districts~~, as well as redevelopment agencies issuing tax increment revenue bonds~~ add to a City's overall debt burden. The City's proportional share of the debt of other local governmental units which either overlap it or underlie it is called the overlapping debt. Overlapping debt is generally apportioned based upon relative assessed value. While the City does not control debt issuance by other entities, it recognizes that its taxpayers share the overall debt burden. The City shall include a statement of overlapping debt in its initial and continuing disclosure.

4.3 Coverage Targets for Revenue Bonds

Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (enterprise funds) and revenues generated from a project. Also see Section 3.3, Revenue Bonds.

In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance expense) to estimated annual debt service. Generally, legal covenants requiring a minimum coverage ratio are set forth in the bond documents, and are based on the level of security provided to the bondholders (of the senior or subordinate debt obligations). The City's Water and Wastewater Revenue Bonds require a legal coverage ratio of at least 120% for senior bonds and a coverage ratio of at least 100% for senior and subordinate debt combined. Per the rating agency guidelines, the City shall strive to maintain a coverage ratio of 110% using historical and/or projected net revenues to cover annual debt service for bonds issued on a subordinate basis which have a 100% legal coverage ratio requirement. The City will require a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

CHAPTER V - STRUCTURE & TERM OF CITY INDEBTEDNESS

5.1 Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Borrowings by the City should be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 15-30 years.

5.2 Rapidity of Debt Repayment

In structuring a bond issuance, Debt Management will manage the amortization of debt, and to the extent possible, match its cash flow to the anticipated debt service payments.

The City will seek to structure debt with aggregate level principal and interest payments over the life of the borrowing. "Backloading" of debt service will be considered only when one or more of the following occur:

- Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive
- The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present
- Such structuring is beneficial to the City's aggregate overall debt payment schedule
- Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation

5.3 Serial Bonds, Term Bonds, and Capital Appreciation Bonds

Serial bonds are bonds maturing annually (or serially) in specified amounts.

Term bonds are those where all bonds, or a portion of the issue equal to that which would mature over a period of two or more years in a bond issuance, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandated to be called or retired each year (called "sinking funds") to mirror a serial bond structure. The funds paid into the sinking fund each year may be used at that time to retire a portion of the term bonds ahead of their scheduled redemption. Sinking funds are preferred by investors since these funds provide the security of knowing that the issuer appropriately budgets and accounts for its expected future payments. The sinking fund also ensures that the payment of funds at maturity does not overtax the issuer's resources at that time.

Capital Appreciation Bonds (CABs) are deep discounted bonds that pay investors the face value of the bond upon maturing. CABs can be utilized in certain cases to better match a project's cash flow to the bond's debt service.

For each issuance, the City will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, CABs may be used. The decision to use term, serial, or CAB bonds is typically driven by market conditions.

5.4 Interest Rate Structure

The City currently issues securities on a fixed interest rate basis only. Fixed rate securities ensure budget certainty through the life of the securities and can be advantageous in a low interest rate environment.

5.5 Debt Instrument Rating

The Debt Management Director, with a financial advisor if appropriate, will assess whether a credit rating should be obtained for an issuance and make a recommendation to the Chief Financial Officer. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.

5.6 Credit Enhancement

Credit enhancement may be used to improve or establish a credit rating on a City debt obligation. Types of credit enhancement include Letters of Credit, bond insurance or surety policies (see Section 5.7). The Debt Management Director will recommend to the Chief Financial Officer the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the Chief Financial Officer, the use of such credit enhancement furthers the City's overall financial objectives.

A *Letter of Credit,* as discussed in Section 3.13, may be obtained from a major bank, for a fee, to enhance the credit rating. This letter is an unconditional pledge of the bank's credit to make principal and interest payments on the City's debt in the event insufficient funds are available to meet a debt service obligation.

Bond Insurance is an unconditional pledge by an insurance company to make principal and interest payments on the City's debt in the event insufficient funds are available to meet a debt service obligation. Bond insurance may be obtained from an insurance company and is a potential means of enhancing the debt's rating.

5.7 Debt Service Reserve Fund/Surety Policy

With the exception of general obligation bond indebtedness, unless there are extraordinary circumstances, the City will size the debt issuance such that a debt service reserve fund is established at the time of issuance. The debt service reserve funds will be held by and are available to the Trustee to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so. The maximum size of the reserve fund is generally governed by tax law, which permits the lesser of: 1) 10% of par; 2) 125% of average annual debt service and 3) 100% of maximum annual debt service. Reserve funds are typically equal to approximately one year's maximum debt service on the bonds. On a case-by-case basis, assuming there is no economic or credit disadvantage, the City may issue bonds with a debt service reserve fund that is sized at a lower level.

The reserve fund requirement may also be satisfied by a surety policy, a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issuance. Under this arrangement, instead of depositing cash in a reserve fund, the issuer buys a surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. The City may use a surety policy instead of a debt service reserve fund when economically feasible.

The City will not rely on any uncollateralized credit instruments for any reserve requirement unless justified by significant financial advantage. If a surety policy is used in lieu of a debt service reserve fund, a provider distinct from the bond insurer shall be used.

5.8 Capitalized Interest

Generally, interest shall be capitalized for the construction period of a revenue-producing project so that debt service expense does not begin until the project is expected to be operational and producing revenues. In addition, for lease back arrangements, such as those used for lease revenue bond transactions, interest may be capitalized for the construction period, until the asset is operational. Only under extraordinary circumstances, interest may be capitalized for a period longer than the construction period. Capitalized interest may also be referred to as "funded interest."

5.9 Call Options/Redemption Provisions

The Debt Management Director will evaluate and recommend to the Chief Financial Officer the use of a call option, if any, and call protection period for each issuance.

A call option, or optional redemption provision, gives the City the right to prepay or retire debt prior to its stated maturity. This option may permit the City to achieve interest savings in the future through refunding of the bonds. Often the City must pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. In addition, if a bond is called, the holder may be entitled to a premium payment ("call premium"). Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issuance:

- The call premium
- Level of rates relative to historical standards
- The time until the bonds may be called at a premium or at par
- Interest rate volatility

Generally, 30-year tax exempt municipal borrowings are structured with a 10-year call at no premium. From time to time, shorter call options (6-9 years) may be used at no premium.

CHAPTER VI - METHOD OF ISSUANCE & SALE

Under the direction of the Chief Financial Officer, Debt Management will coordinate the issuance of all debt, including issuance size, debt structure, cash flow analysis, and method of sale. The selection of the financing team and the role of the various consultants are discussed in Chapter VII.

6.1 Method of Sale

Debt issuances are sold to a single underwriter or to an underwriting syndicate either through a public offering or a private offering. The selected method of sale will be that which is the most advantageous to the City in the judgment of the Chief Financial Officer, in terms of lowest net interest rate, most favorable terms in the financial structure used, and market conditions.

Public Offerings – Public offerings can be executed through either a competitive sale or a negotiated sale. It is the policy of the City to sell its bonds and retain professionals to assist in the sale of the bonds on a competitive basis.

Competitive Sale – In a competitive sale, bids will be awarded on a true interest cost basis (TIC), providing other bidding requirements are satisfied. In such instances where the City deems the bids received unsatisfactory, it may, at the discretion of the Chief Financial Officer, enter into negotiation for sale of the securities or reject all bids. In general, Competitive Sale method is recommended for "plain vanilla" financings with a strong underlying credit rating and if the bond is not expected to be treated a "story bond" by the investors. In a Competitive Sale, the bidder's role is limited to its review of the offering circular released by the City, making a credit assessment based on the facts presented in the offering circular, and offering its bid per the bidding parameters established by the City.

Negotiated Sale –The negotiated sale process provides the City control over the financing structure, the issuance timing, and provides flexibility of distribution. Negotiated sales may be executed when competitive sales are not suitable or not a viable option. Examples of such circumstances include unusual financing terms, market volatility, and weaker credit quality. Special District bonds, which are often non-rated, are typically issued through a negotiated sale process. In a Negotiated Sale, the underwriter or the underwriting syndicate for the bonds is identified upfront through a competitive selection process along with other professionals for the transaction. The underwriter will actively assist the City in structuring the financing and marketing the bonds including providing assistance in preparing the bond offering circular.

Private Offerings – When determined appropriate by the Chief Financial Officer, the City will negotiate financing terms with banks and financial institutions for specific borrowings on a private offering basis. Typically, private placements are carried out by the City when extraneous circumstances preclude public offerings, as an interim financing, or to avoid the costs of a public offering for smaller issuances.

6.2 Bidding Parameters

In a Competitive Sale, the Notice Inviting Bids will be carefully constructed so as to ensure the best possible bid for the City, in light of existing market conditions and other prevailing factors. Parameters to be examined include:

- Limits between lowest and highest coupons
- Discount or premium coupons
- Use of bond insurance
- Call provisions

Pursuant to California Government Code Section 53693, Debt Management will publish the Notice Inviting Bids in a financial publication generally circulated throughout the state or reasonably expected to be disseminated among all prospective bidders for the proposed bond issuance.

6.3 Initial Disclosure Requirements

Debt Management, together with the City Attorney's Office and Disclosure Counsel, coordinates all the necessary documents for disclosure, with input from various other City departments (as applicable for a particular bond issuance) and outside consultants. Each publicly offered debt issuance will meet the disclosure requirements of the Securities and Exchange Commission (SEC) and other government agencies before and after the bond sale takes place. The disclosure documents, particularly the Official Statement, will provide the potential investor with full and accurate information necessary to make prudent investment decisions. Information for City backed transactions generally includes: the City government description; description of project being financed, annual financial data and financial statements in appendices, various liabilities; tax base, current debt burden, history of tax collection and bond repayment, future borrowing plans, and the source of funds for the proposed debt repayments, as well as specific bond data and bond holder risk factors.

All primary disclosure documents, which are a part of the bond offering documents (e.g., Official Statement), will be approved by the Disclosure Practices Working Group ("DPWG") before being taken to the City Council for approval (see Section 6.4). The City will also provide ongoing disclosure, in accordance with the Continuing Disclosure Agreements executed when the financing is authorized, as required by SEC Rule 15c2-12 (see Chapter IX). Ongoing disclosure will also be approved by the DPWG before it is disseminated to the markets.

The DPWG Disclosure Controls and Procedures (Appendix F) details the preparation and approval process of primary disclosure documents.

6.4 Approval Process

In coordinating the bond issuance process, Debt Management will work with the City Attorney's office, other responsible City departments, and outside consultants to compile all bond related documents (see Chapter VII for the role of various outside consultants). The City Attorney's office will assess any legal issues that may arise with respect to the issuance of the bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the City may pursue an active validation action to obtain judicial approval before the bonds are issued. If a bond transaction is controversial and gives rise to a reverse validation action, the City may find itself a party to that litigation.
All proposed debt financings shall be authorized by the City Council. To ensure accuracy, all disclosure and bond related documents will go through many levels of review prior to being submitted for City Council approval.

- As stipulated by City Ordinance O-19942, the City's DPWG will serve as an oversight body that is responsible to ensure accuracy of disclosure documents. See Appendix F for DPWG Disclosure Controls and Procedures.

- The City's Audit Committee will serve as an oversight body that is responsible to ensure accuracy of the audited financial statements.
- Pursuant to the City's Municipal Code, section 22.2301, the Independent Budget Analyst ("IBA") assists the City Council with regard to its decisions. The IBA will be provided advance copies of all documents related to the proposed bond financings for its review.
- Bond related documents will be submitted by established docket deadlines. All efforts will be made to distribute documents to reviewers at the earliest possible date.

    - A form of the preliminary official statement ("POS") will be provided to the City Council for review at least two weeks prior to approval request.

    - All updates to a POS or an official statement ("OS") following City Council approval will be provided to the City Council and IBA for review approximately three (3) business days before they are printed.

- Pursuant to City Charter Section 99, legal notice regarding the City Council hearing of the bond documents when approved via ordinance will be placed in a publication of general circulation 10 calendar days in advance of the hearing date.
- Debt Management, the City Attorney's office, and other responsible City Departments will engage in briefing Councilmembers and their staffs regarding the proposed bond financing prior to the City Council hearing.

Pursuant to City Charter Section 99, all financial obligations of the City extending for a period of more than five years have to be authorized by ordinance adopted by a two-thirds majority vote of the City Council. Financial obligations of a shorter period may be authorized by a resolution.

CHAPTER VII – FINANCING TEAM – ROLES AND SELECTION PROCESS

The Debt Management Director, working with the City Attorney's Office and the City's Purchasing Department, shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement a debt issuance. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices.

7.1 Selection and Compensation

The identification of financial advisors, trustees, and paying agents is accomplished through a selection process conducted by Debt Management, and may also be based upon recommendations from advisors that are specifically skilled in the type of bond issuance being proposed.

Selection of consultants will be made from either an as-needed list, which is assembled via a Request for Proposal (RFP) process, or a separate RFP issued for a specific bond issuance. Once the selection of a financial advisor has occurred, the financial advisor will assist the City in the selection of other service providers, including underwriters, trustees, escrow agents, credit enhancers, verification agents, title and insurance companies, and printers.
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Compensation for Bond Counsel, Disclosure Counsel, Financial Advisors, and other consultants will be as low as possible, given desired qualification levels, and consistent with industry standards.

The City may encumber and advance the fees associated with financial advisory services, which are later reimbursed from the bond proceeds, or may enter into contracts on a contingent basis. Compensation for the other service providers listed above is typically included in the cost of issuance, and paid from the bond proceeds. The ongoing trustee fee, semi annually or annually, for a bond issuance is budgeted under administration costs and appropriated in respective bond payment accounts.

The City Attorney's Office will take the lead in selecting the Bond Counsel and the Disclosure Counsel. Generally, Bond and Disclosure Counsel compensation is contingent on the issuance of bonds, and is either paid or reimbursed from bond proceeds. This practice is generally consistent with industry standards.

Eligible City staff costs related to issuance of long term bonds may also be reimbursed from bond proceeds.

7.2 Financing Team: Outside Consultants

Contracts with Financial Advisors, Bond Counsel, and Disclosure Counsel will be processed in accordance with Administrative Regulation 25.70, "Hiring of Consultants Other Than Architects and Engineers."

A. Financial Advisors

As needed, the Debt Management Director, in consultation with the Chief Financial Officer, will identify an independent financial advisor based on an RFP process or from the as-needed list of Financial Advisors. The as-needed list of Financial Advisors, which is compiled through an RFP process, is maintained by the Debt Management Department for a period up to five years. The primary responsibilities of the Financial Advisor are to

advise and assist on bond document negotiations, transaction structuring including advising on call provision options and timing of issuance, running debt service cash flow numbers, obtaining ratings on the proposed issuance, and generally acting as an independent financial consultant and economic market expert.

B. Bond Counsel

The City will retain external Bond Counsel for all debt issuances. As part of its responsibility in the debt issuance process, the City Attorney will coordinate the selection of Bond Counsel. Bond Counsel will prepare the necessary authorizing resolutions, ordinances, agreements and other legal documents necessary to execute the financing. All debt issued by the City will include a customary approving legal opinion of Bond Counsel.

C. Disclosure Counsel

The City will retain Disclosure Counsel for all public issuances that entail City disclosure. Disclosure Counsel shall be required to deliver a customary 10(b)-5 opinion on City offering documents. The City Attorney shall oversee the selection of Disclosure Counsel. The Disclosure Counsel will work with City staff to draft all disclosure documents for a bond financing.

The City Attorney's Office may engage separate firms in the capacity of Bond and Disclosure Counsel or one single firm to perform bond and disclosure counsel functions.

The City also retains a General Disclosure Counsel to review the City materials that are to reach investors or the securities markets. The General Disclosure Counsel will also be a member of the City's Disclosure Practices Working Group.

D. Underwriters

For a competitive sale, the criteria used to select an underwriter shall be the bid providing the lowest true interest cost to the City.

For a negotiated sale debt issuance, the Chief Financial Officer, working with Debt Management, shall solicit proposals for underwriting services. The Chief Financial Officer will recommend to the City Council the selected underwriter or a syndicate of underwriters. Underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed, among other criteria determined for each issuance. The Chief Financial Officer will consider the following criteria in selecting an underwriter and/or a syndicate:

- Experience with the particular type of financing, and size of the financing
- Overall experience
- Familiarity with City issues
- Marketing expertise
- Distribution capability
- Previous experience as managing or co-managing underwriter
- Financial strength, as evidenced by the firm's current financial statements
- Experience of the public finance team assigned to the financing
- Resources to complete the financing
- Compensation

- Community Reinvestment[6]

E. Trustee / Paying or Fiscal Agent

A Trustee or Paying/Fiscal Agent is the institution – usually a commercial bank or trust company – appointed in the indenture or bond resolution to act as the agent of the issuer to pay principal and interest from monies provided by or on behalf of the issuer.

Paying or Fiscal Agent duties are typically limited to receiving money from the issuer and paying principal and interest to bondholders on behalf of the issuer. A Trustee, in addition to performing the duties of a Paying Agent, is responsible for establishing and holding the funds and accounts relating to the bond issuance, including accounts for bond proceeds and revenues, determining that the conditions for disbursement of proceeds and revenues have been met, and, in some cases, collecting revenues, and executing investments.

The Trustee/ Paying Agent solicitation and selection is typically coordinated by the Financial Advisor in consultation with the Debt Management Director for a new bond issuance. The Debt Management Department will monitor the ongoing performance of a Trustee/Paying Agent. The Debt Management Director, in consultation with the Chief Financial Officer, may periodically solicit for trustees or paying agent services from qualified commercial and trustee banks.

F. Other Service Providers

Other professionals may be selected, at the discretion of the Chief Financial Officer, on an as-needed basis. These include the services of credit rating agencies, escrow agents, bond insurance providers, credit and liquidity banks, verification agents, title insurance companies, and services related to printing.

[6] In accordance with guidelines stated in Council Policy 900-09 "Community Reinvestment."

CHAPTER VIII - REFUNDING OF CITY INDEBTEDNESS

The City will consider refunding its existing debt when benefits of the refunding outweigh the costs and risks.

8.1 Types of Refunding

A. Current Refunding

A current refunding is one in which the refunding bonds are issued less than 90 days before the date upon which the refunded bonds will be redeemed.

B. Advance Refunding

An advance refunding is one in which the refunding bonds are issued more than 90 days prior to the date upon which the refunded bonds will be redeemed. Advance refundings are used to refinance outstanding debt before the date the outstanding debt becomes due or callable. Proceeds of the advance refunding bonds are placed into an escrow account with a fiduciary and used to pay interest and principal on the refunded bonds and then used to redeem the refunded bonds at their maturity or call date. Internal Revenue Code §149(d)(3) provides that governmental bonds issued after 1985 may only be advanced refunded once over the life of a bond issuance.

8.2 Refunding Considerations

Refundings may be undertaken to

- Take advantage of lower interest rates and achieve debt service cost savings
- Eliminate restrictive or burdensome bond covenants
- Restructure debt to either lengthen the duration of debt or free up reserve funds
- Refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management

Generally, the City will consider a refunding only when there is a net economic benefit; i.e., when there is an aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds, at 3% and above for a current refunding, and 4% and above for an advance refunding. This savings requirement for a refunding may be waived by the Chief Financial Officer upon a finding that such a restructuring is in the City's overall best financial interest. Exceptions shall be made only upon the approval of the Chief Financial Officer.

8.3 Refunding Escrows

The City will seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. However, at the discretion of the Chief Financial Officer, the City may choose to fund an escrow through purchase of treasury securities on the open market when market conditions make such an option financially preferred.

CHAPTER IX – POST ISSUANCE ADMINISTRATION

9.1 Investment of Bond Proceeds

The proceeds of the bond sales will be invested until used for the intended project in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The City of San Diego Investment Policy and the bond indentures govern objectives and criteria for investment of bond proceeds. The City Treasurer, or the bond trustees under the direction of the City Treasurer, will invest the bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.

9.2 Arbitrage Compliance

The Office of the Comptroller shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by the federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issuances. Additionally, general financial reporting and other tax certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are in compliance. The ongoing compliance verification function will be coordinated by the Debt Management Department.

9.3 Ongoing Disclosure

The City will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the SEC Rule 15c2-12. The Chief Financial Officer (CFO) shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The CFO is responsible for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The City may also employ the services of firms that improve the availability of or supplement the City's EMMA filings.

The City will provide full and complete financial disclosure to rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, and accurate financial information using the appropriate channels/policies/procedures.

All disclosure information shall be reviewed and approved by the City's Disclosure Practices Working Group.

9.4 Compliance with Other Bond Covenants

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the City is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments
- Taxes/fees are levied and collected where applicable
- Timely transfer of debt service/rental payments to the trustee or paying agent
- Compliance with insurance requirements
- Compliance with rate covenants where applicable
- Compliance with all other bond covenants

The Debt Management Department will coordinate verification of covenant compliance and will work with the City Attorney's Office, the Office of the Comptroller, and all other responsible departments to monitor compliance with the aforementioned compliance requirements. In January 2006, the Debt Management Department implemented a formal centralized monitoring program (FCMP) to coordinate, monitor, and report ongoing compliance requirements.

CHAPTER X – COMPLIANCE WITH CITY DEBT POLICY

In the event there are proposed exceptions from the Debt Policy when a certain bond issue is structured, those exceptions will be discussed in the applicable staff reports when the bond issue is docketed for City Council consideration. Any exception will also be stated in the financing resolution or ordinance to be approved by City Council for the corresponding bond offering.

CITY OF SAN DIEGO DEBT POLICY

HISTORY:

Adopted by Resolution R-303152	11/16/2007
Amended by Resolution R-304301	10/27/2008
Amended by Resolution R-305810	5/03/2010
Amended by Resolution R-306752	4/12/2011

APPENDIX A – SPECIAL DISTRICT FORMATION AND FINANCING POLICY

Overview

The following Special District Formation and Financing Policy is enacted to provide a uniform guideline for Community Facilities District ("CFD") and 1913/1915 Act Assessment District formation and financing. A Special District is typically formed to provide funding for public infrastructure in connection with new development, but may also be formed to finance improvements pertaining to developed properties. Subject to voter approval and once a district is formed, special taxes or assessments may be levied upon properties within a district to directly pay for facilities, and, in certain cases, services. Special taxes or assessments may also be levied to repay bonds issued to finance public improvements.

The City expects that private developers should have primary responsibility for providing public infrastructure required in connection with new development. With this policy as a guideline, the City will continue to consider requests for Special District formation and debt issuance to finance such public infrastructure when the requests address an extraordinary public need or benefit. However, due to the significant burden placed on the City to provide these conduit financings, and in light of potential impacts to the City's debt position, the Chief Financial Officer, working with the Debt Management Director, will consider each application for Special District debt issuance on a case by case basis, and may not proceed with such financing if it is determined that the financing could be detrimental to the debt position or best interests of the City. Whenever feasible, the City will consider authorizing qualified state joint powers authorities (JPAs) such as the California Statewide Communities Development Authority (CSCDA)[1] or the California Municipal Finance Authority (CMFA)[2] to provide conduit Special District formation and financing services and ongoing parcel administration for interested developers/property owners. In these cases, the developers/property owners and the JPA would still be required to adhere to the guidelines contained in the City's Special District Formation and Financing Policy unless extraordinary circumstances exist and a waiver of specific guidelines contained in the policy is provided when the City Council approves the authorizing resolution. Further, the JPA is required to present an informational report to the City Council at least 30 days prior to a debt issuance on behalf of the district.

This Special District Formation and Financing Policy is specific to Special Districts and supplemental to the City's Debt Policy. As such, guidelines provided in the City's Debt Policy would, in many cases, also be applicable to Special Districts. In addition, the City will adhere to all state and federal laws concerning the issuance of Special Districts related debt.

The City's Special District Formation and Financing Policy is specifically designed to:

- Establish parameters for the Special District formation and financing processes
- Assist concerned parties in following the City's approach for forming districts and issuing any related debt
- Facilitate the actual formation and financing processes by establishing important policy guidance in advance
- Set forth the City's Local Goals and Policies for CFD formation and financing, as required by Section 53312.7 of the California Government Code

[1] CSCDA is a joint powers authority created to enable local government and eligible private entities access to financing for public projects throughout the state.
[2] CMFA is a joint powers authority created to assist with the financing of economic development throughout the state.

A1 Background: Types of Special Districts

This Special District Formation and Financing Policy is intended to provide a uniform guideline for Community Facilities District ("CFD")[3] and 1913/1915 Act[4] Assessment District formation and financing. These Special Districts are primarily developer initiated, whereby a developer seeks a public financing mechanism to fund public infrastructure required of it by the City in connection with development permits or agreements, and/or tentative or subdivision maps. Special District formation may also be initiated by an established community.

It is important to note that the formation and debt issuance processes related to Special Districts may be considered as distinct activities. That is, districts may be established and the assessments or special taxes levied could pay directly for improvements, and in certain cases, services. Alternatively, associated bonds may be issued by such districts to finance improvements, in which case the debt service would be paid with assessment or special tax revenues.

A. Community Facilities District Financing – Mello-Roos Bonds

The Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act") was enacted by the State to help growing areas finance certain essential public facilities that typically accompany major development projects. The Mello-Roos Act permits a public agency to create a defined area within its jurisdiction and, by a two-thirds majority vote of the registered voters within the district (or, if there are fewer than 12 registered voters, through a landowner vote), levy a special tax within the district to pay directly for public improvements or services, or pay debt service on bonds issued to finance improvements. CFD, or Mello-Roos, Bonds are not fiscal obligations of the City, and are limited obligations of the CFD, payable solely from special taxes levied upon property within the district. The special taxes are calculated and levied pursuant to a Rate and Method of Apportionment, or tax formula. Under the Mello-Roos Act, the formula must be reasonable.

Formation of a CFD may be initiated by the legislative body on its own or when the appropriate request or petition, as defined by the Mello-Roos Act, is filed with the City. Currently, there are no CFDs initiated by the City's legislative body. At the discretion of the CFO, the City may choose to self-initiate a CFD, and may give priority to the provision of public facilities and/or services benefiting the City to any CFD established by the City.

The financed public facilities must ultimately be owned and operated by a public entity, such as the City, and may include, among other things, parks, libraries, police and fire facilities, roadways, and water and sewer infrastructure improvements that have a useful life of five years or more. In accordance with Section 53313 of the California Government Code, CFDs may also provide funds for certain public services, including police and fire services, and recreation program services so long as they are in addition to, and do not supplant, services already provided within the territory.

[3] The Mello-Roos Community Facilities Act of 1982 permits a public agency to levy a special tax within a defined area to finance certain essential facilities, or to pay for certain services, when specific voting requirements are met.
[4] An Assessment District may be formed pursuant to the Streets and Highways Code Municipal Improvement Act of 1913. The associated bond acts, also contained within the Streets and Highways Code, include the Improvement Bond Act of 1915 and the Refunding Act of 1984, which provide for the issuance of bonds under various assessment proceedings and the refunding of assessment bonds, respectively.

B. Assessment District Financing

The Municipal Improvement Act of 1913 provides for a local agency to form an Assessment District to finance certain infrastructure, including roadways, water and sewer facilities, storm drains, and other improvements often required in connection with new development. Assessment Districts formed under this Act may also finance, but in very limited circumstances, maintenance services. Assessment Districts may also be formed to provide for, among other things, the undergrounding of overhead utility lines or the abatement of hazardous geological conditions, upon a successful petition signed by owners of property who want the improvement.

An Assessment District must include all properties that will benefit directly from the improvements to be constructed, and formation of the district requires an election in which at least 50% of property owners vote in favor of the district. If an Assessment District is formed, the City may levy assessments that can be utilized to directly finance the public improvements, or may be pledged to support debt service on bonds, which may be issued under the Improvement Bond Act of 1915. The assessments that are levied upon each parcel must be based upon the direct and special benefit received by the property.

A2 Considerations for Authorization of Special District Financing

The formation and financing processes related to Special Districts may be considered as two distinct processes. In order for a financing process to occur, a formation process is also necessary. However, a district could be formed without an associated bond financing. In this case, the special taxes or assessments that are levied would provide revenues to pay directly for public improvements, or, in certain cases, services (versus paying debt service on bonds issued to finance improvements). The following guidelines generally relate to the financing process for Special Districts.

A. Credit Considerations

It is the City's policy to exercise caution in approving requests for Special District financing and that each request be weighed in the context of the City's total infrastructure and financing needs. Although the rating agencies consider Special District financings as overlapping debt (as compared to direct debt), if, and to the extent, the City's overlapping debt burden is viewed as excessive, there could be an impact to the City's credit. Such an impact could increase the costs of all future City bond financings. In light of potential impacts to the City's debt position, the Chief Financial Officer will consider each application for Special District financing on a case by case basis, and may not recommend such financing if it is determined the financing could be detrimental to the City's overall debt position or the best interests of the City.

B. Extraordinary Public Benefit

With respect to CFD financing, the applicant should demonstrate that a proposed project will provide an extraordinary public benefit. This condition may be met if at least one of the following criteria is satisfied:

Regional Benefit – The improvements must be generally large in scope, and provide a community-wide or regional benefit. Examples of regional improvements are libraries, fire stations, and transportation improvements that result in a significant net improvement to the

regional transportation system, and parks and recreational improvements of a unique or otherwise significant nature that are anticipated to serve residents from across the City. Additional Public Benefits – The proposed improvements must provide some other extraordinary benefit which otherwise would not be realized through the normal subdivision process. Examples of this type of benefit would include: the provision of the proposed improvements in a more timely fashion; facilitating a project that multiple properties/developments are responsible for providing; facilitating a City adopted redevelopment project; the provision of environmental benefits; the provision of public infrastructure undertaken in connection with affordable housing; or a similar benefit that the City finds acceptable.

C. Competing Projects

The City's ability to provide the resources necessary to implement new Special District financings must be considered in the context of competing needs for general City and Water and Wastewater Utility debt issuances. Also, priority for Special District financing will generally be given to the projects that will confer the greater level of benefit to the City's residents.

It is the City's policy that bond financing will not generally be utilized in conjunction with the formation of smaller districts, defined as district projects totaling in the range of $3.0 million - $5.0 million and under. Such projects often benefit only a relatively small number of property owners. For projects under $3.0 million to $5.0 million, bond financing is not typically cost effective. Due to these factors, the allocation of limited staff resources would not generally be justified in relation to the City's other financing priorities. In these cases, an Assessment District may be formed, followed by a one-time enrollment of assessments to pay for the subject public facilities directly.

D. Administrative Considerations

Although Special District financings are not fiscal obligations of the City, the City is required to provide extensive on-going annual disclosure with respect to each Special District financing in conformance with federal securities laws, and must also perform extraordinary on-going administrative work. Such work includes the calculation, enrollment, and collection of special taxes and assessments each year, the monitoring of delinquency activity and conducting of foreclosure activities if certain delinquency thresholds are reached, the calculation and processing of pre-payments and subsequent updating of debt service schedules, and preparation of additional annual disclosure pursuant to State law. In its assessment of each application for Special District financing, consideration will also be given to the significant burden placed on the City's limited resources to administer these conduit financings for the term of the bonds.

E. Recommended Method of Special District Financing

The generally recommended method of Special District financing is CFDs due to the following factors:

Flexibility of Taxing Formula: CFD financing offers more flexibility with respect to the taxing formula as compared to Assessment District financing (e.g., publicly owned property, such as property owned by a school district or the City, can be exempted from the payment of special taxes, and low income housing can be assessed a nominal special tax thereby easing the burden on such properties).

Eligible Facilities: CFDs offer more flexibility than Assessment Districts with respect to the types of facilities and services that may be funded. In addition, eligible facilities under Assessment Districts are limited to facilities located within the district; this is not the case for CFDs.

Credit Strength: For a given project, CFD Bonds are perceived to be a stronger credit than Assessment District Bonds because the Mello-Roos Act permits greater than 100% debt service coverage and allows an administering agency to factor in a certain amount for delinquencies in the annual enrollment of special taxes. Comparatively, only 100% debt service coverage is permitted with respect to Assessment Districts and there is no allowance for delinquencies.

On-Going Costs: CFDs are less resource intensive than Assessment Districts to administer on a post debt issuance basis (e.g., for Assessment Districts, any changes in parcel configuration require a costly and time-intensive reapportionment process under the State law).

Unless circumstances warrant otherwise, it is the policy of the City to support CFD financing versus Assessment District financing for a given project. However, as noted above, in the case of districts that would finance smaller projects, such as those pertaining to established communities, an Assessment District may be more appropriate. In such cases, a one-time enrollment of assessments (versus a bond financing) may also be recommended.

A3 Eligible Facilities and Priorities

A. Ownership and Useful Life of Proposed Facilities

The improvements eligible to be financed must be owned by a public agency or public utility, and must have a useful life of at least ten years. Notwithstanding the foregoing, private renewable energy, energy efficiency, and water conservation improvements may also be financed as prescribed under the San Diego Municipal Code Division 26, Sections 61.2601 through 61.2619.

B. Types of Eligible Facilities

The list of public facilities eligible to be financed by a CFD may include, but is not limited to the following: streets, highways, and bridges; water, sewer, and drainage facilities;

parks; libraries; police and fire stations; traffic signals and street lighting; recreation facilities; governmental facilities; flood control facilities; environmental mitigation measures; and public rights-of-way landscaping. Notwithstanding the foregoing, private renewable energy, energy efficiency, and water conservation improvements may also be financed as prescribed under the San Diego Municipal Code Division 26, Sections 61.2601 through 61.2619.

C. Priority of Facilities

In general, with respect to CFDs, none of the types of facilities listed under Section A3B will have priority over the others; however, when a developer submits an application to

finance more than one eligible facility, the applicable City departments (e.g., the Library Department, the Park and Recreation Department, Engineering & Capital Projects, City Planning and Community Investment, etc.) will confer and determine the priority based on the estimated impacts (i.e., benefits conferred) of the eligible projects to the district and surrounding impacted communities.

D. Joint Communities Facilities Agreement(s)

Under Section 53316.2 of the California Government Code, a CFD may be formed to finance facilities owned or operated (or to fund services to be provided) by a public entity other than the agency that created the district, if a Joint Communities Facilities Agreement (JCFA) or a joint exercise of powers agreement is adopted. The City will not enter into a JCFA or joint exercise of powers agreement for a CFD proposed to be formed by another public agency unless:

- The proposed CFD complies with the provisions of this Special District Formation and Financing Policy with regard to Sections A5C, "Maximum Tax and Assessment Rates," Section A8C "Disclosure to Prospective Purchasers of Property," as well as any other provisions the Debt Management Director may deem applicable to the proposed CFD;

- The applicant/developer requesting CFD financing provides funds to reimburse City costs incurred to review and approve the JCFA.

All disclosures provided to prospective property owners within a CFD formed by another public agency in which the City has entered into a JCFA shall clearly specify that such public agency is solely responsible for the CFD, including formation of the CFD, the levy and administration of special taxes, and the bond financing.

E. Services

Consistent with recent trends in other municipalities across the State, the Chief Financial Officer, working with Debt Management, recommends that services be included among the list of authorized items to be financed through a new CFD. Under Section 53313 of the California Government Code, a CFD may finance any one or more of the following types of services so long as they are in addition to the services provided in the territory before the district was established and do not supplant services already available in such territory: police protection services; fire protection services; recreation program services; library services; maintenance of parks, parkways, and open space; and flood and storm protection services.

In general, the City would expect that when a CFD provides for public facilities that require on-going City operations and/or maintenance (or when the impacts of the new development create other on-going service demands within the area), a mechanism would be established to off-set a portion of those associated costs through the CFD. Methods that could be employed may include: (1) the incorporation of some pre-determined amount into the special tax formula for services; or (2) a provision in the special tax formula that special taxes would be levied up to the maximum tax rates, with any amounts collected over and above the amount needed for debt service, replenishment of the Debt Service Reserve Fund, administrative costs, and any other periodic items required in connection with a bond issuance, to be allocated for services. The City will have complete discretion as to the

method of incorporating a services component into the CFD, and would consult with its Bond Counsel and special tax consultant in developing the appropriate mechanism.

A4 Credit Quality Requirements for Bond Issuances

It is the objective of the City to minimize the credit risks associated with Special District bonds. To this end, the following policies are established:

A. Value of Property

Bonds shall be sold in connection with a district or improvement area only if the value of each individual parcel of real property that would be subject to the special tax or assessment is at least four times the share of the bond principal allocable to such parcel and the share of principal allocable from any other outstanding bonds that are secured by a special tax or special assessment levied on the parcel. On a case by case basis, the City reserves the right to require a higher value to lien ratio. In determining the value to lien ratio, either assessed values for individual properties may be obtained from the County of San Diego Assessor's Office or the City may utilize an appraisal prepared by an independent appraiser under contract to the City.

To meet this policy, property owners may elect to prepay special taxes to comply with this requirement. In certain circumstances, the City may allow property owners to meet this requirement through the provision of credit enhancements to the satisfaction of the City. Also, in certain circumstances, the City reserves the right to require the provision of credit enhancement to the satisfaction of the City. These enhancements may include letters of credit or other appropriate assurance.

B. Debt Service Coverage for CFD Bonds

The maximum tax rate adopted in each CFD must provide a minimum of 110% coverage of debt service (excluding earnings on a Debt Service Reserve Fund) in order to finance delinquencies out of special tax revenues.

C. Capitalized Interest

Generally, for Special District financings, a capitalized interest account would be established from bond proceeds if such proceeds are necessary to pay principal and interest on the bonds prior to the enrollment and receipt of the first year of special taxes and assessments for the district. A capitalized interest account should be established if it will improve the credit quality of the bonds and result in lower borrowing costs. In no event will the capitalized interest period exceed two years.

D. Debt Service Reserve Fund

A Debt Service Reserve Fund should be established for Special District financings. Generally, the Debt Service Reserve Fund for Special District financings should be the least of (i) maximum annual debt service on the bonds; (ii) 125% of average annual debt service on the bonds; or (iii) 10% of the original principal amount of the bonds.

E. Maturity Date

No bonds shall be issued with a maturity date greater than the expected useful life of the facilities or improvements being financed.

F. Acquisition Type Districts

Unless there are extraordinary circumstances, Special Districts will be formed as acquisition type districts whereby a developer will be reimbursed for projects only when discrete, useable facilities are deemed completed by the City, as opposed to merely completing a section of a facility. Acquisition type districts present stronger credit features, and better assure that the public facilities, which are ultimately paid for by assessment and special tax payers, are completed.

G. Third Party Guarantee of Special Tax and Assessment Payments During Project Development

The greatest exposure to default on Special District bonds is the period between the issuance of bonds and project stabilization. The risk of default is increased when only a single or a few property owners are responsible for the special assessment or special tax payments. While the City's credit is not pledged to support the bonds, a default on Special District bonds can negatively impact the investment community's perception of the City.

To minimize the risk of default, the City may require a third party guarantee for the annual special tax or assessment payments within a district while the project is being developed and until there is significant absorption of the new development. The need for, nature, and duration of any third party guarantees will be evaluated by the City and its Financing Team on a case by case basis. However, a third party guarantee, such as a letter of credit ("LOC"), would be specifically required of a property owner/developer in each year in which the property owner/developer owns or leases property within the district which is responsible for 20% or more of the special taxes or assessments levied to support the repayment of bonds; the LOC would provide for 100% of the of the special tax or assessment levy due in each applicable fiscal year for property owned or leased by such property owner/developer. If required, the third party guarantee must be provided within five days of the Resolution of Issuance.

Third party guarantees may include letters of credit, surety bonds, or some other mechanism which assures payment of special taxes or assessments while the project is being developed. When LOCs are required, they must meet any City standards for LOCs that exist at the time the LOC is provided.

H. Foreclosure Covenants

Because Special District financings are generally solely secured by liens against property within the district, the investment market expects to see appropriate foreclosure covenants. Foreclosure covenants would compel the City to take action to file a foreclosure lawsuit against a parcel when certain delinquency thresholds are reached. For each financing, the Debt Management staff and its consultants will analyze key aspects of the district (e.g., number of parcels, special tax/assessment rates, and debt service) to structure foreclosure covenants in a manner that reduces the likelihood of a shortfall in special taxes/assessments to pay debt service. If a parcel reaches a foreclosure covenant threshold, the City would

diligently proceed with the steps necessary to file a foreclosure lawsuit, as required under the applicable bond indenture.

A5 Tax and Assessment Allocation Formulas

A. Calculation and Allocation of Special Taxes and Assessments

Special Assessments – By law, the amount of an assessment must directly reflect the benefit received from the improvement. Typically, this means the total cost of the project, including any financing costs, is spread to property owners based on the appropriate property-based measure of benefit. The City will hire an outside assessment engineer, which specializes in the area of calculation and allocation of special assessments, to develop the appropriate assessment spread methodology.

Special Taxes – Significant flexibility is allowed for structuring CFD special taxes because the law does not require a direct relationship between the tax and the benefit received. However, the Rate and Method of Apportionment of the special tax must be both reasonable and equitable in apportioning the costs of the public facilities and/or services to be financed to each of the taxable parcels within the boundaries of the proposed district. Exemptions to the payment of special taxes may be provided for parcels that are to be dedicated at a future date to public entities, held by a homeowners association, or designated as open space. Also, consideration should be made with respect to minimizing the special tax burden on any affordable units. Because the tax structure for CFDs can be very complicated, special tax consultants, who specialize in the development of Rates and Methods of Apportionment are required.

B. Administrative Expenses

The calculation of special taxes and assessments should also provide, whenever possible, for the full recovery of all administrative expenses and other periodic costs of the proposed district.

C. Maximum Tax and Assessment Rates

For districts involving bond financing, the City desires to establish a maximum level of taxes to limit the overlapping debt burden on any parcel. As such, the total taxes and assessments collected through the property tax bill should not exceed 1.80% of the expected assessed value of the parcel upon final sale of the property to end users.

D. Special Tax Coverage and Maximum Tax Rates

The maximum tax rate adopted in each CFD must provide a minimum of 110% coverage of debt service (excluding earnings on a reserve fund) in order to finance delinquencies out of tax revenues. An allowance for delinquent properties will be factored in when calculating the subsequent year's special tax (the special tax would still be levied against such delinquent parcels).

E. Predictability of Special Tax Liabilities

Special tax formulas should promote stable and predictable tax liabilities, particularly for residential properties. With the exception of a variation for administrative expenses, the

annual special tax levy on each residential parcel developed to its final land use shall be approximately equal each year. In the event special tax payments are supporting the provision of services, rather than, or in addition to, capital expenditures, an appropriate escalation factor may be incorporated into the Rate and Method of Apportionment to provide for the impact of inflation to on-going service costs.

F. Term of Special Tax

The term of the special tax should be sufficiently in excess of the term of any bond issue which it supports to allow for delinquencies, refinancing, and/or acquisitions of pay-as-you go facilities. However, the Rate and Method of Apportionment should also specify that the levy of special taxes would cease once the bonds are repaid. The exception would be for any special taxes levied to provide for on-going services; in this case, the City may consider a special tax term in excess of the final maturity of any bonds issued to provide for the on-going services.

A6 Appraisal Standards

The City recognizes the California Debt and Investment Advisory Commission's Appraisal Standards for Land-Secured Financings (CDIAC Standards), released July 2004 (or any subsequently published update) as the basis for the conduct of appraisals performed in connection with Special District financings.

A7 Sources of Payment for Special Districts Bonds

As described above, Special District bonds are limited obligations of each district, payable from special taxes or assessments levied on property within the district. The bonds are not general or special obligations of the City and the City does not pledge its credit to payment of the bonds. The disclosure documents for each Special District bond offering will describe the sources of payment, and will include statements that the city is not pledging its credit to pay debt service on the bonds.
Although there is no legal requirement that the City step in to make payments from its general revenues in the event of a short-fall in special taxes or assessments due to delinquencies to pay debt service on Special District bonds, the City does have the discretion to do so. However, it will be the City's policy that if there is such a short-fall, the City will not step in to make payments from its general revenues.

Refer to Section A4, H. – Foreclosure Covenants, for additional information.

A8 Applicant/Developer Disclosure Requirements

A. Initial Disclosure to Investors

The applicant/developer will be required, as requested by Debt Management and Bond Counsel, to supply any and all material needed from it to help ensure appropriate information is disclosed to prospective investors.

B. Developer Continuing Disclosure to Investors

The City shall use all reasonable means to ensure that an appropriate Developer Continuing Disclosure Agreement is executed at the time a financing is issued to ensure that the

Developer and/or any affiliates, as applicable, which are material to the district are required to provide on-going disclosure to bond investors so long as they remain material.

C. Disclosure to Prospective Purchasers of Property

The developer will be required to provide a certification to the City that it will provide full disclosure of the special taxes or assessments to prospective purchasers of property it sells within the district, and in accordance with all applicable state and local laws.

A9 Application and Administrative Procedures

As stated above, it is the policy of the City to exercise caution in approving requests for Special District financing and that each request be weighed in the context of the City's total infrastructure and financing needs. In light of potential impacts to the City's debt position, the Chief Financial Officer, working with the Debt Management Director, will consider each application for Special District financing on a case by case basis, and may not recommend such financing if it determines a financing could be detrimental to its overall debt position or the best interests of the City. Among other things, the guidelines below will help interested applicants understand the process for submitting a request for Special District formation and--if applicable--financing. (Also see Overview Section above for information concerning the provision of conduit Special District Formation and financing services by qualified JPAs.)

A. Petition

Notwithstanding the minimum petition thresholds established under the State law[5], the City requires that a preponderance of the affected property owners (75%) petition the City to form a Special District. The higher threshold is established due to the following factors: (1) significant City resources would be directed to the advance work to form the district, and it is prudent to have some assurance that formation of the district would be successful; and (2) a successful petition and subsequent ballot process in an established community (e.g., where there are residential property owners) could result in a significant lien on property whose owners voted against the proposed district.

B. Application Procedures

For developer initiated districts, an application may be obtained from, and filed with, the Department of Finance. The Department of Finance will review the application for completeness and, if necessary, request the applicant to provide further information. In consultation with any applicable departments (e.g., the City Attorney's Office, the City Planning and Community Investment Department, Engineering & Capital Projects, etc.) the Department of Finance will consider the public benefits offered by the proposed project in the context of these policies, and will make a recommendation on whether to authorize a feasibility study, pursuant to Section C, below.

[5] Pursuant to Sections 53318 and 53319 of the California Government Code, proceedings to form a CFD may be commenced upon: (1) the written request of two members of the legislative body; (2) majority approval of the City Council; or (3) a petition signed by at least 10% of registered voters (or if fewer than 12 registered voters, by the owners of at least 10% of the land). Under the California Streets and Highway Code, district formation proceedings may be commenced if landowners of 60% of the land area file a petition in which such landowners waive the requirements of the Special Assessment Investigation, Limitation and Majority Protect Act of 1931.

C. Feasibility Study

For developer initiated districts, if authorized by the Chief Financial Officer, the City will hire an independent financial or feasibility consultant to perform a comprehensive project review and feasibility analysis of the proposed project that would ultimately provide for the payment of special taxes or assessments in connection with a bond financing. Such comprehensive review will include, but not be limited to, a review of the audited financial statements of all landowners who own more than 20% of the land contained within the proposed district in order to investigate the developer(s) financial strength and experience in large scale projects. In addition, the consultant will consider environmental requirements in connection with the development, and economic factors such as market absorption and how it relates to the project's overall feasibility. The consultant will also investigate and report on all liens against the property in question, the value to lien ratios, and other financial aspects of the project. For the Chief Financial Officer to consider a proposed financing, the study should conclude the project is feasible and could support the issuance of bonds, and that it is reasonable to proceed with formation of the district and the issuance of bonds.

D. Fees

It is the City's policy that all City and consultant costs incurred in the evaluation of applications for Special District formation and financing, as well as any and all costs incurred in forming the district and, if applicable, issuing bonds shall be paid by the applicant(s) by advance deposit increments or as otherwise agreed in writing by the City. Accordingly, fees will be collected pursuant to a Deposit and Reimbursement Agreement between the City and the applicant executed prior to the City beginning its project review. Some or all of these fees may be recoverable from bond proceeds when a financing is completed and any surplus fees would be refunded (notwithstanding the foregoing, consultant and legal costs of the developer or applicant are not eligible for reimbursement). Additionally, the costs associated with administering a district after its formation will be included in the annual special tax or assessment for the district.

E. Selection of Financial Consultants and Service Providers

The policies established in the City's Debt Policy for the solicitation and selection of professional services that are required to develop and implement the City's debt program shall apply with respect to Special District financings. In addition to the professional services outlined in the City's Debt Policy, there are consultants specific to Special District formation and financing that may be engaged, including an appraiser, a market absorption consultant, and a special tax consultant or assessment engineer.

A10 Timing

If recommended by the Chief Financial Officer, and pursuant to the filing of an appropriate petition and application, and, if applicable, the completion of a Feasibility Study that concludes the project is feasible (all as set forth above in Sections A9 A, B, and C), the City will use its best efforts to form the district and, if a financing is contemplated, issue the bonds. However, the City will prioritize the formation and any financing activities as specified in Section A2 of this policy.

The City will not schedule any sale of Special District bonds so as to conflict with the sale of other securities issued for City purposes. In the event of any scheduling conflicts, the sale of bonds issued for City purposes will have priority.

A11 Policy Exceptions

The City may find in limited and exceptional instances that a waiver to any of the above stated policies is reasonable.

CITY OF SAN DIEGO SPECIAL DISTRICTS FORMATION AND FINANCING POLICY

HISTORY:

Adopted by Resolution R-303153	11/16/2007
Amended by Resolution R-304301	10/27/2008
Amended by Resolution R-305810	5/03/2010
Amended by Resolution R-306752	4/12/2011

PREVIOUSLY ADOPTED AS:

COUNCIL POLICY 800-03 - PUBLIC INFRASTRUCTURE FINANCING ASSESSMENT DISTRICTS AND COMMUNITY FACILITIES

HISTORY:

Adopted by Resolution R-183351	04/06/1965
Amended by Resolution R-185734	12/14/1965
Amended by Resolution R-188027	08/09/1966
Amended by Resolution R-193345	04/04/1968
Amended by Resolution R-212402	01/09/1975
Amended by Resolution R-258118	03/21/1983
Amended by Resolution R-274571	10/16/1989
Repealed by Resolution R-303153	11/16/2007

APPENDIX B – COUNCIL POLICY 100-12 "INDUSTRIAL DEVELOPMENT BOND PROGRAM"

SUBJECT: INDUSTRIAL DEVELOPMENT BOND PROGRAM
POLICY NO.: 100-12
EFFECTIVE DATE: June 15, 1993

BACKGROUND:

The City, through its Charter and/or under the California Industrial Development Financing Act, has the authority to issue the full range of taxable and tax-exempt conduit revenue private activity industrial development bonds (IDB's) permitted by the Internal Revenue Code.

PURPOSE:

To establish policy guidelines and procedures regarding issuance by the City of IDB's for nongovernmental borrowers.

POLICY:

It shall be the policy of the City to utilize IDB's to promote private sector economic development in San Diego. The City shall issue IDB's as authorized by the City Council. IDBs shall only be issued when the City determines that substantial public benefits shall result.

Project Qualifying Criteria. The City shall require all IDB issues to be investment grade-rated by a nationally-recognized bond rating agency. Public benefit criteria to be considered in determination of project eligibility shall include the following:

1) Employment creation or retention;
2) Expansion of the City's tax base;
3) Diversification of the City's economy;
4) Increase in the availability or reduction of the costs of consumption of necessary goods and services, either Citywide or in a particular community;
5) Resource conservation and recycling;
6) Environmentally optimal disposition of waste materials;
7) Improvement in the viability of a redevelopment area, enterprise zone or community revitalization project, and
8) Preservation, expansion or enhancement of cultural resources.

In addition, IDB applicants shall, as applicable, provide evidence of compliance with Title VII of the Civil Rights Act of 1964 and the California Fair Employment Practices Act and a workforce analysis as required by the City Equal Opportunity Program.

IMPLEMENTATION:

Marketing and Outreach. Economic Development Services in the City Manager's Office shall actively engage in marketing and outreach efforts in order to generate IDB Program participation from the private sector and shall provide preliminary transaction structuring guidance.

IDB Review Committee. Economic Development Services shall be responsible for coordinating staff review of IDB applications, utilizing an IDB Review Committee with representatives from Economic Development Services, the City Attorney, the City Treasurer, the City Auditor and Comptroller, the Financial Management Department and other City departments and agencies as needed. The objective of the review will be to prudently evaluate the suitability of particular projects for IDB financing and potential fiscal impacts on the City. Upon completion of the Committee's review, Economic Development Services will produce a City Manager Report which presents perceived benefits, identifies financial concerns and offers a recommendation. The Committee shall also meet periodically for updates on IDB Program status.

Independent Consultants. The City shall normally designate financial advisor, bond trustee and bond counsel for all City-issued IDB's. The City shall also have the right to approve the applicant's nominee(s) for bond/underwriter, which shall be consistent with the City's MBE/WBE and equal opportunity participation goals. The cost of all consultant services shall be paid for by the applicant.
The financial advisor shall review the financial aspects of the IDB issue, including project feasibility and security structure. The bond trustee shall perform certain bond administration fiduciary functions, including registrar and paying agent. The bond counsel shall provide services customarily provided by bond counsel, including procedural issues and review of the legal aspects of the proposed transaction. In the event that the City Council approves bond counsel nominated by the applicant, the City shall also engage independent legal counsel.

Review of IDB Applications. IDB applications shall be submitted to the Director, Economic Development Services. The application may be denied at the Economic Development Services level, referred to another issuer such as the California Statewide Communities Development Authority Joint Powers Agency ("the JPA"), or, if initially deemed potentially feasible and appropriate for financing through IDB's issued by the City, distributed to the IDB Review Committee for further review.
The IDB Review Committee and the City's independent consultants shall prudently and expeditiously evaluate applications not previously denied for financial feasibility, public benefit, security structure, reasonable costs, potential fiscal impacts and compliance with City policy and applicable state and federal laws. Applicants shall expeditiously provide any supplemental information required.
Upon completion of the application review, Economic Development Services shall forward through the IDB Review Committee a report and recommendation to the City Manager. The item shall then be docketed directly to the full City Council for approval or denial. Every effort will be made to obtain initial official action by the City Council on all applications within 60 days of submission.

Processing of Approved IDB Financings. Final City Council approval of any IDB issue shall be subject to the submission of substantially final documentation for the bonds and shall be at the sole discretion of the City Council. If the IDB application is approved by City Council, Economic Development Services shall be responsible for coordinating implementation of the financing with the applicant, the IDB Review Committee, the City's independent consultants and the appropriate City officials.

Administration of Outstanding Bond Issues. Ongoing day-to-day administration of outstanding bond issues shall be the responsibility of Economic Development Services, which shall consult with and provide status reports to other IDB Review Committee members as appropriate.

Fees. It shall be the policy of the City to obtain full recovery of all City and consultant costs related to review and approval of IDB applications, IDB issuance and subsequent bond administration costs. Fees shall be charged in accordance with applicable federal law as sufficient to maintain an ongoing IDB Program. First priority use of fee revenues in excess of IDB Program expenses shall be for City economic development programs, particularly MBE/WBE and small business assistance and neighborhood commercial revitalization efforts.

The City's maximum IDB fee schedule shall be as follows:

1) Application Fee. If the City is proposed to be the issuer, a $2,500 non-refundable application fee shall be payable at time of submission of the IDB application; if the issuer is to be the JPA or some similar entity other than the City, the application fee shall be $1,250.

2) Other City Processing and Administrative Expenses. Staff shall engage the services of qualified independent consultants, at the expense of the applicant, to provide assistance in IDB application review, transaction processing and/or bond administration, as needed. The applicant shall be required to deposit in advance with City amounts sufficient to pay for City staff time and City out of pocket costs for consultant services. If bonds are issued, any unexpended balance remaining on deposit shall be applied, without interest, towards reduction of the origination fee due prior to closing. If bonds are not issued, any amount remaining shall be returned without interest to the applicant.

3) Origination Fee. A non-refundable IDB origination fee equal to 1/4% of the principal amount of bonds shall be payable prior to IDB issue closing.

4) Administration Fee. An administration fee equal to .025% of the principal amount of bonds outstanding as of January 1 of the year of payment (minimum $500) shall be payable on each anniversary of the date of issuance of the IDB's. The administration fee shall be waived if the City is not the issuer of the IDB's.

5) Transaction Fee. The applicant or its successor shall be required to deposit in advance with the City amounts sufficient to cover City staff and consultant costs related to any proposed change in the bond documents after IDB's are issued.

Indemnification. Each applicant shall be required, as a part of bond documentation, to provide an indemnity to the City, its officers, agents and employees for all expenses, including attorneys' fees, as well as any investigation, defense, judgment or settlement costs arising out of any investigation, claim or litigation involving any IDB issue or the documentation related thereto, including any disclosure materials.

HISTORY:

"Administration of the City's Private Activity Bond Allocation" Adopted by Resolution R-264213 10/14/1985
Retitled to "Industrial Development Bond Program" and Amended by Resolution R-282170 06/15/1993

APPENDIX C – SAN DIEGO HOUSING COMMISSION POLICY MULTIFAMILY MORTGAGE REVENUE BOND PROGRAM

San Diego Housing Commission **POLICY** Subject: **MULTIFAMILY MORTGAGE REVENUE BOND PROGRAM**		
Number: **PO300.301**	Effective Date: 10/16/89	

1. SUMMARY

1.1 Federal, state and local legislation authorize issuance of mortgage revenue bonds by local governments to finance the development, acquisition and rehabilitation of multifamily rental projects. The interest on the bonds can be exempt from federal and state taxation. As a result, bonds provide below market financing for qualified rental projects located in the City of San Diego (the "City"). In addition, the bonds issued under the program can qualify projects for allocations of federal low-income housing tax credits, which can provide a significant portion of the funding necessary to develop affordable housing. The program is administered by the San Diego Housing Commission (the "Housing Commission") and uses tax-exempt mortgage revenue bonds issued by the Housing Authority of the City of San Diego (the "Housing Authority").

1.2 There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City's or the Housing Authority's faith, credit or taxing power and the bonds do not constitute general obligations of the issuer because the security for repayment of bonds is limited to project revenue and other sources specified under each financing. Project loans are, in most cases, secured by a first deed of trust on the bond-financed property. The program is completely self-supporting; developers must secure funding to pay for costs of issuance of the bonds and all other costs under each financing.

1.3 The goals of the program include: increase and preserve the supply of affordable rental housing; encourage economic integration within residential communities; maintain a quality living environment for residents of assisted projects and surrounding properties; and, in the event of provision of public funds towards the project, optimize the effectiveness of Housing Commission, Redevelopment Agency, or other public funding by maximizing the leveraging of private sector funds.

1.4 There is no limit on the maximum loan amount; however, the minimum loan amount is determined by the overall cost effectiveness of the financing, which includes payment for the costs of issuance, services of the financing team members, rating fees, etc. The bond issuance amount for individual projects is based upon project costs, interest rates, and revenues available to pay debt service. The Housing Authority will consider multiple properties as part of a single bond financing on a case by case basis.

1.5 Projects must consist of complete rental units, including kitchens and bathrooms. Loan funds may be used for costs of property acquisition (up to 25% of bond proceeds), construction, rehabilitation, improvements, architectural and engineering services, construction interest, loan fees and other capital costs of the project

incurred after the bond inducement date specified in Section 7.3. Loan funds cannot be used to acquire property from a party related to the buyer. No more than 2% of any tax-exempt bond loan can be used to finance costs of issuance, such as the services of the financing team members, rating and printing of bonds, bond allocation, etc. Pursuant to federal requirements, if bonds are used for acquisition and rehabilitation, at least 15 percent of the portion of the acquisition cost of the building and related equipment financed with the proceeds of bonds must be used for rehabilitation of the project. The loans are assumable upon transfer of the project with the approval of the credit enhancement provider or bond purchaser, and the President and Chief Executive Officer of the San Diego Housing Commission (the "President and CEO").

1.6 The Housing Commission receives compensation for its services in preparing bond issuances by charging an up-front fee payable at the bond closing. In addition, the Housing Commission also receives as compensation for compliance monitoring of regulatory restrictions and the administration of outstanding bonds an annual administrative fee payable in arrears in semiannual or annual installments. The up-front fee and the annual ongoing administrative fee are each equal to 23 basis points (0.23%) of the initial amount of bonds issued. For small projects, a minimum ongoing fee may be charged to recover administrative and monitoring costs.

2. TYPES OF BONDS

2.1 The Housing Authority may issue either tax-exempt or taxable bonds. Taxable bonds would generally be issued only in combination with tax-exempt bonds. Taxable bonds do not require an allocation of bond authority from the California Debt Limit Allocation Committee (“CDLAC”).

2.2 Tax-Exempt Private Activity Bonds (Non-Refunding) require an allocation of bond authority from CDLAC. To obtain the allocation, the Housing Authority must submit an application to CDLAC on behalf of the developer. Submittal of the application is at the discretion of the Housing Authority, not the developer. The developer must pay all required CDLAC fees when due.

2.3 The Housing Authority may issue 501(c)(3) bonds on behalf of qualified nonprofit organizations. 501(c)(3) bonds are tax-exempt and do not require an allocation from CDLAC, but cannot be used with the Low Income Housing Tax Credit Program.

2.4 The interest on taxable bonds is not exempt from federal taxation. These bonds are not subject to federal volume "cap" limitations and therefore do not require allocation authority from CDLAC. Taxable bonds can be used in combination with low-income housing tax credits awarded by the Tax Credit Allocation Committee. Taxable bond issues must meet all applicable requirements of this Policy (including rating requirements) and any additional regulations that may be promulgated, from time to time, by the Housing Commission.

2.5 The Housing Authority will allow refunding of bond issues that meet the following conditions:

A. The project sponsor agrees to cover all costs of the issuer.

B. Projects originally financed by tax-exempt bonds prior to the 1986 Tax Act will have to make a minimum ten percent of the units affordable to persons earning 50 percent of median area income with the rents affordable at the same level.

C. The affordability restrictions of the existing bond regulatory agreement are subject to extension. The Housing Commission reserves the right to impose additional requirements on a case by case basis. All specifics of refunding proposals must be approved by the Housing Authority.

D. Default refunding applications require a default refunding analysis (to determine the eligibility for a default refunding). The Housing Commission shall choose the firm to conduct the analysis. The project applicant will deposit the cost for the study with the Housing Commission before the study begins.

3. AFFORDABILITY REQUIREMENTS

3.1 Term of Rental and Affordability Restrictions—The project must remain as rental housing and continuously meet the affordability requirements as provided in Sections 3.2, 3.3 and 3.4 for the longer of (a) 15 years from the date of the original issuance or refunding, as applicable, (b) as long as the bonds remain outstanding, (c) such period as may be required in the opinion of Bond Counsel to satisfy applicable federal or State law, or (d) such period as may be required by CDLAC (typically 55 years). The rent of "in-place" tenants at the conclusion of the required affordability period will continue to be governed by the applicable affordability restriction, so long as those tenants continue to live in the development. The Housing Authority reserves the right to impose additional affordability restrictions.

A Regulatory Agreement containing the rental and affordability restrictions will be recorded against the property and must be complied with by subsequent owners. The Regulatory Agreement will be terminated upon expiration of restrictions or in the event of casualty loss or foreclosure, and the subsequent retirement of bonds as a result of foreclosure.

State law requires advance notice and other requirements upon termination of affordability requirements, some of which also place restrictions on the sale of previously affordable housing projects.

3.2 Income Restrictions—To be eligible for tax-exempt bond financing, **federal law** requires that the project meet one of the following conditions:

A. A minimum of 20% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size; or

B. A minimum of 40% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 60% of area median income, as adjusted by family size.

At the same time, **state law** requires that a minimum of 10% of the units in the project be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size, at specified rent levels.

Project owners must certify their tenant's eligibility annually. If a tenant is no longer eligible, the next available unit in the project must be rented to a new eligible tenant and the current tenant's rent can be raised to a market level. A unit occupied only by full time students does not count towards the set-aside requirement.

Affordability definitions are based on the area median income for the County of San Diego as established by the US Department of Housing and Urban Development. The median income is subject to change annually. Household size is determined by adding one person to the bedroom size of the unit.

3.3 Rent Restrictions—The maximum rent for one-half of the set-aside units may not exceed 30% of one-twelfth of 50% of area median income, or 30% of one-twelfth of 60% of area median income (as the case may be, depending on the selected set-aside). The maximum rent amounts are further reduced by a utility allowance for tenant-paid utilities in the amounts determined by the President and CEO. In the event tax-exempt bonds are used with Low Income Housing Tax Credits, or any other public funds, the most restrictive rents of the applicable programs shall apply. The affordability of restricted units in relation to the project's market rents will be considered as part of the Housing Commission's approval of the financing. The maximum rent amounts will also apply if the set-aside units are occupied by Section 8 tenants.

3.4 Unit Distribution—The set-aside units must proportionately reflect the mix of all units in the project, be distributed throughout the project and have the same floor area, amenities, and access to project facilities as market-rate units. The objective of the program is to provide a set-aside of units with lower rents, not to create special “low-income sections” within larger developments.

3.5 Additional Affordability Restrictions under Restructuring of Existing Bond Issues—Additional public benefit in the form of deeper income targeting; additional rent restrictions; extension of the term of restrictions; additional number of restricted units; or any combination thereof, will be negotiated in connection with refundings or debt restructurings of existing bond issues. The level of additional restrictions will be determined in the context of the overall financial feasibility of each financing. The maximum rent amounts will also apply if the set-aside units are occupied by Section 8 tenants. Should the bond restructuring result in an extension of the maturity of the bonds, a minimum of 10% of the units in the project will be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size, with rents set at the corresponding affordability level, for the term of the restructured bond.

4. CREDIT CONSIDERATIONS

4.1 Required Rating on the Bonds—Any bonds issued under the program that are sold to the public should generally be rated "A", or its equivalent or better from the following nationally recognized rating agencies: Moody's Investors Service, Standard & Poor’s Corporation, or Fitch Ratings. The same rating requirement applies in the case of a substitution of existing credit facility for bonds which are outstanding.

4.2 Credit Enhancement—A preferred way of obtaining the required rating on the bonds in accordance with Section 4.1 is through the provision of additional, outside credit support for the bond issue provided by rated, financially strong private institutions, such as bond insurance companies; domestic and foreign banks and insurance companies; savings and loans and smaller commercial banks willing to pledge ratable collateral to bond trustee; FHA mortgage insurance or co-insurance, etc. The rating on the bonds is determined based on the credit worthiness of the participating credit enhancement provider. The applicant is required to identify and obtain credit enhancement for each bond issuance. As the primary source of security for the repayment of bonds, the credit enhancement provider reviews and approves the

borrower (credit, financial capability, experience, etc.) and the project and its feasibility, including the size of the loan and the terms of repayment, using their own underwriting criteria.

4.3 Rated Bonds Without Credit Enhancement—Fixed rate bonds, or their portion, can be issued without credit enhancement if the proposed financing structure results in the required minimum rating on the bonds by a rating agency as provided in Section 4.1. Bonds issued without credit enhancement will be sold to institutional investors in minimum $100,000 denominations.

4.4 Privately Placed Bonds—The rating requirement specified in Section 4.1 is waived under the following conditions:

A. The bonds are privately placed with "qualified institutional buyers" as defined under Rule 144A of the Securities Act of 1933, or "accredited investors," as generally defined under Regulation D of the Securities Act of 1933.

B. The bonds must be sold in minimum $100,000 denominations.

C. All initial and subsequent purchasers must be willing to sign a sophisticated investor letter (Investor Letter) in a form approved by the Housing Commission. While the bonds remain unrated, their transferability will be restricted to qualified institutional buyers or accredited investors who sign an Investor Letter.

D. Unless otherwise approved by the Housing Commission, the bonds must be sold to 15 or fewer investors.

E. Upon terms acceptable to the Housing Commission, bonds may be placed in a trust or custodial arrangement with participations sold to investors.

The purpose of these conditions is to assure that the bonds are placed with investors who are experienced in municipal securities investing and analysis or real estate credit underwriting. Bond funds and affordable lending banks are the types of entities this condition anticipates.

5. OTHER ISSUERS

5.1 The Housing Authority, in very limited situations, will allow "other issuers" than the Housing Authority to issue bonds for multifamily housing projects located within the City of San Diego. Any applicant considering the use of any "other issuer" should contact Housing Commission staff prior to proceeding with the project. The required City approvals of bond issuances by "other issuers" will be recommended only if the financing proposal is part of a pooled issuance involving projects located in multiple jurisdictions and the overall cost effectiveness of the financing proposal is increased. All Housing Authority affordability requirements, procedures and requirements will apply to projects using "outside issuers," including an issuance fee of 0.23 percent of the bond issuance amount to be paid to the Authority upon issuance of the bonds. A TEFRA hearing and approval by the City Council, as described in Section 7.4, on behalf of another issuer will include a provision that the owner, operator or manager of the project considered for financing by tax-exempt debt will not change without the prior approval of the President and CEO.

6. SELECTION OF THE FINANCING TEAM

6.1 Through separate Requests for Qualifications ("RFQ"), a pool of bond counsels, and a pool of financial advisors, will be established to serve as financing team participants on individual bond transactions. The RFQ process is a fair and competitive process which includes advertising, a competitive selection process and interviewing, if necessary. Firms will be selected in accordance with the Housing Commission's applicable equal opportunity policies.

6.2 The establishment of each pool will be made by a selection committee with the approval of the Housing Commission Board. The selection committee will consist of Housing Commission staff and representatives from other City departments, such as the City Attorney's Office, City Auditor, and Debt Management. Generally, the selection will be made for a two-year period. The term may be extended for two additional one-year periods by the President and CEO.

6.3 The bond counsel and financial advisor specifically represent the interests and concerns of the Housing Commission, the Housing Authority and the City of San Diego in ensuring the integrity of the bond transaction. The project sponsor may, at its own expense, add additional members to the finance team to represent its interests.

6.4 The Financial Advisor for each transaction will be designated by the President and CEO from the selected pool for approval by the Housing Commission Board on a rotating basis. The Financial Advisor will prepare a feasibility study on whether it is economically advisable to proceed with the financing, including: evaluation of the financial strength of the project; assumptions regarding income and expenses; sources of security for bonds in addition to the project; developer's financial situation and experience in operating and managing rental projects; marketability of the bonds; rights and resources of parties to the transaction in the event of default; and provide financial advice on all relevant issues to best protect the interests of the City and the Housing Authority. The compensation for financial advisory services to determine whether it is advisable to proceed with a financing will not be contingent on the sale of the bonds.

6.5 Bond Counsel will be designated for each financing by the President and CEO from the selected pool on a rotating basis subject to approval by the Housing Commission Board. Bond Counsel will prepare the necessary legal documentation, including provisions regarding compliance with any applicable continuing disclosure requirements, provide an opinion regarding the validity of the bonds and their tax exemption, and provide legal advice on all relevant issues to best protect the interests of the City and the Housing Authority.

6.6 Bond Underwriter/Remarketing Agent/Private Placement Purchaser—The developer shall select the debt provider and method of selling the bonds for a given transaction subject to the approval of the Housing Commission. The practice of allowing the developer to propose the debt provider and bond structure is intended to create an incentive for qualified financial firms to actively work with developers to structure and present feasible financing proposals that meet program requirements.

6.7 In the event the developer has not identified a proposed financing structure for a given transaction, the Housing Commission will select an underwriter or private placement purchaser through a request for proposals process.

6.8 The Bond Trustee (a bank designated by the Housing Authority as the custodian of funds and official representative of bondholders), if required by the bond structure for the financing, will be approved by the President and CEO based upon a Request for Proposals process.

7. THE FINANCING PROCESS

7.1 Application—A developer interested in new-money financing must submit an application for bond financing or, in the case of an existing financing, a request for bond refunding or restructuring to the Housing Commission. Part of the required information is a disclosure statement on each of the parties involved in the developer/ownership entity. Housing Commission staff will review the application for feasibility.

7.2 Deposit—At the time of the application, the developer must pay an application fee to cover the cost of the feasibility analysis of the proposed bond issuance, reissuance or restructuring. If the financing goes ahead, the fee will be subject to reimbursement as a required cost of issuance at the bond closing. The application fee may be waived by the President and CEO.

7.3 Inducement Resolution—In conjunction with the City Attorney's Office and Bond Counsel, a bond inducement resolution will be drafted and approved by the Housing Authority. All new-money projects must be induced. An inducement resolution is a conditional expression of the Housing Authority's "official intent" to issue bonds for a given project and is required under Treasury Regulation Section 1.150-2(e) 1.150-2(e). Approval of the inducement resolution establishes, through the public record, the date from which project costs incurred may be determined to be eligible for financing under the program. Therefore, applicants are encouraged to induce their projects as soon as practicable to clearly identify the project, its location, maximum number of units, the maximum amount of financing, and the proposed ownership entity.

A. Application to CDLAC—The inducement resolution also authorizes Housing Commission staff to submit an application to CDLAC, on behalf of the developer/project sponsor, for a private activity bond allocation.

B. No Binding Financial Commitment—Adoption of the inducement resolution does not represent any commitment by the Housing Commission, Housing Authority, or the developer to proceed with the financing. The approval of the inducement resolution, by itself, does not authorize any subordinate financing by the Housing Authority or any other entity of the City. The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a resolution authorizing such issuance.

C. No Land Use or Building Code Approval—Approval of the inducement resolution shall not be construed to signify that the project complies with the planning, zoning, subdivision and building laws and ordinances of the City or suggest that the Housing Authority, the City, or any officer or agent of the Housing Authority or the City will grant any such approval, consent or permit that may be required in connection with the development of a given project.

7.4 TEFRA Hearing and Approval—In order for interest on the bonds to be tax-exempt and in accordance with the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, Section 147(f) of the Internal Revenue Code of 1986, the issuance of bonds

must be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located, after a public hearing for which a reasonable public notice was given. As the legislative body for the City of San Diego, federal regulations require that the issuance of bonds by the Housing Authority be approved by the City Council. The purpose of the public hearing is to provide an opportunity for interested persons to provide their views on the proposed bond issuance and on the nature and location of the project. The TEFRA hearing will be conducted by City Council at the date and time specified in the TEFRA notice. The TEFRA notice shall be published in a newspaper of general circulation within the City.

7.5 Bond Allocation—Prior to the issuance of private activity, tax exempt bonds, the Housing Authority must apply for, and receive an allocation of bond issuing authority from CDLAC. To receive such an allocation, the Housing Authority and the developer must document their readiness to proceed with the bond financing.

7.6 Performance Deposit—At the time of the application to CDLAC, the developer must deposit with the Housing Authority one half of one percent of the requested allocation amount as a performance deposit. The deposit will be returned to the developer according to the CDLAC procedures; the deposit is subject to reversion to the CDLAC if the financing does not close according to the CDLAC procedures.

7.7 Local Review—All projects must be in compliance with the City's land use requirements and the adopted community plans. Prior to requesting Housing Authority's approval of new-money bond issuance, the project must undergo all planning procedures, discretionary reviews and land use approvals, including review by the local planning group and environmental analysis, as required.

7.8 Coordination with City Finance Representatives—Housing Commission staff will work with the City Attorney's Office, the Debt Management Department, and other City departments, as necessary, in preparing bond issuances for affordable housing projects.

A. Compliance with City's Disclosure Ordinance—As a related entity of the City, the Housing Commission will adhere to the City disclosure ordinance (O-19320) as it may be amended from time to time. The Housing Commission will present offering statements and disclosure documents for review and approval, as appropriate, by the City's Disclosure Practices Working Group.

7.9 Housing Commission/Housing Authority Final Approval—Housing Commission staff's recommendation to proceed with a proposed bond issuance, reissuance, or bond restructuring will be presented for approval by the Housing Commission. If approved, staff will work with the approved financing team to structure the financing and to prepare the necessary bond documents. The resulting bond documents, authorizing resolution, staff report, and other relevant docket materials will be submitted for final approval by the Housing Authority.

[Supersedes PO300.301, effective June 6, 1999]

Authorized:

(Signed by Carrol M. Vaughan)

Carrol M. Vaughan,
Executive Vice President and COO

10/ 6/08
Date

(Signed by Cissy Fisher)

Cissy Fisher, Director
Housing Finance

10/ 6/2008
Date

History:
Adopted: 10/16/89
Revised: 6/23/92
Revised: 6/28/94
Revised: 5/28/96
Revised: 6/4/99
Revised: 9/30/2008

APPENDIX D – COUNCIL POLICY 800-14 "PRIORITIZING CIP PROJECTS"

SUBJECT: PRIORITIZING CIP PROJECTS
POLICY NO: 800-14
EFFECTIVE DATE: May 30, 2008

BACKGROUND:

The City of San Diego's Capital Improvement Program (CIP) is implemented through an interrelationship of client departments, service departments, new and redevelopment, and multiple funding sources. Capital investments are necessary for the construction of all parts of municipal infrastructure. Major infrastructure within the City's area of responsibility includes streets and related right-of-way features; storm water and drainage systems; water and sewer systems; public buildings such as libraries, recreational and community centers, police and fire stations, and lifeguard facilities; and parks. Decisions about capital investments affect the availability and quality of most government services. The municipal infrastructure is often taken for granted, yet it is vital to the city's economy, with implications for health, safety, and quality of life.

The commitment of resources to the CIP projects within the City has traditionally not had the benefit of a comprehensive evaluation to determine overall needs so that projects can be ranked in priority order, and efficiently funded. This approach may have unintentionally limited the overall effectiveness of available CIP resources by providing projects with less funding than ~~is~~ needed to accomplish major project requirements, such as planning and design. This has limited the City's ability to compete for outside grant funding, since grant programs often place emphasis on having the design and associated activities completed.

PURPOSE:

The purpose of this policy is to establish an objective process for ranking CIP projects to allow decision-makers to have a basis for choosing the most compelling projects for implementation. This prioritization process will allow~~s~~ for the analytical comparison of the costs and benefits of individual projects, as well as an opportunity to evaluate projects against one another on their relative merits. Ideally, it will provide a citywide perspective, explore various financing options, and facilitate project coordination. All projects being considered for funding will be prioritized in accordance with the guidelines of this policy. It is proposed that this single CIP prioritization policy address all funding sources and asset classes, including enterprise funded projects (golf, water, sewer, airport facilities, undergrounding and landfill) and transportation and drainage projects. The goal of this policy is to establish a capital-planning process that ultimately leads to policy decisions that optimize the use of available resources, resulting in the maximum benefit from the projects delivered.

IMPLEMENTATION:

In order to implement a prioritization system, there must be an understanding of the constraints associated with each project's funding source(s), asset type (project category), or phase of development. Projects will not compete across the different funding sources, the different project categories, or the different project phases – however projects within each of these areas will be evaluated according to the guidelines outlined below.

A. Project Funding

Projects within restricted funding categories will compete only with projects within the same funding category. Prioritization within these restricted funding categories will occur in accordance with this CIP prioritization policy. For example, water system CIP projects are funded with enterprise funds paid by water ratepayers. All water CIP projects will be prioritized in accordance with the prioritization policy, but will not compete for funding with projects not funded by Water Enterprise funds.

The following is a partial listing of restricted funding categories:

1. Community Development Block Grants
2. Developer Impact Fees
3. Enterprise Funds (Airport, Environmental Services, Golf, Utilities Undergrounding, Metropolitan Wastewater, and Water)
4. Facilities Benefit Assessments
5. Grants
6. State and Federal Funds
7. TransNet Funds

Projects that are not within a restricted funding category will compete within capital outlay funds/general obligation funds in accordance with this CIP prioritization policy. Although capital needs from the restricted funds or revenue-producing departments are often separate from the General Fund, the capital investments of all City departments should be planned together to allow better coordination of capital projects in specific parts of the City over time. Citywide coordination of capital project planning can increase the cost-effectiveness of the City's capital programs by allowing more efficient infrastructure investments.

B. Project Categories

To ensure that the comparison is conducted between similar types of projects, the CIP projects shall be separated into categories according to the predominant type of asset in the project. Project categories shall include the below alphabetically listed asset types:

- **Airport Assets**
- **Buildings -** Facilities and structures, with the following project subcategories:
    - Community support facilities and structures
    - Fire facilities and structures

  - Libraries
  - Metropolitan Wastewater department facilities and structures (e.g., treatment plants - and pump stations)
  - Operations facilities and structures (e.g., maintenance shops and offices)
  - Other City facilities and structures
  - Park & Recreation facilities and structures
  - Police facilities and structures
  - Water department facilities and structures (e.g., treatment plants, pump stations, reservoirs, dams, standpipes)
- **Drainage -** Storm drain systems including pipes, channels, Best Management Practices (BMPs) and pump stations
- **Flood Control Systems**
- **Golf Courses**
- **Landfills -** Landfills and supporting facilities and structures
- **Parks -** Parks and open space
- **Reclaimed Water System**
- **Transportation -** Transportation facilities, with the following project subcategories:
  - Bicycle Facilities (all classifications).
  - Bridge Replacement, Retrofit, and Rehabilitation.
  - Erosion control, slope stabilization, and retaining walls supporting transportation facilities.
  - Guardrails, Barrier Rails, and other structural safety enhancements.
  - New Roads, Roadway Widening, and Roadway Reconfigurations.
  - Street Enhancements including medians and streetscape.
  - New Traffic Signals.
  - Pedestrian Accessibility Improvements including curb ramps.
  - Pedestrian Facilities including sidewalks but not curb ramps.
  - Street Lighting including mid-block and intersection safety locations.
  - Traffic Calming, Flashing Beacons, and other speed abatement work.
  - Traffic Signal Interconnections and other signal coordination work.
  - Traffic Signal Upgrades and Modifications.

- **Wastewater -** Wastewater collection systems
- **Water -** Water distribution systems

CIP budgets shall reflect project allocations according to these categories. These project categories shall include resource allocation for all project components, including environmental mitigation, property acquisition, and all other activities necessary to complete the project.

C. Project Phases

To ensure that the prioritization is conducted between projects with a similar level of completion, all CIP projects shall be separated into the following standard phases of project development within each project category:

1. Planning –includes development of a feasibility study, detailed scope, and budget.
2. Design - includes development of the environmental document, construction plans and specifications, and detailed cost estimate.
3. Construction - includes site preparation, utilities placement, equipment installation, construction, and environmental mitigation.

To initiate an effective capital project process, a revolving fund will be established for capital planning, to allow improved development of the scope, feasibility and funding requirements of projects prior to them becoming a CIP. The implementation of a capital planning process will result in better information, planning, and analysis of proposed capital projects. A goal of 5% is established as the minimum of CIP resources allocated to projects in the Planning phase.

D. Prioritization Factors

The City must prioritize capital needs to assist in the determination of which projects will receive available funding and resources, and/or compete for bond funding based on criteria that is aligned with Departmental priorities, the Mayor's long-term plans, and City Council's objectives.

For all non-transportation projects (See Section B. Project Categories), the following are the prioritization factors (listed in order of importance):

1. **Health & Safety Effects:** This criterion will include an assessment of the degree to which the project improves health and safety factors associated with the infrastructure asset. For example, projects that result in the reduction in accidents, improved structural integrity, and mitigation of health hazards would score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.

2. **Regulatory or mandated requirements:** This criterion will include an assessment of the degree to which the project is under a regulatory order or other legal mandates. For example, projects that are required by consent decrees, court orders, and other legal mandates would score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.

3. **Implication of Deferring the Project:** This criterion will include an assessment of the consequences of delaying a project. For example, projects that would have significantly higher future costs, negative community impacts, or negative public perception, should they be deferred, would score higher. The evaluation of this criterion will constitute fifteen percent (15%) of the project's total score.

4. **Annual recurring cost or increased longevity of the capital asset:** This criterion will include an assessment of the degree to which the project reduces operations and maintenance expenditures by the City. For example, a roof replacement project that reduces both maintenance requirements and energy consumption or a storm drain replacement project that reduces the need for periodic cleaning would score higher. On the other hand, a new library that increases maintenance, energy and staffing costs would

score lower. The evaluation of this criterion will constitute ten percent (10%) of the project's total score.

5. **Community Investment:** This criterion will include an assessment of the degree to which the project contributes toward economic development and revitalization efforts. For example, a project within an approved Redevelopment Area or Community Development Block Grant eligible area would score higher. The evaluation of this criterion will constitute ten percent (10%) of the project's total score.

6. **Implementation:** This criterion will include an assessment of the degree to which the project is in compliance with the General Plan, Community Plan, or approved City-wide master plan. An assessment of other issues involved in completing the project (e.g., significant environmental issues, project complexity, and level of public support) will also be included in this criterion. For example, projects that would benefit the City of Villages Strategy, further smart growth, or receive overwhelming support from the community would score higher, while projects that would significantly impact the environment and trigger high mitigation requirements would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.

7. **Project Cost and Grant Funding Opportunity:** This criterion will include an assessment of the amount of funding needed to complete the current project phase and the entire project, and shall also include assessment of the amount of City funding in the project compared to the amount of funding provided by grant funds from outside agencies. For example, a project that would bring grant funds from an outside agency into the City would score higher, while a project that relies only on City funds would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.

8. **Project Readiness:** This criterion will include an assessment of the time required for a project to complete its current project phase (i.e., planning, design or construction). For example, a project with a completed environmental document or community outreach would score higher, while a highly complex project requiring longer design time would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.

For transportation projects (See Section B. Project Categories), the following key prioritization factors will be used in lieu of the above factors:

1. **Health & Safety:** This criterion shall include an assessment of the degree to which the project improves the safety of the public using the facility. This criterion also includes an assessment of the degree that a project is under a regulatory order or other legal mandates relating to public safety. For example, projects that result in reduction in traffic accidents, improved seismic safety rating of a bridge, upgrade of an undersized storm drain to address flooding problems, and reduction of response times by emergency vehicles would

score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.

Capacity & Service (Mobility): This criterion shall include an assessment of the degree to which the project improves the ability of the transportation system to move people under all modes of travel including vehicle, transit, bicycle, and pedestrian usage. This criterion will also include an assessment of the degree to which the project improves the overall connectivity and reliability of the City's transportation system. For example, projects that reconfigure intersections to reduce delays, improve a parallel road to bypass a congested intersection, and interconnect traffic signals to reduce travel time along a congested corridor would score higher. The evaluation results of this criterion shall constitute twenty percent (20%) of a project's total score.

2. **Project Cost and Grant Funding Opportunity:** This criterion shall include an assessment of the amount of funding needed to complete the current project phase and the entire project, and hall also include assessment of the amount of City funding in the project compared to the amount of funding provided by grant funds from outside agencies. For example, a project that would bring grant funds from an outside agency into the City would score higher, while a project that relies only on City funds would score lower. The evaluation of this criterion shall constitute twenty percent (20%) of the project's total score.

3. **Revitalization, Community Support & Community Plan Compliance:** This criterion shall include an assessment of the degree to which the project is in compliance with the General Plan, Community Plan, Regional Transportation Plan, or an approved City-wide master plan. This criterion shall also include an assessment of the degree to which the project is officially supported by the Community Planning Group(s), the Councilmember(s), or a Regional Agency (such as SANDAG). This criterion shall also include an assessment of the degree to which the project contributes towards economic development and revitalization efforts. For example, projects that benefits a pilot village in the City of Villages strategy or furthers smart growth, implements a portion of the City-wide master plan or corridor study, has overwhelming and documented support from the community, implements a portion of an approved Redevelopment Area infrastructure plan, and provides transportation facilities for a Community Development Block Grant eligible area would score higher. The evaluation results of this criterion shall constitute fifteen percent (15%) of a project's total score.

4. **Multiple Category Benefit:** This criterion shall include an assessment of the degree to which the project provides highly rated facilities for multiple project categories (see Section B for project categories). For example, a roadway project that also provides for the replacement of a deteriorated storm drain, a streetscape project that also provides street lighting at critical intersections, and a bikeway project that provides slope stabilization at an area of known erosion problems would score higher. The evaluation of this criterion shall constitute ten percent (10%) of the project's total score.

5. **Annual recurring cost or increased longevity of the capital asset:** This criterion shall include an assessment of the degree to which the project reduces operations and maintenance expenditures by the City. For example, a roadway widening project that replaces an area of pavement in poor condition or that installs a highly rated traffic signal would score higher, while a project with equipment that requires frequent maintenance would score lower. The evaluation results of this criterion shall constitute five percent (5%) of a project's total score.

6. **Project Readiness:** This criterion shall include an assessment of the time required for a project to complete its current project phase (i.e., planning, design or construction). For example, a project with a completed environmental document or community outreach would score higher, while a highly complex project requiring longer design time or significant environmental mitigation would score lower. The evaluation results of this criterion shall constitute five percent (5%) of a project's total score.

E. Implementation Process

1. Using the project categories (funding & project), phases, and criteria, the Mayor shall develop a prioritization score for each CIP project. The Mayor shall then rank all CIP projects within their respective categories (funding & project) and phases according to their project score. In case of ties, the Mayor shall evaluate the overall infrastructure deficiency within the communities for each project as the deciding factor.

2. The resultant ranking list for each category and phase of CIP projects shall be reported by the Mayor to the Council as part of the annual CIP budget, with recommendations for funding.

3. Upon approval of the CIP budget by the Council, the Mayor shall pursue the completion of each project phase according to the priority ranking resulting from this prioritization process up to the total amounts authorized by Council for each project category. The Mayor shall also utilize the resultant priority ranking for the pursuit of all outside grant funding opportunities.

4. The Mayor will update the priority score as the conditions of each project change or other new information becomes available. For instance, if grant funding becomes available for a lower ranked project, the priority score would be re-evaluated with this new information. When changes occur that would alter a project's priority ranking, the priority list will be revised. The City Council will receive an informational brief of changes to the priority list at mid-year, and the annual update of the list will be part of the budget process. . Similarly, resources shall not be withdrawn from a project prior to the completion of its current phase, unless reallocation is authorized by the annual appropriation ordinance or approved by Council.

5. Implementation of this Council Policy is not intended to release or alter the City's current or future obligations to complete specific CIP projects by specified deadlines, as may be imposed by court order, or order of any federal, state or local regulatory agency.

HISTORY:

Adopted by Resolution No. R- 302291 on 1/16/2007 [date]
Amended by Resolution R-303741 on 5/30/2008

APPENDIX E – BASIC LEGAL DOCUMENTS

The following basic legal documents are found in most public finance transactions.

E1 Indenture

Purpose:

The indenture is the basic security document of a bond transaction. It provides the terms of the bonds, including payment dates, maturities, redemption provision, registration, transfer and exchange, etc. The indenture creates the legal structure for the security for the bonds, including:

- Creation and granting of the Trust Estate
- Pledge of revenues and other collateral
- Covenants
- Default and remedy provisions
- Flow of funds
- Parity debt provisions for issuance of additional bonds in the future
- Trustee-related provisions

Substitutes: Trust Agreement; Fiscal Agent Agreement; Bond Resolution or Bond Ordinance.

Principal Drafter: Bond Counsel.

Parties: Issuer, Trustee.

Critical Provisions for Issuer Review:

Definitions of permitted investments and revenues; scope of trust estate and pledged collateral; payment and redemption terms of bonds; additional bonds test; flow of funds with special consideration to retaining the flexibility needed to use funds not otherwise needed for debt service; reserve fund provisions; covenants; default and remedy provisions; defeasance provisions.

E2 Loan Agreement

Purpose:

The loan agreement is the document under which the bond proceeds are lent or otherwise provided for the project being financed and the user of the proceeds agrees to pay the amount of the bonds, plus interest. It provides for payment of loan, installment sale or lease payments sufficient in time and amount to pay debt service on the bonds.

Substitutes: Installment Sale Agreements, Facilities or Project Lease.

Principal Drafter: Bond Counsel.
Parties: Conduit Borrower/Obligator, Issuer.

Critical Provisions for Issuer Review:

Representations and warranties; covenants; prepayment provisions; pledge provisions; title provisions; abatement provisions.

E3 Authorizing Resolution

Purpose:

The resolution authorizes issuance and sale of bonds, authorized execution and delivery of documents, and directs staff to take other actions necessary to complete financing.

Substitutes: Authorizing Ordinance.

Principal Drafter: Bond Counsel or Issuer's Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review:

Parameters for delegation of authority to sell bonds; maximum par amount and term of bonds; conformance to issuer's standard form of resolution.

E4 Bond/Note Purchase Agreement

Purpose:

Provides for the sale of the bonds to the underwriter; specifies discount, interest rates and terms for payment of purchase price; contains representations and warranties of the issuer; contains conditions precedent to underwriter's obligation to purchase the bonds at closing; specifies documents to be delivered at closing; specifies who will pay expenses.

Substitutes: Official Notice of Sale and Bid Form (competitive sales); Placement Agreement (private placements).

Principal Drafter: Underwriter's Counsel or Disclosure Counsel.

Parties: Underwriter, Issuer, and Conduit Borrower.

Critical Provisions for Issuer Review:

All points listed under "Purpose" section.

E5 Official Statement

Purpose:

The Official Statement is the document, which provides disclosures to investors and potential investors. Most financings are required to have Official Statements under SEC Rule 15c2-12. This document provides disclosure to prospective investors regarding term of bonds, security, risk factors, and financial and operating information concerning issuer and background information.

Substitutes: Offering Memorandum; Limited Offering Memorandum, Offering Circular.

Principal Drafter: Issuer, Disclosure Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review:

Security and sources of payment for the bonds; risk factors; financial and operating data regarding the entity responsible for payment; litigation; and general information about the issuer.

E6 Continuing Disclosure Agreement

Purpose:

The Continuing Disclosure Agreement contains the undertakings of the issuer to provide ongoing disclosure in the form of annual reports and event notices pursuant to SEC Rule 15c2-12. The undertakings must remain in place for the life of the issuance, with certain exceptions for pool bonds.

Substitutes: Continuing Disclosure Certificate.

Principal Drafter: Underwriter's Counsel, Disclosure Counsel, or Bond Counsel.

Parties: Issuer, Obligated Persons; Trustee.

Critical Provisions for Issuer Review:

Contents of annual reports; deadline for filing annual reports; listed event notices; amendment provisions.

E7 Reimbursement Agreement

Purpose:

The Reimbursement Agreement appears in transactions involving a letter of credit or surety policy guaranteeing payment on the bond or draws against the reserve fund, respectively. It contains the obligation to repay the letter of credit bank amounts drawn on the credit facility. Term and conditions vary depending upon the type of transaction involved.

The Reimbursement Agreement provides for costs incurred prior to the bonds being issued to be reimbursed from such proceeds up to the date that is specified therein.

Substitutes: Financial Guarantee Agreement.

Principal Drafter: Bank Counsel, Surety Provider Counsel.

Parties: Issuer, Bank, and Trustee (in some cases).

Critical Provisions for Issuer Review:

Representations and warranties; fees payable to bank; ability of bank to "participate" the credit facility to other banks; renewals and extensions of the credit facility; default and remedy provisions; collateral provisions; choice of law provisions.

E8 Tax Certificate

Purpose:

The Tax Certificate contains certifications required to be made by the issuer, and in case of a conduit issue, the borrower, in order to satisfy the requirements of the Internal Revenue Code and the regulations issued there under for the bonds to be tax-exempt. It also describes the rules applicable to the investment of bond proceeds under federal tax law.

Substitutes: Tax Agreement; Arbitrage or Non-arbitrage Certificate.

Principal Drafter: Bond Counsel.

Parties: Issuer, Borrower.

Critical Provisions for Issuer Review:

Spend down requirements, yield restrictions, arbitrage filing dates.

E9 Closing Documents

Purpose:

Contains the certificates, receipts, written directions and requests, requisitions and similar documents, which are delivered at the closing of the issuance. These documents generally accomplish the following:

A. Document the factual representations required by the purchase contract and accuracy and completeness of expertise portions of the disclosure;
B. Document compliance with the requirements of law and contract for the issuance of the bonds;
C. Document the flow of funds at closing; and

D. Instruct parties to take certain actions upon closing; i.e., deposit funds in accounts, record documents, file reports, release security, etc.

Substitutes: None.

Principal Drafter: Bond Counsel.

Parties: All parties to transaction.

Critical Provisions for Issuer Review:

Accuracy of all amounts for receipt and deposit of funds, accuracy of representations, warranties, and certifications. All requisitions should be reviewed to determine correctness of payments, deposits and transfers.

APPENDIX F – DISCLOSURE PRACTICES WORKING GROUP –

DISCLOSURE CONTROLS AND PROCEDURES

City of San Diego
Disclosure Practices Working Group

Disclosure Controls and Procedures

Article I
General

Section 1.1. Purpose. These Disclosure Controls and Procedures are designed to (i) ensure the accuracy of the City of San Diego's disclosures and the City's compliance (including the City Council, City officers, and staff) with all applicable federal and state securities laws, and (ii) promote best practices regarding disclosures relating to securities issued by the City and the City's disclosure provided to its Related Entities.

Section 1.2. Disclosure Practices Working Group. Pursuant to Sections 22.4101 and 22.4103 of the Municipal Code a Disclosure Group has been established. Membership of the Disclosure Group shall be as set forth in Section 22.4103 of the Municipal Code, as the same may be amended from time to time.

Section 1.3. Responsibilities of the Disclosure Group. The Disclosure Group shall have the responsibilities set forth in (i) subsection (b) of Section 22.4101 of the Municipal Code, (ii) Section 22.4107 of the Municipal Code, (iii) subsection (a) of Section 22.4109 of the Municipal Code, and (iv) such additional responsibilities as are set forth in the Municipal Code and these Disclosure Controls and Procedures.

Section 1.4. Meetings of the Disclosure Group. In accordance with Section 22.4104 of the Municipal Code, the Disclosure Group shall meet as often as necessary to fulfill its obligations, but not less than once a month. The Disclosure Group shall establish an annual calendar of meetings. Any member of the Disclosure Group may convene a meeting of the Disclosure Group. Members of the Disclosure Group should, to the extent practicable, attend meetings in person but may participate in meetings by telephone. The Disclosure Coordinator shall distribute an agenda for each meeting of the Disclosure Group. The agenda shall be prepared in consultation with members of the Disclosure Group, and any member or ex officio participant of the Disclosure Group may place an item on the agenda.

Section 1.5. Quorum; Delegation. A quorum will consist of at least three of the first five individuals identified in Section 22.4103(a) of the Municipal Code. The attendance of the City's outside disclosure counsel is required at the meeting of the Disclosure Group at which City Official Statements or CAFRs are approved or for any other meeting as determined by the members of the Disclosure Group. The individuals identified in

Section 22.4103 of the Municipal Code shall designate appropriate individuals to attend DPWG meetings in the event that the individual is not able to attend.

Article II
Definitions

Section 2.1. Definitions. Capitalized terms used in these Disclosure Controls and Procedures shall have the meanings set forth below:

"CAFR" means the City's Comprehensive Annual Financial Report.

"*City*" means the City of San Diego, California.

"*City Financial Statements*" means, individually or collectively as the context may require, CAFR, the audited financial statements of the Metropolitan Wastewater Utility, and the audited financial statements of the Water Utility.

"*Contributors*" means those persons contacted by the Financing Group or the Disclosure Group, or assigned by a department director, to assist with the review or preparation of a Disclosure Document as described in Section 4.3.

"Deputy City Attorney for Finance and Disclosure" means the attorney designated as such pursuant to Section 22.0302 of the Municipal Code.

"*Disclosure Coordinator*" means the Deputy City Attorney for Finance and Disclosure.

"*Disclosure Documents*" means those documents defined as such in Article III.

"*Disclosure Group*" means the Disclosure Practices Working Group.

"*Financing Group*" means, collectively, those persons identified as such pursuant to subsection A. of Section 4.3.

"*Municipal Code*" means the San Diego Municipal Code, as amended from time to time.

"*NRMSIRs*" means the nationally recognized municipal securities information repositories approved by the Securities and Exchange Commission to accept the filings referenced in Rule 15c2-12 under the federal Securities Exchange Act of 1934, 17 CFR 240.15c2-12.

"Preparer" means those persons defined as such in subsection A. of Section 4.4.

"*Related Entities*" means those entities as defined in Section 22.4102 of the Municipal Code. Related Entities include, but are not limited to, those Related Entities as set forth in Exhibit A, as updated from time to time.

Article III
Disclosure Documents

Section 3.1. Disclosure Documents. "Disclosure Documents" means (i) the City's documents and materials prepared, issued, or distributed in connection with the City's disclosure obligations under applicable federal and state securities laws relating to its securities and (ii) any other disclosure which, pursuant to the Municipal Code, the Disclosure Group has the responsibility to review and approve. Disclosure Documents shall include, but not be limited to, the following:

A. Preliminary and final official statements, and preliminary and final private placement memoranda, relating to the City's securities, together with any supplements;

B. the City's Financial Statements;

C. any filing made by the City with the NRMSIRs, whether made pursuant to a continuing disclosure agreement to which the City is a party or made voluntarily;

D. press releases (to the extent that such releases are or could reasonably be construed to be an intended communication to the financial markets), rating agency presentations, postings on the investor information section of the City's webpage, and other communications, reasonably likely, in the determination of the Disclosure Group, to reach investors or the securities markets;

E. any disclosure materials requiring, pursuant to the Municipal Code, approval and certification by the Mayor, City Attorney, or Chief Financial Officer;

F. disclosures provided by the City in connection with securities issued by Related Entities, together with all of such documents and materials prepared, issued, or distributed in connection with such securities of such related entity, to the extent that the City, the City Council, or City officers, or staff have prepared or are responsible for the preparation of the form or content of such documents or materials;

G. offering documents prepared by Related Entities if such documents are subject to the approval of the City Council (e.g. when the City Council is

acting in its capacity as the governing board of the Housing Authority or the legislative body of the Redevelopment Agency or the Community Facilities Districts); and

H. such portions of the City's published adopted annual budget as the Disclosure Group determines to be appropriate, which shall at a minimum include the executive summary.

Article IV
Review Process

Section 4.1. Determination of "Disclosure Document" status. Whether a particular document or written, posted or other communication is a Disclosure Document shall be determined by the Disclosure Group, including but not limited to, the determination whether a document should be filed voluntarily with the NRMSIRs (Section 3.1.C. above) or whether a communication is reasonably likely to reach investors or the securities markets (Section 3.1.D. above). Any member of the Disclosure Group may seek the advice of the Disclosure Group to determine whether any document should be treated as a Disclosure Document. To assist the Disclosure Group in its determination whether a particular document is a Disclosure Document as described in subsection F. of Section 3.1, information shall be solicited from the appropriate Related Entity by means of a letter in the form attached as Exhibit B.

Section 4.2. Review of Form and Content of Disclosure Documents. The Disclosure Group shall critically review the form and content of each Disclosure Document. The Disclosure Group may require the attendance of all persons responsible for the preparation or review of the Disclosure Document.

Section 4.3. Review of Official Statements. The following procedures shall apply to those Disclosure Documents described in subsections A. or G. of Section 3.1:

A. Financing Group. Debt Management shall timely identify for the Disclosure Group a Financing Group for each financing (the composition of which may differ for each financing), which shall include the Deputy City Attorney for Finance and Disclosure (or such other Deputy City Attorney designated to work on the matter by the Deputy City Attorney for Finance and Disclosure), such manager of Debt Management as the Director of Debt Management determines to be the appropriate interface with the bond financing team (i.e., bond counsel and/or disclosure counsel, underwriter(s), underwriter's counsel, financial advisors, and appropriate City staff), the City's outside disclosure counsel, and such other members of the Disclosure Group as the Disclosure Group determines to be appropriate.

B. Responsibilities of Financing Group. The Financing Group shall (i) assist the bond financing team in the preparation of the Disclosure Document and (ii) the

Director of Debt Management working with the Financing Group shall certify to the Disclosure Group that, to the best of his/her knowledge, these Disclosure Controls and Procedures were followed in such preparation.

1. The Financing Group shall be responsible for soliciting material information from City departments. The Financing Group shall identify Contributors who may have information necessary to prepare or who should review portions of the Disclosure Document. These Contributors should be timely contacted and informed that their assistance will be needed for the preparation of the Disclosure Document, which notification will contain the information set forth in Exhibit C.

2. The Financing Group shall contact the individuals and departments identified as Contributors as soon as possible in order to provide adequate time for such individuals to perform a thoughtful and critical review or draft of those portions of the Disclosure Document assigned to them.

3. The manager of Debt Management assigned to the financing, together with the Deputy City Attorney for Finance and Disclosure, shall maintain or cause to be maintained an accurate log of all individuals or departments that were requested to review or draft information in connection with a Disclosure Document, including what sections such individuals or department prepared or reviewed. The Deputy City Attorney for Finance and Disclosure shall also be responsible for collecting all transmittal letters, certifications, and lists of sources for incorporation into the minutes maintained by the Disclosure Group.

4. The Financing Group shall confirm to and advise the Disclosure Group that each section of and all financial and operating information contained in the Disclosure Document has been critically reviewed by an appropriate person, as evidenced by the written material described in 3. above (which shall constitute the "audit trail" referenced in Section 22.4105(a)(4) of the Municipal Code). Of particular importance is that the "Appendix A" and other information concerning the City is thoroughly and critically compared for accuracy against the City's Financial Statements. The Financing Group shall review the letters and any accompanying information provided pursuant to subsections C. through G. of this Section 4.3 and shall transmit such materials to the Disclosure Group, such letters to be substantially in the form set forth in Exhibit D.

5. The Financing Group shall report any significant disclosure issues and concerns to the Disclosure Group as they are discovered.

6. The Financing Group shall advise the financial advisor and the underwriter(s) and their counsel, that they must execute upon their selection a confidentiality agreement substantially in the form attached as Exhibit E.

C. Responsibilities of Contributors. A Contributor shall assist in reviewing and preparing the Disclosure Document using his or her knowledge of the City and by

discussing the Disclosure Document with other members of the department in an attempt to ensure the accuracy of the information and to determine whether any other information should be discussed or disclosed. Once a Contributor is notified of his or her need to participate in preparing a Disclosure Document, the Contributor and the Contributor's department director shall cooperate with Financing Group and Disclosure Group requests.

D. Review by Labor Relations Director. With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City's general fund, the Financing Group shall forward the Disclosure Document to the Labor Relations Director for review by means of a letter substantially similar to Exhibit C. In particular, the Labor Relations Director and the Personnel Director shall review any information in the Disclosure Document relating to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. The Labor Relations Director shall timely send any comments on the Disclosure Document to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit F.

E. Review by San Diego City Employees' Retirement System (SDCERS). With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City's general fund, the Financing Group shall forward the Disclosure Document to the [Retirement Administrator, Head of the Investment Division, Head of the Administration Division and Head of the Legal Division] by means of a letter substantially similar to Exhibit C. Such individuals shall be requested to review any information in the Disclosure Document relating to pension benefits and other retirement benefits, pension plan funding and litigation concerning SDCERS. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit G.

F. Review by City Attorney for Litigation. The Deputy City Attorney for Finance and Disclosure shall transmit the Disclosure Document to the appropriate attorneys in the City Attorney's office who are responsible for identifying any material current, pending or threatened litigation. The responsible attorneys shall timely draft descriptions of any such litigation, and of any material settlements or court orders, for the Disclosure Document after receiving the Disclosure Document. The Deputy City Attorney for Finance and Disclosure shall compare any such description with the most recent City Attorney representation letter to ensure accuracy of such descriptions. The responsible attorneys shall timely transmit the requested information to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit H.

G. Review by Chief Financial Officer. The Financing Group shall forward the Disclosure Document to the Chief Financial Officer by means of a letter substantially similar to Exhibit C. The Chief Financial Officer shall designate one or more employees to assist the Financing Group with comparing and noting any discrepancies between the City Financial Statements and the Disclosure Document. The Chief Financial Officer

shall also review the Disclosure Document in full to identify any material difference in presentation of financial material from the Financial Statements, any misstatement or omission in any sections that contain descriptions of information prepared by or of interest to the Chief Financial Officer. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit I.

H. Reference Materials. The Deputy City Attorney for Finance and Disclosure and the City's outside disclosure counsel, in providing advice to the Disclosure Group regarding the contents of those Disclosure Documents described in subsections A. or G. of Section 3.1, shall review and take into consideration the reference materials listed in Exhibit J, as updated from time to time.

Section 4.4. Review of Disclosure Documents other than Official Statements. The following procedures shall apply to those Disclosure Documents that are not addressed in Section 4.3:

A. Determination of Disclosure Document. Any person (each, a "Preparer") preparing any information for release to the public that could be considered a Disclosure Document and that is not otherwise identified as a Disclosure Document in the forward calendar referenced in Section 6.3, shall notify the Disclosure Group of such information. The Disclosure Group shall timely make a determination whether such information is a Disclosure Document pursuant to Section 4.1.

B. Notify Disclosure Group. If it is determined that a document is a Disclosure Document, the Preparer shall inform the Disclosure Group of the (i) expected completion date of the Disclosure Document and (ii) the expected or required dissemination date of the Disclosure Document.

C. Involvement of Deputy City Attorney. The Deputy City Attorney for Finance and Disclosure, in consultation with the City's outside disclosure counsel, shall assist the Preparer to:

1. identify material information that should be disclosed;

2. identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document; and

3. determine when the Disclosure Document is final and ready for review by the Disclosure Group.

D. Prepare Source List. The Preparer shall keep a list of individuals or groups that have contributed to the preparation of the Disclosure Document and a list of sources from which the information summarized or updated in the Disclosure Document was derived. These lists shall be submitted to the Disclosure Group along with the Disclosure Document.

Article V
Approval Process

Section 5.1. General. The Disclosure Group shall critically review and approve the form and content of each Disclosure Document. Such approval shall be evidenced by the affirmative vote of a majority of the voting members of the Disclosure Group. Any dissenting opinion from the majority may be reflected in the certificate of the Disclosure Group. Those Disclosure Documents that (i) the City is contractually obligated to file with the NRMSIRs if determined to be a material event or as a result of the failure to file the required annual financial information and (ii) contain no discretionary content (e.g., rating changes), may be filed with the NRMSIRs upon the approval of the City's outside disclosure counsel and at least one other member of the Disclosure Group.

Section 5.2. Submission of Official Statements to Disclosure Group for Approval. The Financing Group shall submit any Disclosure Document described in Section 4.3 to the Disclosure Group when (i) it has obtained all of the approvals and source documentation described in Section 4.3, and (ii) in its best judgment, the Disclosure Document is in substantially final form. Such submission shall be by means of the transmittal letter attached as Exhibit K.

The Disclosure Group shall critically evaluate the Disclosure Document for accuracy, and have the opportunity to ask questions of the Financing Group and of any Contributor or other person who reviewed or drafted any section of the Disclosure Document. The Disclosure Group may send the Disclosure Document back to the Financing Group for revisions. The Disclosure Group shall timely contact the Financing Group with any comments or questions on the Disclosure Document or the associated financing.

Section 5.3. Submission of Official Statements to Mayor and City Attorney. The Disclosure Group shall submit any Disclosure Document described in Section 4.3 to the Mayor and City Attorney when, in its best judgment, (i) the Disclosure Document is in substantially final form and (ii) the Disclosure Group has complied with these Disclosure Controls and Procedures. Such submission shall be by means of the transmittal letter attached as Exhibit L.

The Mayor and City Attorney shall critically evaluate, or cause to be evaluated, the Disclosure Document for completeness and accuracy. The Mayor and the City Attorney shall meet with the Financing Group and the Disclosure Group at a mutually convenient time, and ask questions of the Financing Group, the Disclosure Group, any Contributor, and any other person who reviewed or drafted any section of the Disclosure Document. The Mayor or City Attorney may send the Disclosure Document back to the Financing Group for revisions. Upon satisfaction with the Disclosure Document, the Mayor and City Attorney shall execute the certifications required by Section 22.4111(a) of the Municipal Code, in the form attached as Exhibit M, and provide a copy to the Disclosure Group.

Section 5.4. Chief Financial Officer Certification. Upon satisfaction with a Disclosure Document described in Section 4.3 or in subsection F. of Section 3.1, the Chief Financial Officer shall execute the certification required by 22.0709(b) of the Municipal Code, in the form attached as Exhibit N, and provide a copy to the Disclosure Group. With respect to each CAFR, the Chief Financial Officer shall execute the certification required by 22.0709(a) of the Municipal Code, in the form attached as Exhibit O, and provide a copy to the Disclosure Group.

Section 5.5. Submission of Official Statements to City Council for Approval. As part of the docketing process, the Disclosure Group shall submit any Disclosure Document described in Section 4.3 to the City Council for approval together with the certifications from the Mayor, the City Attorney, and the Chief Financial Officer promptly after the receipt of such certifications. The approval of such a Disclosure Document by the City Council shall be docketed on the adoption agenda and shall **not** be approved as a consent item (including but not limited to the second reading of any ordinance approving the financing). The City Council shall undertake such review as deemed necessary by the Deputy City Attorney for Finance and Disclosure and the City's outside disclosure counsel to fulfill the City Council's responsibilities under applicable federal and state securities laws.

Section 5.6. Approval of Disclosure Documents other than Official Statements. Any Disclosure Document and accompanying source lists described in Section 4.4 shall be submitted to the Disclosure Group for approval when the Preparer, the Deputy City Attorney for Finance and Disclosure, and the City's outside disclosure counsel believe such Disclosure Document is ready for dissemination.

The Disclosure Group shall critically evaluate the Disclosure Document for accuracy and sufficiency, and have the opportunity to ask questions of the Preparer or any other person who reviewed or drafted any section of the Disclosure Document. The Disclosure Group may send the Disclosure Document back to the Preparer for revisions. The Disclosure Group shall contact the Preparer with any comments or questions on the Disclosure Document or the associated financing by no later than (a) in the case of a Disclosure Document scheduled on the forward calendar referenced in Section 6.3., the later of (i) five (5) business days after receiving such Disclosure Document and (ii) the business day immediately succeeding the next regularly scheduled meeting of the Disclosure Group, or (b) in the case of an unscheduled Disclosure Document, as soon as reasonably practicable.

Section 5.7. Review and Approval of Private Placements. The Disclosure Group shall review all borrowings proposed to be done on a private placement basis of the City or its related entities to (i) ensure that adequate processes have been designed to enable the purchaser to conduct due diligence on the project; (ii) determine if there is a disclosure document; and (iii) ensure, if appropriate, that there are adequate controls in place restricting the transfers of such securities. If the Disclosure Group finds that there is a disclosure document, they shall undertake the review required by Section 4.2. For any privately placed transaction, the Disclosure Group shall be provided with the final staff

report describing the issue and such other documents as the Disclosure Group shall request.

Article VI
Timelines for Review

Section 6.1. Timelines for Review of Official Statements. The timeline for any particular bond financing for which a Disclosure Document as described in subsections A. or G. of Section 3.1 will be prepared will vary depending on the type of bonds being offered (e.g., variable rate, fixed rate, auction rate), the security for the bonds (e.g., general obligation, revenue pledge), the purpose for the financing, and other factors unique to each bond financing. Accordingly, the following timeline has been developed to assist the Disclosure Group, each Financing Group, and each bond financing team in developing a bond financing schedule, but is intended only to provide very general guidance in the light of the unique characteristics of each bond financing. Accordingly, the timeline may be modified for a given financing depending on the circumstances.

Day 270	Disclosure Group notified of the bond financing by inclusion of the financing on the forward calendar referenced in Section 6.3, and identifies a Financing Group
Days 150-270	Financing Group meets with the bond financing team to understand basics of bond financing; initial draft of Disclosure Document is prepared
Day 150	Financing Group distributes information to Contributors and department directors
Day 150	Financing Group distributes information to Director of Labor Relations, SDCERS representative, and Chief Financial Officer, as may be applicable
Day 130	Deputy City Attorney for Finance and Disclosure transmits Disclosure Document to appropriate litigation attorneys in City Attorney's Office
Days 110-130	Department directors and Contributors discuss Disclosure Document at departmental meetings
Day 100	Contributors submit requested information to Financing Group
Day 90	Director of Labor Relations, SDCERS representative and City Attorney representative transmit any requested information to Financing Group
Days 60-90	Financing Group reviews Disclosure Document and all related materials, and transmits to Disclosure Group

Days 40-60	Disclosure Group reviews Disclosure Document and all related materials, and submits to Mayor and City Attorney
Days 30-40	Mayor and City Attorney meet with Disclosure Group
Day 30	Mayor and City Attorney execute required certifications
Day 29	Disclosure Group submits Disclosure Document and related certifications to City Council as part of the docketing process referenced in Section 5.5
Day 15-29	City Council briefed regarding Disclosure Document by Deputy City Attorney advisor to the City Council and the City's outside disclosure counsel
Day 5	City Council approves Disclosure Document
Day 0	Preliminary Official Statement is mailed
Day 0 – Delivery Date (or such later date through which the City is contractually obligated to advise the bond financing team of material events)	Financing Group advises Disclosure Group of (i) any material changes to Preliminary Official Statement to create the final Official Statement and (ii) any material changes to the final Official Statement up to and including the date of delivery of the bonds. In either such event, the Disclosure Group must review and approve the form and content of the material change disclosure and determine whether it is necessary or appropriate to submit the material change disclosure to the City Council for approval.

Section 6.2. Timelines for Review of Disclosure Documents other than Official Statements. The timeline for preparing any particular Disclosure Document will vary depending on the type of Disclosure Document and whether or not the Disclosure Document was on the forward calendar referenced in Section 6.3. Accordingly, the following timeline has been developed to assist the Disclosure Group and the Preparer in developing a schedule, but is intended only to provide very general guidance in light of the unique characteristics of each Disclosure Document.

Action	Scheduled (measured by days before Disclosure Document dissemination scheduled)	Unscheduled (measured from days after unexpected Disclosure Document revealed)
Disclosure Group notified of the potential Disclosure Document	60 days	ASAP
Disclosure Group makes a determination whether a document is a Disclosure Document	N/A	2 business days
Preparer, Deputy City Attorney for Finance and Disclosure, and the City's outside disclosure counsel identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document	50-60 days	4 business days
Disclosure Document finalized and transmitted to Disclosure Group	25-50 days	4-5 business days
Disclosure Group reviews Disclosure Document and all related materials, and approves Disclosure Document for dissemination.	10 days	5-6 business days

Section 6.3. Forward Calendar. The Disclosure Group shall develop a forward calendar that sets forth, to the best judgment of the Disclosure Group, a comprehensive list of Disclosure Documents that are subject to the review and approval of the Disclosure Group over the next twelve months. Such forward calendar shall be revised from time to time, and every effort shall be made to keep such document current. The Director of Debt Management shall advise the Disclosure Group of all Disclosure Documents originating in Debt Management (being those Disclosure Documents described in subsection A. of Section 3.1, and those Disclosure Documents filed by the City with the NRMSIRs pursuant to continuing disclosure agreements described in subsection C. of Section 3.1) that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. In addition, the Director of Debt Management shall advise the Disclosure Group, after soliciting the appropriate information from the Related Entities, of those Disclosure Documents described in subsections F. or G. of Section 3.1 that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. The Chief Financial Officer shall advise the Disclosure Group of the dates that the CAFR, the audited financial statements of the Metropolitan Wastewater Utility, the audited financial statements of the Water Utility, the Disclosure Documents described in subsection B. of Section 3.1, and any other Disclosure Document, are

expected to be submitted to the Disclosure Group for review and approval over the next twelve months. The Chief Financial Officer shall advise the Disclosure Group of the date that the Disclosure Document described in subsection H. of Section 3.1 is expected to be submitted to the Disclosure Group for review and approval over the next twelve months.

Article VII
Training Policy

Section 7.1. Training Sessions.

A. Employees with responsibility for collecting or analyzing information that may be material to the preparation of a Disclosure Document shall attend disclosure training sessions conducted by the City's outside disclosure counsel, with the assistance of the Deputy City Attorney for Finance and Disclosure appointed pursuant to Section 22.0302 of the Municipal Code. New employees shall attend such a session within three months of their first day of employment. Such training sessions shall include education on the City's disclosure obligations under applicable federal and state securities laws and their responsibilities and potential liabilities regarding such obligations, the anonymous and confidential contact information for the Audit Committee described in Section 9.2, and the contact information for the Deputy City Attorney for Finance and Disclosure. Such training sessions may be conducted by videotape.

B. The determination as to whether or not a class of employee shall receive such training shall be made by the Chief Financial Officer or the City Attorney, as appropriate. The Disclosure Group may also require training for a particular employee not otherwise specified.

C. Separate training sessions shall be conducted by the City's outside disclosure counsel, with the assistance of the Deputy City Attorney for Finance and Disclosure and the Deputy City Attorney designated as an advisor to the City Council pursuant to Section 22.0303 of the Municipal Code, for the Mayor and City Council members.

Article VIII
Document Retention Policies

Section 8.1. Official Statements.

A. Materials retained. The Disclosure Group shall retain in a central depository, for a period of five years from the date of delivery of the securities referenced in a Disclosure Document described in subsections A. or G. of Section 3.1, the following materials:

1. the printed copy of the Preliminary and final Official Statement (or Preliminary and final Offering Memoranda);

2. the "deemed final" certification provided by a City official to the underwriter of the securities in accordance with paragraph (b)(1) of Rule 15c2-12;

3. the executed copies of the letters, requests, and certifications, the forms of which are attached as Exhibits B-K, and M;

4. the information and related sources referenced in the materials described in 3. above;

5. the bond purchase agreement; and

6. any written certification or opinions executed by a City official relating to disclosure matters, delivered at the time of delivery of the related securities.

B. Materials not retained. The Disclosure Group shall not retain after the date of delivery of the related securities the drafts of any of the materials referenced in subsection A. above.

Section 8.2. Disclosure Documents other than Official Statements. The Disclosure Group shall retain in a central depository, for a period of five years from the date the respective Disclosure Document is published, posted, or otherwise made publicly available:

1. the final version of the Disclosure Document,

2. all transmittal letters, requests, and certifications relating to information in the Disclosure Document,

3. the information and related sources referenced in the materials described in 2. above.

The Disclosure Group shall not retain the drafts of any such materials.

Article IX
Confidential Submissions

Section 9.1. Deputy City Attorney for Finance and Disclosure. The City shall encourage City employees to contact the Deputy City Attorney for Finance and Disclosure with any disclosure questions or concerns. To the extent permitted by law, upon the employee's request, the Deputy City Attorney for Finance and Disclosure shall keep the employee's identity confidential.

Section 9.2. City Office of Ethics and Integrity Contact Information. The City shall set up a confidential and anonymous system so that City employees can contact the City's Office of Ethics and Integrity with any concerns about accounting or financial disclosure

issues if they prefer not to contact the Deputy City Attorney for Finance and Disclosure. The City's Office of Ethics and Integrity will create a system and procedure so that City employees can contact them with any concerns about accounting or financial disclosure issues in an anonymous and confidential manner. The Office of Ethics and Integrity shall share any such information with the City's Audit Committee in a timely fashion, while ensuring the confidentiality of City employees.

Article X
Annual Review

Section 10.1. Annual Review. The Disclosure Group shall conduct an annual evaluation of these Disclosure Controls and Procedures and prepare an annual report, in accordance with the procedures and the dates established by Section 22.4106 of the Municipal Code.

Exhibits

A. List of Related Entities

B. Related Entity Letter

C. Request for Information from Contributors

D. Transmittal by Department Director or Deputy City Manager to Financing Group

E. Underwriter's/Financial Advisor's Confidentiality Agreement

F. Letter from Human Resources Manager

G. Letter from SDCERS Representative

H. Letter from City Attorney's Office Regarding Litigation

I. Letter from Chief Financial Officer

J. Municipal Finance Disclosure Reference Materials

K. Transmittal of Official Statement by Financing Group to Disclosure Group

L. Transmittal of Official Statement by Disclosure Group to City Manager and City Attorney

M. Certifications by City Attorney and City Manager

N. Certification by Chief Financial Officer Regarding Official Statements

O. Certification by Chief Financial Officer Regarding CAFR

Exhibit A

Related Entities

Assessment District 4030 (Otay Mesa Industrial Park)

Assessment District 4096 (Piper Ranch Business Park)

City of San Diego/MTDB Authority

Community Facilities District No. 1 (Miramar Ranch North)

Community Facilities District No. 2 (Santaluz)

Community Facilities District No. 3 (Liberty Station)

Community Facilities District No. 4 (Black Mountain Ranch Villages)

Convention Center Expansion Financing Authority

Public Facilities Financing Authority of the City of San Diego

Reassessment District No. 1999-1

Reassessment District No. 2003-1

Redevelopment Agency of the City of San Diego

San Diego Facilities and Equipment Leasing Corporation

San Diego Housing Authority

San Diego Housing Commission

San Diego Open Space Park District No. 1

San Diego Tobacco Revenue Funding Corporation

Exhibit B

Related Entity Letter

Pursuant to Municipal Code §22.4101 *et seq.* (Code), the Disclosure Practices Working Group (Group) has the responsibility to review the form and content of information disclosed by the City in connection with securities issued by Related Entities (as defined in the Code). Accordingly, in order to fulfill such responsibility, you must submit this letter for approval by the Group, and you understand and agree that you will not docket the Preliminary Official Statement or other offering document for consideration by the City Council prior to submitting this letter to the Group.

You have received this letter because [name of issuer] is a Related Entity of the City. Please advise, by checking the appropriate box below, whether you are in receipt of any information of the type referenced in the preceding paragraph.

☐ We did not request, and did not receive, any information from a City employee that we intend to include in the Preliminary Official Statement or other offering document that is being prepared in connection with the securities being offered by [name of Related Entity].

☐ We received information from [name of City employee], a copy of which is attached, which we intend to include in the Preliminary Official Statement that is being prepared in connection with the securities being offered by [name of Related Entity]. We understand and acknowledge that we are not authorized to include this information in such Preliminary Official Statement or any other disclosure document until we receive written authorization from a representative of the Group to include such information.

Related Entity: _____

Authorized Officer: _____

Exhibit C

Request for Information from Contributors

The Debt Management department of the City is requesting information from [department or division name] to be included in a detailed disclosure of the City's financial and operating data for an [official statement] [annual report] to be issued by the City in connection with [the sale of bonds or other securities] [federal annual reporting requirements for municipal securities]. This information will be disseminated publicly to the investing public, including bondholders, rating agencies, financial advisors and other members of the investment community.

Federal securities laws require that the information be complete, accurate, and in no way misleading. Please review carefully and critically the information you are providing to be certain, to the best of your knowledge after reasonable inquiry of the appropriate persons, that it is accurate, complete and not misleading. Please be certain that the source documentation is reliable and auditable, should any future inquiry arise. Please provide a copy of all source documentation. Please describe any exceptions or other caveats to the information you are providing.

Please review the information in its entirety, rather than simply updating that which has already been provided, to determine whether any material changes have occurred or if any new or additional information should be included to make the information you are providing not misleading and as complete and accurate as possible.

Please provide the information by no later than [X date], and please advise of any subsequent changes to such information through [Y date].

If you require additional information regarding this request for information, please contact_____, at x_____. Thank you for your assistance.

Exhibit D

Transmittal by Department Director
or Chief Operating Officer
to Financing Group

I am the [Department Director/Chief Operating Officer] responsible for reviewing the portion of the Disclosure Document that is attached. This disclosure has been reviewed by me and by each identified Contributor, and was discussed at a meeting of the _____ department. I have also attached copies of any materials that were a source for all or a portion of this disclosure. I have reviewed and complied with the procedures set forth in subsection C. of Section 4.3 of the Disclosure Controls and Procedures. I have attended the federal securities law training seminar conducted by the City's outside disclosure counsel or viewed a recorded version thereof. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall promptly advise the Financing Group.

_____
[Department Director/Chief Operating Officer]

Attachments

- reviewed disclosure
- source materials
- list of Contributors

Exhibit E

[Underwriter's/Financial Advisor's] Confidentiality Agreement

The [Underwriter/Financial Advisor] acknowledges, represents and warrants to the City that in connection with the preparation for and offering and sale of the Bonds, the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided non-public information by or on behalf of the City, including but not limited to drafts of the Preliminary Official Statement and Official Statement; the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided such information for the purpose of the offering and sale of the Bonds and not for any other purpose; and the Preliminary Official Statement and Official Statement, and any supplements or amendments thereto in accordance with the provisions of the Bond Purchase Agreement, constitute the only documents authorized by the City for dissemination of such information.

The [Underwriter/Financial Advisor] covenants and agrees to protect and maintain the confidentiality of such information and to take appropriate steps to assure that its agents, employees and counsel involved in the offering will not make use of such information for any purpose other than the offer and sale of the Bonds.

Notwithstanding the preceding two paragraphs, the [Underwriter/Financial Advisor] has the right to use or to disclose any information: (i) which is, at the time of disclosure, generally known or available to the public (other than as a result of a breach of this Agreement); (ii) which becomes, at a later date, generally known or available to the public through no fault of the [Underwriter/Financial Advisor] and then only after said later date; (iii) which is disclosed to the [Underwriter/Financial Advisor] in good faith by a third party who, to [Underwriter/Financial Advisor]'s knowledge, has an independent right to such information and is under no known obligation not to disclose it to the [Underwriter/Financial Advisor]; (iv) which is possessed by the [Underwriter/Financial Advisor], as evidenced by such [Underwriter/Financial Advisor]'s written or other tangible evidence, before receipt thereof from the City; (v) to the extent expressly required by any governmental, judicial, supervisory or regulatory authorities pursuant to federal or state law, subpoena or similar legislative, administrative or judicial process; (vi) in connection with the offering and sale of the Bonds if the [Underwriter/Financial Advisor] or its counsel determines that confidential information is material (within the meaning of the federal securities laws) and therefore must be disclosed in connection with the offering and sale of the Bonds, provided, that the [Underwriter/Financial Advisor] shall provide prior written notice thereof to the City (to the extent permitted by law), including a copy of the proposed disclosure or other use, and shall have obtained the City's written consent to such use if the offering has not commenced; or (vii) the use of which is consented to by the express prior written consent of the City.

The [Underwriter/Financial Advisor] shall return all confidential material to the City when the bond transaction is completed or their services are otherwise completed.

Exhibit F

Letter from the Labor Relations Director

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum] that relates to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. I have also read and understand the directions that were provided to me in the letter from the Financing Group. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group. [No information concerning the above categories was included./I have no comments./My comments are attached.]

_____

Labor Relations Director

Exhibit G

Letter from SDCERS Representative

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum/CAFR] that relates to pension benefits and other retirement benefits, pension plan funding, and litigation concerning SDCERS. I have also read and understand the directions that were provided to me in the letter from the Financing Group. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group. [No information concerning the above categories was included./I have no comments./My comments are attached.]

_____

SDCERS Representative

Exhibit H

Letter from City Attorney's Office Regarding Litigation

Financing Group:

The litigation section of the Disclosure Document has been reviewed by the appropriate attorneys, and the attached disclosure reflects all material current, pending or threatened litigation, and describes any material settlements or court orders. For purposes of this letter, the term "material" means (i) any litigation threatened, pending or commenced against the City seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, or contesting or affecting the validity or enforceability of, the pledge of revenue for, or the power of the City to issue, the Bonds, (ii) any litigation or pending regulatory action the potential exposure for which is greater than $5,000,000. In the event of any material change to such information between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group.

_____

Deputy City Attorney for Finance and Disclosure

Exhibit I

Letter from Chief Financial Officer

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum], including particularly the financial disclosures, and I have compared the financial disclosures in the Disclosure Document to the City's Comprehensive Annual Financial Report. I have also read and understand the directions that were provided to me in the letter from the Financing Group. To the best of my knowledge, there are no misstatements or omissions in any sections of the Disclosure Document that contain descriptions of information prepared by or of interest to the Chief Financial Officer. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group. [I have no comments./My comments are attached.]

_____
Chief Financial Officer

Exhibit J

Municipal Finance Disclosure Reference Materials

1. Public Finance Criteria, Standard & Poor's (see www.standardandpoors.com, click on "Criteria and Definitions" under "Credit Ratings").

2. Questions to Ask Before You Approve a Bond Issue: A Pocket Guide for Elected and Other Public Officials, National League of Cities; National Association of Counties; National Association of State Auditors, Comptrollers, and Treasurers; and the Government Finance Officers Association, Dec. 1996

3. Disclosure Roles of Counsel in State and Local Government Securities Offerings, American Bar Association, State and Local Government Law, and National Association of Bond Lawyers, 1994.

4. Recommended Best Practices in Disclosure, National Federation of Municipal Analysts, 2004.

5. Making Good Disclosure: The Role and Responsibilities of State and Local Officials Under the Federal Securities Laws, Government Finance Officers Association, 2001.

6. Disclosure Guidelines for State and Local Government Securities, Government Finance Officers Association, 1991.

Exhibit K

Transmittal of Official
Statement by Financing Group
to Disclosure Group

Disclosure Group:

The Financing Group has, with respect to the [Official Statement/Offering Memorandum], (i) performed the responsibilities set forth in subsection B. of Section 4.3 of the Disclosure Controls and Procedures, (ii) obtained all the approvals and source documentation described in said Section 4.3, copies of which are attached, and (iii) in our best judgment, the Disclosure Document is in substantially final form and ready for review by the Disclosure Group.

_____
Representative of Financing Group

[list names of members of Financing Group]

Exhibit L

Transmittal of Official
Statement by Disclosure Group
To City Manager and City Attorney

City Manager and City Attorney:

The Disclosure Group has reviewed and approved the [Official Statement/Offering Memorandum] in accordance with the procedures set forth in Section 5.2 of the Disclosure Controls and Procedures. In the best judgment of the Disclosure Group, the Disclosure Document is in substantially final form and the Disclosure Group has complied with the Disclosure Controls and Procedures.

_____
Representative of Disclosure Group

[list names of members of Disclosure Group]

Exhibit M

Certifications by City Attorney and City Manager

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum], and I have met with and asked questions of the Financing Group, the Disclosure Group, any Contributor, any other person who reviewed or drafted any section of the [Official Statement/Offering Memorandum], and any other person that I thought necessary or appropriate. I hereby certify that, to the best of my knowledge, the [Official Statement/Offering Memorandum] does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

_____

City Manager/City Attorney

Exhibit N

Certification by Chief Financial Officer Regarding Official Statements

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum] and compared the City Financial Statements with the Disclosure Document. In addition, I have reviewed the Disclosure Document in full to identify any misstatement or omission in any sections that contain or omit descriptions of information prepared by or of interest to the Chief Financial Officer. I hereby certify that, to the best of my knowledge:

1. the Disclosure Document fairly presents, in all material respects, the financial condition and results of operations of the City;

2. the Disclosure Document does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and

3. that the financial statements and other financial information from the City Financial Statements included in such Disclosure Document, if any, fairly present in all material respects the financial condition and results of operations of the City as of, and for, the periods presented in the City Financial Statements.

_____

Chief Financial Officer

Exhibit O

Certification by Chief Financial Officer Regarding CAFR

City Council:

I hereby certify that, to the best of my knowledge, as of the date of the CAFR:

1. the information contained in the [Fiscal Year] CAFR fairly presents, in all material respects, the financial condition and results of operations of the City as of, and for, the periods presented in the CAFR; and

2. the CAFR does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

_____
Chief Financial Officer

APPENDIX G – GLOSSARY

Arbitrage

With respect to municipal bonds, arbitrage is the profit made from investing the proceeds of tax-exempt bonds in higher-yielding securities.

Assessment

A charge levied against a parcel of land for the benefit that is generated by the underlying improvement project, or in certain cases public services. The governing body of the entity levying the Assessment must make a finding of special benefit in order to validate this process.

Backloading

Debt repayment is scheduled towards the back-end.

Assessment District

A Special District formed by a local government agency and includes property that will receive direct benefit from the construction of a new public improvement or, in certain cases, from the maintenance of existing public improvements.

Community Facilities District

A common and popular type of Special Tax district that can fund ongoing maintenance services, capital projects, or both. It is allowed under the Mello-Roos Community Facilities Act of 1982 and California Government Code Section 53311 et seq.

Conduit Financing

A financing in which the proceeds of the issue are loaned to a nongovernmental borrower who then applies the proceeds for a project financing or, if permitted by federal tax law for a qualified 501(c)(3) bond, for working capital purposes.

Continuing Disclosure

The ongoing disclosure provided by an issuer or obligated person pursuant to an undertaking entered into to allow the underwriter to comply with SEC Rule 15c2-12.

Debt Service

The total interest, principal and mandatory sinking fund payments due at any one time.

Debt Service Reserve Fund

An account from which monies may be drawn to pay debt service on an issue of bonds if pledged revenues and other amounts available to pay debt service are insufficient. The size of the debt service reserve fund and investment of monies in the fund/account are subject to restrictions contained in Federal Tax law for tax-exempt bonds.

Electronic Municipal Market Access (EMMA) System

The EMMA system created by the MSRB is a comprehensive, centralized online source for market transparency data, educational material about the municipal securities market, and free access to municipal disclosures. Effective July 1, 2009, EMMA became the single, official repository for continuing disclosure documents as a result of changes mandated by the SEC in December 2008.

Escrow Agent

With respect to an advance refunding, the commercial bank or trust company retained to hold the investments purchased with the proceeds of the refunding and, customarily, to use the amounts received as payments on such investments to pay debt service on the refunded bonds.

Generally Accepted Accounting Principles (GAAP)

A widely accepted set of rules, conventions, standards and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

Government Accounting Standards Board (GASB)

A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

Joint Powers Authority

A public authority created by a joint exercise of powers agreement between any two or more governmental agencies. The authority may be given power to perform any function which both parties to the agreement are empower to perform and which will be of benefit to both parties.

Municipal Standards Rulemaking Board (MSRB)

An independent self-regulatory organization established by the Securities Acts Amendments of 1975, which is charged with primary rulemaking authority over dealers, dealer banks, and brokers in municipal securities.

Nationally Recognized Municipal Securities Information Repository (NRMSIR)

NRMSIR is an acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs are the repositories for all annual reports and event notices filed under SEC Rule 15c2-12.

SEC Rule 15c2-12

A rule promulgated by the SEC under the Securities Exchange Act of 1934 concerning disclosure and continuing disclosure requirements for municipal securities.

Securities and Exchange Commission (SEC)

A federal agency which oversees and regulates stock, bond, and other financial markets.

Special Assessment

See "Assessment"

Special Tax

A financial charge that is calculated via some type of special tax formula (or Rate and Method of Apportionment, in the case of a Community Facilities District), and is levied annually on property for a defined period of years.

State and Local Government Series (SLGS)

SLGS is an acronym (pronounced "slugs") for a type of U.S. Treasury obligation, the complete name of which is United States Treasury Securities – State and Local Government Series. SLGS are special United States Government securities sold by the Treasury to states, municipalities and other local government bodies through individual subscription agreements. The interest rates and maturities of SLGS are arranged to comply with arbitrage restrictions imposed under Section 103 of the Internal Revenue Code. SLGS are most commonly used for deposit in escrow in connection with the issuance of refunding bonds.

True Interest Cost (TIC)

A method of calculating bids for new issues of municipal securities that takes into consideration certain costs of issuance and the time value of money.

Underwriter

An investment banking firm which, singly or as a member of an underwriting group or syndicate, agrees to purchase a new issue of bonds from an issuer for resale and distribution to investors. The underwriter acquires the bonds either by negotiation with the issuer or by award on the basis of competitive sale.

Underwriter Syndicate

A group of underwriters formed to purchase (underwrite) a new issue of municipal securities from the issuer and offer it for resale to the general public. The syndicate is organized for the purpose of sharing the risks of underwriting the issue, obtaining sufficient capital to purchase an issue and for broader distribution of the issue to the investing public. One of the underwriting firms will be designated as the syndicate manager or lead manager to administer the operations of the syndicate.

Verification Agent

A certified public accountant who verifies that sufficient funds are deposited into an escrow to implement the objectives of the refunding or financing plan.

CITY OF SAN DIEGO
SUMMARY OF DEBT OBLIGATIONS

		Principal Outstanding as of 6/30/2011	Projected FY 2012 Debt/Lease Payment	Final Maturity	Primary Funding Source
General Obligation Bonds					
1991	San Diego General Obligation Bonds (Public Safety Communications Project) [1]	$ 2,240,000	$ 2,314,480	FY 2012	Property Tax
Subtotal General Obligation Bonds		**$ 2,240,000**	**$ 2,314,480**		
General Fund Backed Lease-Revenue Obligations					
Certificates of Participation					
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	$ 7,725,000	$ 757,844	FY 2024	Transient Occupancy Tax & Capital Outlay
Lease Revenue Bonds					
1998	Convention Center Expansion Authority	$ 156,785,000	$ 13,700,688	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002B	Fire and Life Safety Facilities Project	$ 21,150,000	$ 1,629,325	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	$ 10,745,000	$ 1,153,574	FY 2023	Transient Occupancy Tax
2007A	Ballpark Refunding Bonds	$ 142,115,000	$ 11,322,000	FY 2032	Redevelopment Agency (Centre City Development Corporation)
2010A	Master Refunding Bonds [2]	$ 167,610,000	$ 13,052,725	FY 2040	General Fund, Stadium, Transient Occupancy Tax, & Capital Outlay
2011	Qualified Energy Conservation Bonds (Broad Spectrum Street Lighting Project) [3]	$ 13,141,596	$ 1,526,066	FY 2026	Street Light Energy and Maintenance Cost Savings
Subtotal General Fund Backed Lease-Revenue Obligations		**$ 519,271,596**	**$ 43,142,222**		
Total General Fund Obligations		**$ 521,511,596**	**$ 45,456,702**		
Public Utilities - Wastewater and Water System Obligations [4]					
Wastewater System Obligations					
2009A	Sewer Revenue Bonds	$ 439,890,000	$ 36,274,881	FY 2039	Net Wastewater System Revenues
2009B	Sewer Revenue Refunding Bonds	$ 562,885,000	$ 57,706,488	FY 2025	Net Wastewater System Revenues
2010A	Sewer Revenue Refunding Bonds	$ 161,930,000	$ 8,501,325	FY 2029	Net Wastewater System Revenues
Total Wastewater System Obligations		**$ 1,164,705,000**	**$ 102,482,694**		
Water System Obligations					
2002	Subordinated Water Revenue Bonds	$ 243,520,000	$ 27,296,456	FY 2033	Net Water System Revenues
2009A	Water Revenue Bonds, Refunding Series 2009A	$ 155,045,000	$ 8,679,025	FY 2039	Net Water System Revenues
2009B	Water Revenue Bonds	$ 322,815,000	$ 21,734,969	FY 2040	Net Water System Revenues
2010A	Water Revenue Bonds	$ 123,075,000	$ 6,310,475	FY 2029	Net Water System Revenues
Total Water System Obligations		**$ 844,455,000**	**$ 64,020,925**		
McGuigan Settlement					
2010	McGuigan Settlement Modification	$ 32,762,082	$ 8,993,762	FY 2015	General Fund and Misc. Special Funds

1. The 1991 G.O. Bonds will be paid off on July 15, 2011.
2. 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.
3. Lease payments for the Qualified Energy Conservation Bonds are partially offset by direct cash subsidy payments from the federal government annually over the life of the bonds. The 2012 subsidy is $473,410 resulting in a net lease payment of $1,052,656 after accounting for the subsidy.
4. In addition to bonds, the Water and Wastewater Systems have outstanding State Revolving Fund (SRF) loan obligations. Currently, the Water System has two SRF loans; the outstanding loan balance as of June 30, 2011 is approximately $28.6 million. In addition, there are two new Water System SRF loans pending which total approximately $38 million. The Wastewater System has 11 SRF loans; the outstanding loan balance as of June 30, 2011 is approximately $69.8 million.

SOURCE: CITY OF SAN DIEGO FISCAL YEAR 2012 ADOPTED BUDGET

CITY OF SAN DIEGO

SPECIAL ASSESSMENT / SPECIAL TAX BONDS

AS OF 06/30/2011

DISTRICT NO.	**ASSESSMENT DISTRICTS**	**Outstanding Principal As of 06/30/2011**
4030	OTAY MESA INDUSTRIAL PARK	135,000
4096	PIPER RANCH	4,135,000
2003-1	REASSESSMENT DISTRICT NO. 2003-1	5,060,000
1999-1	REASSESSMENT DISTRICT NO. 1999-1	10,315,000
	TOTAL ASSESSMENT DISTRICTS	**19,645,000**
	COMMUNITY FACILITIES DISTRICTS	
CFD # 1	MIRAMAR RANCH NORTH - Series 1998	34,495,000
CFD # 2	SANTALUZ - IMPROVEMENT AREA NO. 1 - SERIES A of 2000	48,515,000
	SANTALUZ - IMPROVEMENT AREA NO. 1 - SERIES A of 2004	4,100,000
CFD # 2	SANTALUZ - IMPROVEMENT AREA NO. 3 - SERIES B of 2000	3,805,000
CFD # 2	SANTALUZ - IMPROVEMENT AREA NO. 4 - SERIES A of 2004	8,070,000
CFD # 3	LIBERTY STATION - SERIES A of 2006	15,120,000
	LIBERTY STATION - SERIES A of 2008	3,745,000
CFD # 4	BLACK MOUNTAIN RANCH VILLAGES - Series A of 2008	11,940,000
	TOTAL COMMUNITY FACILITIES DISTRICTS	**129,790,000**
	TOTAL SPECIAL DISTRICTS	**149,435,000**

SOURCE: CITY OF SAN DIEGO DEBT MANAGEMENT DEPARTMENT

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (In Thousands)

a. Long-Term Liabilities

Governmental activities long-term debt consists of revenue bonds, tax allocation bonds, notes payable, and loans payable. A summary of these obligations as recorded in the government-wide Statement of Net Assets as of June 30, 2011, is as follows:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2011
Liability Claims				$ 70,560
Revenue Bonds:				
Centre City Parking Revenue Bonds, Series 1999 A	4.5-6.4%[1]	2026	$ 12,105	9,140
Centre City Parking Revenue Bonds, Series 2003 B	3.0-5.3[1]	2027	20,515	16,255
Total Revenue Bonds			32,620	25,395
Tax Allocation Bonds:				
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4-6.0[1]	2020	1,200	645
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8-6.0[1]	2016	12,970	4,795
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 A	3.0-5.125[1]	2019	25,680	22,295
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 B	6.25	2014	11,360	6,885
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 C	3.1-4.75[1]	2025	13,610	11,190
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 A	4.5-5.8[1]	2029	5,690	4,765
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B	5.75-6.4[1]	2029	10,141	8,160
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0-5.6[1]	2025	6,100	4,410
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95-5.35[1]	2025	21,390	17,095
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25-5.8[1]	2022	15,025	11,815
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25-5.875[1]	2031	13,000	10,655
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1-5.9[1]	2031	7,000	5,740
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A	4.93-5.55[1]	2027	58,425	54,795
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0	2027	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5-5.0[1]	2029	31,000	11,980
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875-6.5[1]	2034	4,955	4,955
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5-4.25[1]	2014	865	255

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2011
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65-5.1[1]	2022	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25-5.45[1]	2022	4,530	4,115
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49-7.74[1]	2022	8,000	5,890
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5-6.125[1]	2028	7,145	5,635
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75-5.0[1]	2034	5,360	5,360
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	3.5-5.25[1]	2030	101,180	88,260
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2.26-6.18[1]	2030	27,785	23,425
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2.26-6.28[1]	2030	8,905	7,525
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	4.25-5.25[1]	2033	76,225	73,530
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	5.66-6.2[1]	2032	33,760	31,490
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	3.74-6.3[1]	2021	69,000	60,120
North Park Redevelopment Project Tax Allocation Bonds, Series 2009 A	6.0-7.0[1]	2040	13,930	13,930
Housing Set-Aside Tax Allocation Bonds, Series 2010 A	4.375-7.75[1]	2041	58,565	58,565
City Heights Redevelopment Project Tax Allocation Bonds, Series 2010 A	5.625	2041	5,635	5,635
City Heights Redevelopment Project Tax Allocation Bonds, Series 2010 B	7.375	2038	9,590	9,590
Crossroads Redevelopment Project Tax Allocation Bonds, Series 2010 A	3.0-6.0[1]	2041	4,915	4,915
Naval Training Center Redevelopment Project Tax Allocation Bonds, Series 2010 A	3.0-5.75[1]	2041	19,765	19,765
San Ysidro Redevelopment Project Tax Allocation Bonds, Series 2010 A	5.75	2041	2,900	2,900
San Ysidro Redevelopment Project Tax Allocation Bonds, Series 2010 B	4.375-7.75[1]	2036	5,030	5,030
Total Tax Allocation Bonds			711,411	615,495
Total Bonds Payable			744,031	640,890
Notes Payable:				
City of San Diego - Naval Training Center dated April 2002	8.0	-	8,300	8,300
Total Notes Payable			8,300	8,300
Pooled Financing Authority Loans				
Central Imperial Redevelopment Project Loan Payable dated June, 2007	4-6.65[1]	2038	14,865	14,125
Mount Hope Redevelopment Project Loan Payable dated June, 2007	5.95-6.37[1]	2021	3,110	2,430
Southcrest Redevelopment Project Loan Payable dated June, 2007	4-6.65[1]	2033	17,010	15,455
Total Pooled Financing Authority Loans			34,985	32,010

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2011
Loans Payable:				
California Housing Financing Agency (HELP) Loan dated October 2008	3.0	2017	1,250	1,250
City San Diego - City Heights Section 108 Loan dated August 2001	N/A[2]	2021	2,250	1,606
City San Diego - Naval Training Center Section 108 Loan dated June 2004	N/A[2]	2025	5,910	4,840
City San Diego - HUD Settlement Agreement dated various dates	N/A[3]	2019	45,311	38,677
City of San Diego - Miscellaneous dated various dates	Variable[4]	-	65,797	65,797
Total Loans Payable			120,518	112,170
Accreted Interest Payable:				
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B		-	-	9,030
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A		-	-	9,356
Total Accreted Interest Payable				18,386
Accrued Interest Payable:				
City San Diego - HUD Settlement Agreement		-	33,476	33,182
City of San Diego - Miscellaneous		-	-	127,963
City Note Payable dated April 2002[5]		-	-	8,513
Total Accrued Interest Payable			33,476	169,658
Total Governmental Activities			$ 944,310	$ 1,051,974

[1] Interest rates are fixed and reflect the range of rates for various maturities from date of issuance to maturity.

[2.] There is no interest rate associated with these loans. However, the Agency is responsible for transferring funds to the City equal to the scheduled principal and interest payments to HUD from the City as they become due.

[3] The basis for computation of interest on these loans is based on the Prime Rate as printed in the Wall Street Journal on the first Monday following January 1 of the calendar year in which the fiscal year begins plus 2% on the outstanding principal loan balance only. The Prime Rate on January 1, 2010 was 3.25% (see Note 1-q for additional information on interest related to this loan).

[4.] The basis for computation of interest on these loans is based on the Prime Rate as printed in the Wall Street Journal on the first Monday following January 1 of the calendar year in which the fiscal year begins plus 2% on the outstanding principal loan balance only. The Prime Rate on January 1, 2010 was 3.25%. Pursuant to a loan agreement by and between the Agency and the City executed on March 1, 2011, interest accrual was suspended beginning on July 1, 2011.

[5] Interest on City Note is compounded.

b. Amortization Requirements

The debt service for tax allocation bonds are paid from tax increment from the project area and the bonds are secured from the tax increment of the project area. The debt service for revenue bonds is secured and paid first from the revenue generated by certain public parking facilities operated by the City pursuant to a Parking Structure Operating Agreement between the City and the Agency. In the event that the operating revenues are insufficient to pay the debt service, parking meter revenue and tax increment have been pledged as additional security for the bonds.

The annual requirements to amortize the Agency's long-term debt outstanding as of June 30, 2011, including interest payments to maturity, are as follows:

Year Ending June 30,	Revenue Bonds		Tax Allocation Bonds		
	Principal	Interest	Principal	Unaccreted Appreciation**	Interest
2012	$ 1,085	$ 1,369	$ 21,569	$ 2,317	$ 32,914
2013	1,135	1,315	24,688	2,388	31,762
2014	1,195	1,257	26,249	2,455	30,465
2015	1,255	1,194	27,103	2,459	29,122
2016	1,320	1,127	28,502	2,440	27,724
2017 - 2021	7,760	4,434	161,353	11,280	114,627
2022 - 2026	10,205	1,898	129,279	6,394	76,727
2027 - 2031	1,440	38	93,047	447	46,072
2032 - 2036	-	-	53,870	-	25,081
2037 - 2041	-	-	49,835	-	8,813
Total	25,395	12,632	615,495	30,180	423,307
Add: Accreted appreciation through June 30, 2011			18,386		
Total	$ 25,395	$ 12,632	$ 633,881	$ 30,180	$ 423,307

Year Ending June 30,	Notes Payable		Pooled Financing Authority Loans		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ -	$ -	$ 825	$ 1,805	$ 4,873	$ 591
2013	-	-	860	1,762	4,301	430
2014	-	-	900	1,718	4,819	318
2015	-	-	950	1,671	6,606	649
2016	-	-	1,000	1,621	8,677	1,203
2017 - 2021	-	-	5,775	7,223	14,698	32,721
2022 - 2026	-	-	5,795	5,582	1,778	220
2027 - 2031	-	-	7,720	3,610	-	-
2032 - 2036	-	-	6,260	1,317	-	-
2037 - 2041	-	-	1,925	115	-	-
Unscheduled*	8,300	8,513	-	-	66,418	127,810
Total	$ 8,300	$ 8,513	$ 32,010	$ 26,424	$ 112,170	$ 163,942

*The note payable to the City in the amount of $8,300, loans payable to the City in the amount of $65,168, loans payable to the California Housing Financing Agency in the amount of $1,250 and accrued interest associated with Loans and Notes of $136,323 do not have annual repayment schedules. Principal and accrued interest totaling $192,902 payable on City Loans and principal and accrued interest on the Naval Training Center Note to the City totaling $16,813 are payable when practicable.

** Unaccreted Appreciation represents the amount to be accreted in future years regardless of the timing of cash flows.

c. Changes in Long-Term Liabilities

The following is a summary of changes in governmental activities long-term liabilities for the fiscal year ended June 30, 2011. The effect of bond accretion, bond premiums, discounts, and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Balance, July 1, 2010	Additions	Reductions	Balance, June 30, 2011	Due Within One Year
Liability Claims	$ 71,790	$ -	$ (1,230)	$ 70,560	
Revenue Bonds	26,435	-	(1,040)	25,395	1,085
Less deferred amounts:					
For Issuance Discounts	(83)	-	5	(78)	-
Net Revenue Bonds	26,352	-	(1,035)	25,317	1,085
Tax Allocation Bonds	529,423	106,400	(20,328)	615,495	21,569
Accretion	16,535	2,243	(392)	18,386	499
Net with Accretion	545,958	108,643	(20,720)	633,881	22,068
Less/Plus deferred amounts:					
For Issuance Premiums/Discounts	5,461	(1,543)	(218)	3,700	-
On Refunding	(827)	-	87	(740)	-
Net Tax Allocation Bonds	550,592	107,100	(20,851)	636,841	22,068
Pooled Financing Authority Loans	32,780	-	(770)	32,010	825
Less/Plus deferred amounts:					
For Issuance Premiums/Discounts	347	-	(14)	333	-
Net Pooled Financing Authority Loans	33,127	-	(784)	32,343	825
Contracts Payable	1,018	-	(1,018)	-	-
Notes Payable	11,601	133	(3,434)	8,300	-
Loans Payable	158,578	-	(46,408)	112,170	4,873
Interest Accrued on City Note and Loans	162,957	7,195	(494)	169,658	229
Total	$ 1,016,015	$ 114,428	$ (75,254)	$ 1,055,189	$ 29,080

On August 26, 2010, the Agency issued $58,565 of Housing Set-Aside Tax Allocation Bonds for the purpose of repaying long-term debt and to finance a portion of the costs of low and moderate income housing projects within the City Heights, North Bay, North Park, Crossroads, Naval Training Center and San Ysidro Redevelopment Project areas. The Series 2010A taxable bonds are payable solely from, and secured by, a pledge of tax revenues derived from the 20% of tax increment allocated to the Agency from the Redevelopment Project Areas that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund. The bond issuance is structured as term bonds and has an interest rate that ranges from 4.37% to 7.75% with a final maturity date of September 1, 2040. Bond proceeds were used to repay $25,634 of the San Diego National Bank line of credit outstanding principal, $1,018 to repay the Western Pacific Housing Contract Payable and $1,607 to repay the Price Charities Note Payable dated April 2001.

On August 26, 2010, the Agency issued $19,765 of Tax Allocation Bonds for the purpose of repaying long-term debt and financing a portion of the costs of redevelopment activities within the Naval Training Center Redevelopment Project. The Series A bonds are payable solely from, and secured by, a pledge of tax revenues allocated to the Agency from the Naval Training Center Redevelopment Project excluding those moneys that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund and moneys allocable to other taxing agencies under the Redevelopment Law. The bond issuance is structured as both serial and term bonds and has an interest rate that ranges from 3.0% to 5.75% with a final maturity date of September 1, 2040. Bond proceeds were used to repay $12,211 of the San Diego National Bank line of credit outstanding principal.

On August 26, 2010, the Agency issued $4,915 of Tax Allocation Bonds for the purpose of financing certain redevelopment activities within or of benefit to the Crossroads Redevelopment Project. The Series A bonds are payable solely from, and secured by, a pledge of tax revenues allocated to the Agency from the Crossroads Redevelopment Project, excluding those moneys that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund and excluding moneys which are allocable to other taxing agencies under the Redevelopment Law. The bond issuance is structured as both serial and term bonds and has an interest rate that ranges from 3.0% to 6.0% with a final maturity date of September 1, 2040.

On August 26, 2010, the Agency issued $5,635 of 2010 Series A tax-exempt and $9,590 of 2010 Series B taxable City Heights Redevelopment Project Tax Allocation Bonds. The Series A bonds were issued to fund redevelopment projects within the City Heights Redevelopment Project and the Series B bonds were issued for the purpose of repaying long-term debt and to finance redevelopment activities in the City Heights Redevelopment Project. The 2010 Series A and B bonds are payable solely from, and secured by, pledged tax revenues allocated to the Agency from the City Heights Redevelopment Project, excluding amounts payable to the Agency's Low and Moderate Income Housing Fund, and amounts payable to other taxing agencies pursuant to tax sharing agreements. The Series A bond issuance was structured as term bonds with a fixed interest rate of 5.625% and a final maturity of September 1, 2040. The Series B bond issuance was structured as a term bonds with a fixed interest rate of 7.375% and a final maturity of September 1, 2037. Bond proceeds were used to repay $2,010 of the San Diego National Bank line of credit outstanding principal and $1,827 to repay the Price Charities Note Payable dated May 2005.

On August 26, 2010, the Agency issued $2,900 of 2010 Series A tax-exempt and $5,030 Series B taxable San Ysidro Redevelopment Project Tax Allocation Bonds. The Series A bonds were issued to repay certain redevelopment activities within or of benefit to the San Ysidro Redevelopment Project and the Series B bonds were issued for the purpose of repaying a loan with a developer and fund certain redevelopment activities in the San Ysidro Redevelopment Project. The 2010 Series A and B bonds are payable solely from, and secured by, tax revenues allocated to the Agency from the San Ysidro Redevelopment Project, excluding those moneys that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund and excluding moneys which are allocable to other taxing agencies under Redevelopment Law. The Series A bond issuance was structured as term bonds with a fixed interest rate of 5.75% and a final maturity of September 1, 2040. The Series B bond issuance was structured as term bonds with an interest rate that ranges from 4.375% to 7.75% with a final maturity date of September 1, 2035. Proceeds from the Series B bonds were used to repay $1,768 of the International Gateway Associates, LLC loan payable dated October 2001 and $1,212 to repay the PCCP/SB Las Americas, LLC loan payable dated August 2005.

Other increases to long-term debt in the current fiscal year resulted from accrued interest of $5,950 related to City Loans Payable and $1,245 related to the Naval Training Center Note Payable to the City. In addition, pursuant to the disposition and development agreement associated with the Price Charities Note Payable dated May 2005, $133 was added to the principal balance of the note, due to the fact that the developer's remediation costs for the acquisition parcel exceeded the expected contamination value as defined in the agreement.

Other reductions in long-term debt resulted from principal payments of $21,368 on bonds, $770 on Pooled Financing Authority Loans and $3,573 on City Loans.

Liability claims decreased by $1,230 as a settlement payment was made related to a claim with Jack in the Box for loss of goodwill, relocation benefits, fixtures and equipment, regarding a property acquired through eminent domain in the City Heights Project Area.

d. Long-Term Pledged Liabilities

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, generally a single lump sum. The disclosures pertaining to future revenues that have been pledged are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so.

Governmental long-term pledged liabilities as of June 30, 2011 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Pledged Net Operating Revenue (Parking):				
Centre City Parking Revenue Bonds, Series 1999 A	2026	$ 14,157	$ 954	$ 964
Centre City Parking Revenue Bonds, Series 2003 B	2027	23,870	1,504	1,516
Total Pledged Net Operating Revenue (Parking)		38,027	2,458	2,480
Pledged Tax Increment Revenue:				
Bonds				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	2011	$ -	$ 508	$ 391
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	2020	831	95	169
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	2016	5,548	1,117	1,113
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 A	2019	27,748	2,835	2,850
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 B	2014	7,548	2,586	2,584
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 C	2025	15,585	794	760
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 A	2029	7,643	426	426
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B	2029	29,606	825	825
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	2025	6,322	447	438
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	2025	24,464	1,456	1,414
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	2022	16,110	1,344	1,341
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	2031	18,011	897	868
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	2031	9,713	481	465
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A	2027	104,035	2,564	2,532
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	2027	5,049	153	229

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2029	19,936	585	-
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	2034	9,740	315	315
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2014	271	92	92
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	2022	8,866	310	301
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	2022	5,527	295	274
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	2022	8,661	797	784
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	2028	8,888	544	544
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	2034	10,670	259	259
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	2030	131,832	7,510	5,591
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2011	-	1,197	1,197
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2030	37,434	2,224	2,234
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2030	12,126	721	708
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	2033	116,763	4,358	4,165
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	2032	56,115	2,640	3,624
Centre City Redevelopment Project Tax Allocation Bonds, Series 2008 A	2021	79,757	8,053	9,014
North Park Redevelopment Project Tax Allocation Bonds, Series 2009 A	2040	36,598	954	628
Housing Set-Aside Tax Allocation Bonds, Series 2010 A	2041	156,124	2,261	2,261
City Heights Redevelopment Project Tax Allocation Bonds, Series 2010 A	2041	14,609	163	163
City Heights Redevelopment Project Tax Allocation Bonds, Series 2010 B	2038	25,676	363	363
Crossroads Redevelopment Project Tax Allocation Bonds, Series 2010 A	2041	11,022	142	142
Naval Training Center Redevelopment Project Tax Allocation Bonds, Series 2010 A	2041	40,176	530	530
San Ysidro Redevelopment Project Tax Allocation Bonds, Series 2010 A	2041	7,458	86	86
San Ysidro Redevelopment Project Tax Allocation Bonds, Series 2010 B	2036	10,906	185	185

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Pooled Financing Authority Loans				
Central Imperial Redevelopment Project				
Loan Payable dated June, 2007	2038	27,912	1,046	1,694
Mount Hope Redevelopment Project				
Loan Payable dated June, 2007	2021	3,229	328	597
Southcrest Redevelopment Project				
Loan Payable dated June, 2007	2033	27,293	1,241	1,747
Contracts				
Contract Payable to Western Pacific Housing, Inc., dated April 2004	2011	-	1,042	1,042
Notes				
Note Payable to Price Charities, dated April 2001	2011	-	1,675	-
Note Payable to Price Charities, dated May 2005	2011	-	1,715	-
Amendment to Note Payable to Price Charities, dated February 2006	2011	-	188	-
Loans				
International Gateway Associates, LLC, dated October 2001	2011	-	1,945	-
PCCP/SB Las America, LLC, dated August 2005	2011	-	1,333	-
San Diego National Bank, Line of Credit, dated July 2007 City Heights Housing Area	2011	-	4,192	-
San Diego National Bank, Line of Credit, dated July 2007 City Heights Non-Housing Area	2011	-	2,067	-
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Housing Area	2011	-	5,641	-
San Diego National Bank, Line of Credit, dated July 2007 Naval Training Center Non-Housing Area	2011	-	12,339	-
San Diego National Bank, Line of Credit, dated July 2007 North Bay Housing Area	2011	-	8,639	-
San Diego National Bank, Line of Credit, dated July 2007 North Park Non-Housing Area	2011	-	7,371	-
City San Diego - Naval Training Center Section 108 Loan dated June 2004	2025	7,047	507	507
Total Pledged Tax Increment Revenue		1,152,849	102,381	55,452
Total Pledged Revenue		$ 1,190,876	$ 104,839	$ 57,932