



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: March 27, 2008

IBA Report Number: 08-30

City Council Meeting Date: April 1, 2008

Item Number: 334

General Fund Deferred Maintenance Capital Improvement Projects Financing

OVERVIEW

The City Council is being asked to adopt an ordinance authorizing the issuance of Lease Revenue Bonds, Series 2008A (the "2008A Bonds") in a principal amount not to exceed \$108 million. Proceeds from the issuance of 2008A Bonds would finance various General Fund deferred maintenance capital improvement projects and costs associated with issuing the bonds. This report briefly comments on the FY 08 budget plan to finance deferred maintenance projects, the prioritization criteria used to identify deferred maintenance projects, and items related to the proposed 2008A Bonds.

FISCAL/POLICY DISCUSSION

Budget Plan to Finance Needed Deferred Maintenance Projects

The FY 08 Budget estimated the City's deferred maintenance/capital needs, excluding those related to Water and Wastewater enterprises, to be at least \$800 to \$900 million. This estimate was derived from a 2006 City staff estimate. A detailed update on the actual magnitude of the deferred maintenance problem has yet to be developed. The FY 08 Budget allocated \$38.3M to address facility repairs and improvements (\$5.3M) and street and storm drain improvements (\$33M). Of the \$33M budgeted for street and storm drain improvements, 75% or \$24.75M was to be financed with the remaining \$8.25M to be cash funded.

The City's deferred maintenance/capital needs, excluding those related to water, wastewater and landfill enterprises, is estimated to be at least \$800 to \$900 million based on a 2006 City staff estimate. A detailed update on the actual magnitude of the deferred maintenance problem has yet to be developed.



Office of Independent Budget Analyst

202 C Street, MS 3A • San Diego, CA 92101

Tel (619) 236-6555 Fax (619) 236-6556

The Mayor's most recent Five-Year Financial Outlook ("Outlook") proposes to allocate \$472.3M in bond financing and \$308.7M in cash to finance deferred maintenance/capital needs through FY 13 (\$80.8M of the cash would be used to pay debt service on the bonds). In FY 09, \$77.5M in debt financing and \$29.7M in cash, specified within the Outlook, is planned to fund deferred maintenance/capital projects.

Citing limited available cash and an inability to access the public debt market earlier in FY 08, the proposal before the City Council would consolidate planned debt financing for FY 08 (\$24.75M) and FY 09 (\$77.5M) for a total borrowing of approximately \$102.6M, including certain costs associated with issuing debt. The ordinance before the City Council authorizes the sale of up to \$108M in 2008A Bonds. Pursuant to City Charter Section 99, the proposed ordinance requires six votes of the City Council for adoption.

Identified Deferred Maintenance Projects

The FY 08 Budget planned to finance \$24.75M for street and storm drain improvements in FY 08 and the Outlook committed to financing another \$77.5M in FY 09 that would also address City facilities. Attachment A of the Report to the City Council #08-042 lists all of the deferred maintenance projects to be debt financed in FY 08 and FY 09. The IBA has been informed that most of these projects have yet to be bid and will not be completed until FY 10.

In reviewing the FY 08 Budget with respect to deferred maintenance financing, the IBA was unable to determine how specific deferred maintenance projects were identified, given the extensive project backlog and limited funding. The City Council subsequently supported an IBA recommendation, generated during a review of the City's new Debt Policy, that a Capital Improvement Project (CIP) prioritization policy be developed. A CIP prioritization policy has since been developed and presented to the Budget and Finance Committee twice for review. The CIP prioritization policy will be forwarded to the City Council for final consideration this summer; however, the policy was not ready for use in identifying deferred maintenance projects to be funded with the 2008A Bonds.

Lacking a CIP prioritization policy, the Deputy Chief of Public Works and the General Services Department Director explained their selection criteria to the IBA for the various categories of deferred maintenance projects listed below. We have listed the deferred maintenance projects from Attachment A and noted the utilized selection criteria:

STREET AND STORM DRAINS (\$77.25M)

Project Category

Street Projects
\$53.5 M

Selection Criteria Utilized

Condition Assessments (every 2-3 years)
Pavement Management System
Maintenance History

Project Category

Sidewalk/Concrete Projects
\$9.55M

Storm Drain Projects
\$14.2M

Selection Criteria Utilized

Maintenance Records
Public Work Requests

Known Problem Areas (i.e., flooding)
Maintenance History
Exceeded Life Expectancy
Potential Liability for Property Damage

FACILITIES (\$25M)

(Emphasis on Public Safety Facilities)

Roofing
\$3.925M

Phase I Condition Assessment of 31 facilities
Maintenance History
Customer Input/Feedback

Public Safety Facilities
\$8.6M

General Services worked jointly with E&CP to identify these as high priority projects.
Phase I Condition Assessment of 31 facilities
Maintenance History

Parking Lot Resurfacing (Overlay)
\$4.53M

Maintenance History
Customer Input/Feedback
Work with P&R to identify priority lots

HVAC Projects
\$3.25M

Maintenance History
Exceeded Life Expectancy

Plumbing
\$1.36M

Maintenance History
Exceeded Life Expectancy

Electrical Projects
\$.95M

Maintenance History
Exceeded Life Expectancy

Elevator Modernization Projects
\$1.385M

Maintenance History
Entrapments
Service Contract Feedback

Windows /Doors
\$1.0M

Customer Input/Feedback

The Deputy Chief of Public Works has indicated that the intent will be to use the proceeds of the 2008A Bonds to complete those projects identified in Attachment A; however, there is no bond document requirement to construct these specific projects and management retains the ability to substitute other projects should circumstances dictate that a higher priority needs to be addressed. **The IBA recommends that the City Council be updated on a semi-annual basis on the status of funded projects and of any project substitutions.**

2008A Bonds

As discussed in the staff report, the Public Facilities Financing Authority of the City of San Diego ("Authority") would issue the proposed 2008A Bonds. The 2008A Bonds have a 10 year maturity and would be privately placed with Bank of America, N.A. The contemplated borrowing is a lease-purchase financing whereby a lease is created between the City and the Authority. The City leases five General Fund assets/facilities to the Authority for a nominal rent of \$1 and the Authority subsequently leases back those same facilities to the City, at a rate sufficient to cover the debt service on the 2008A Bonds. The City has used asset transfers to facilitate previous General Fund lease financings (see Attachment 1 to the staff Report #08-041).

The IBA inquired as to how the identified General Fund assets/facilities were selected for this financing. We were informed that the Debt Management Department worked with the Real Estate Assets Department to select approximately \$111M of General Fund assets from a total suitable asset pool of approximately \$350M in order to facilitate the lease purchase transaction with the borrower. The five selected General Fund assets are Police Headquarters, Rose Canyon Operations Station, Mission Valley Library, Malcolm X Library and Scripps Ranch Library. Each of the five assets was recently appraised and does not carry other encumbrances.

Interest only payments of approximately \$3.5 million will be made on the 2008A Bonds for the first two years on a semi-annual basis. These interest payments will be made by the General Fund. The interest expense was incorporated into the Mayor's Outlook and will be included in the FY 09 budget.

The 2008A Bonds have been structured with two-tiered pricing that establishes a fixed rate for the first two years (estimated to be approximately 3.46%) and, if necessary, resets the fixed rate for years 3 through 10 at 2.25% above a specified Bank of America cost of funds rate. If the fixed rate for years 3 through 10 were to have been reset earlier this month, it would have been approximately 4.45%. The current financing plan calls for refunding the 2008A Bonds with a 30-year public offering at the end of the initial two-year term. If the long-term refunding plan is executed as planned, pricing terms for years 3 through 10 will be inconsequential.

In keeping with the plan to refund at the end of the second year, the 2008A Bonds are callable two years after the anticipated bond closing in June 2008. As structured, the 2008A Bonds cannot be called before June 2010. **If, however, long-term rates in the public markets were to go lower during the two year period, the IBA recommends that the Debt Management Department monitor the feasibility of an advance refunding.**

An advance refunding could allow the City to take advantage of lower long-term fixed interest rates in the near future without an earlier call feature on the 2008A Bonds. The City may be able to reenter the public markets as soon as this summer. Long-term interest rates are relatively low and may trend lower. If so, an advance refunding could enable the City to lock-in low, long-term fixed rates and potentially significant interest savings in the event that interest rates were forecasted to rise as we approach June 2010.

CONCLUSION

Given an urgent need for the City to begin addressing the significant backlog of deferred maintenance projects, the IBA recommends support of the proposed 2008A Bonds. We remain concerned, however, that without a detailed, quantified and prioritized inventory of current deferred maintenance needs, it is difficult to understand what progress is being made in reducing the citywide problem. It also makes it challenging to effectively plan to address the highest priority projects. We further note the related importance of 1) funding routine maintenance for all public infrastructure and 2) the impact that rising construction and materials costs could have on the total cost of addressing citywide deferred maintenance.

The proposed 2008A Bonds are effectively a two-year financing with a firm obligation to refund or re-price the debt in June of 2010. Because of the uncertainty of interest rate levels two years from now and the City's inability to call the bonds before that time, there is some interest rate risk associated with the subsequent re-pricing (fixed long-term interest rates could be better or worse than current rates). The IBA recommends that the Debt Management Department monitor long-term fixed interest rates and evaluate the feasibility of an advance refunding, to potentially achieve long-term interest savings, if interest rates move significantly lower in the near term or if future rates are forecasted to rise.

Additionally, the IBA recommends that the City Council be updated on a semi-annual basis regarding the construction status of the identified facilities. This will ensure that the City Council is periodically apprised of any project substitutions and how bonds proceeds are being expended.

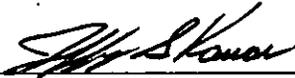
The Office of the City Attorney will issue a useful due diligence and disclosure obligation memorandum related to the 2008A Bonds on March 28, 2008. In addition to

The due diligence and disclosure obligation memorandum issued by the Office of the City Attorney briefly describes the bond financing documents and provides useful questions and answers for the City Council to consider. The IBA encourages the City Council to ask any questions they might have directly to members of the City's financing team including the City's financial advisor, bond counsel and even the purchaser of the 2008A Bonds (Bank of America).

providing guidance to the City Council regarding due diligence obligations under federal securities laws, the memorandum briefly describes the bond financing documents and provides useful questions and answers for the City Council to consider. A certification by the Disclosure Practices Working Group has also been attached indicating that financial information disclosed in the 2008A Bonds has been reviewed to ensure accuracy.

The IBA has been informed that representatives of the entire financing team will be present for the City Council meeting on April 1, 2008. The IBA encourages the City Council to ask any questions they might have directly to members of the City's financing

team including the City's financial advisor, bond counsel and even the purchaser of the 2008A Bonds (Bank of America). The availability of financing consultants to the City Council at or before City Council meetings where approval is sought for debt is a recommendation within the comprehensive financial training program adopted by the City Council on December 6, 2006.



Jeff Kowar
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin
Independent Budget Analyst

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City of San Diego
MEMORANDUM

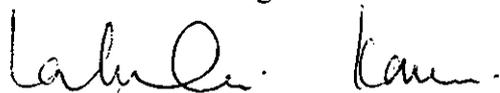
DATE: March 17, 2008
TO: Council President and City Council
FROM: Lakshmi Kommi, Debt Management Director,
via Mary Lewis, Chief Financial Officer *Mary Lewis*
SUBJECT: Request for City Council Action – General Fund Deferred Maintenance Capital
Improvement Projects Financing

Enclosed herewith are materials relating to the proposed 2008A Lease Revenue Bonds for review and consideration by the City Council:

- Request for City Council Action
- Executive Summary
- Report to the City Council
- Companion Report – Deferred Maintenance Projects
- City Ordinance
- Reimbursement Resolution
- Bond Purchase Agreement – 2008A Lease Revenue Bonds
- Site Lease – 2008A Lease Revenue Bonds
- Lease Agreement – 2008A Lease Revenue Bonds
- Assignment Agreement – 2008A Lease Revenue Bonds
- Indenture – 2008A Lease Revenue Bonds
- Bank of America Community Reinvestment Activity information

The City's Disclosure Practices Working Group (DPWG) reviewed the financing proposal and the related financing documents on March 13, 2008. The City Attorney's Office will provide the no disclosure certification on the financing and a memorandum addressing the due diligence process, including a list of Transaction Questions and Answers on the key issues pertaining to the proposed financing, prior to the City Council meeting.

City Council staff and the Independent Budget Analyst will be contacted to conduct individual City Council staff briefings.



Lakshmi Kommi
Debt Management Director

Cc: Independent Budget Analyst Office
City Attorney's Office



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THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: March 26, 2008 REPORT NO: 08-042
ATTENTION: Council President and City Council
Agenda of April 1, 2008
SUBJECT: Deferred Maintenance Projects
REFERENCE: General Fund Deferred Maintenance Capital Improvements Projects
Financing

REQUESTED ACTION: Accept this report

STAFF RECOMMENDATION: Accept this report

SUMMARY: Proceeds from the sale of privately financed lease revenue bonds are needed in order to fund street, sidewalk, storm drain and facility deferred maintenance projects as outlined in the Mayor's *Five-Year Financial Outlook*. Details of the financing are discussed in a companion staff report from the Debt Management Department.

FISCAL CONSIDERATIONS: For the fiscal impact of privately financed lease revenue bonds, refer to companion report - General Fund Deferred Maintenance Capital Improvements Projects Financing. There will not be any operations and maintenance cost increases associated with the deferred maintenance projects.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Residents of the City of San Diego will see continued improvements to City Facility, Street and Storm Drain infrastructure to address the deferred maintenance needs in these areas.

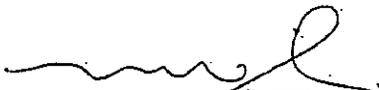
BACKGROUND:

On November 29, 2006, the Mayor released the *City of San Diego Five-Year Financial Outlook - Fiscal Years 2008 - 2012* which addressed eight (8) significant areas in order to provide the City with short and long term stability. One significant area identified was "Funding Deferred Maintenance and Capital Improvement Needs." The Deferred Maintenance portion of this area is the responsibility of the General Services Department and includes four major components; street, sidewalk, storm drain and facility deferred maintenance.

In Fiscal Year 2008, the Five-Year Financial Outlook provided for \$5.3 Million (100% cash funded) to be spent on facility deferred maintenance and \$33.0 Million (75% financed / 25% cash) to be spent on street and storm drain deferred maintenance. For Fiscal Year 2009, \$31.8 Million (\$25 Million financed / \$6.8 Million cash) is outlined for facility deferred maintenance and \$70.0 Million (75% financed / 25% cash) for street and storm drain deferred maintenance. For this two-year period, the total cash portion amounts to \$37.85 Million and the total financed portion amounts to \$102.25 Million. The specific projects to be funded from the financed portion are listed in Attachment A.

DISCUSSION:

The financed portion for these capital deferred maintenance projects was originally scheduled to be provided for by public revenue bonds. As of current, the City of San Diego has not been able to access the public debt market and has been utilizing cash to initiate these capital projects. As available cash is limited, the General Services Department is requesting private bond financing in order to complete these needed capital projects. The estimated bond proceeds, expected to be available in June 2008, are approximately \$102.25 Million and will be used to fund various street, storm drain and facility deferred maintenance projects in Fiscal Year's 2008 and 2009. Part of the bond proceeds will be used to reimburse the City for any eligible project expenditures funded by the City in anticipation of receiving the proceeds of the bond funding with the remaining proceeds being used to fund the remaining capital projects.



Mario X. Sierra, Director
General Services Department



David Jarrell
Deputy Chief of Public Works

FY08-09 Financed Deferred Maintenance Projects

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	Total Proj FY 2008	Estimate FY 2009
STREETS AND STORM DRAINS	\$24,750,000	\$52,500,000
Street Projects	\$18,500,000	\$35,000,000
Street Resurfacing - 30.8 miles	\$18,500,000	
Street Resurfacing - 46.0 miles		\$27,500,000
Concrete Street Projects		\$7,500,000
Sidewalk/Concrete Projects	\$2,050,000	\$7,500,000
Sidewalk Repair Projects - 1,016 locations	\$2,050,000	
Sidewalk Repair Projects - 1,300 locations		\$7,500,000
Storm Drain Projects	\$4,200,000	\$10,000,000
Rowena 54" CMP Replacement	\$600,000	
6th Avenue 12" CMP Replacement	\$475,000	
Ransom/Darwin 42" CMP Replacement	\$700,000	
La Playa 30" RCP Outfall	\$450,000	
Campus Point 18" CMP Replacement	\$800,000	
Glen Curtis Surface Drain	\$825,000	
Ingulf Place 36" CMP Replacement	\$350,000	
Torrey Pines Road Slope		\$950,000
Riviera (3663)		\$150,000
Scripps Storm Drain		\$50,000
Via Rialto		\$400,000
Mission Bay Interceptor System		\$1,400,000
Fontaine		\$750,000
Wenrich		\$400,000
Boat Depot		\$500,000
Alvarado Creek/Fairmont		\$500,000
Carmel Country Road		\$250,000
Via Alicante		\$200,000
Beardsley Street		\$600,000
National Ave		\$600,000
Avocado Place		\$500,000
Neptune		\$400,000
Garnet Ave (2550)		\$200,000
Arcadia Dr.		\$600,000
Arista St		\$400,000
Talbot St		\$500,000
La Cresta Dr		\$400,000
Arden Way		\$250,000
FACILITIES	\$0	\$25,000,000
Roofing Projects		\$3,925,000
Fire Station 17 (Chamoun Ave)		\$200,000
Fire Station 09 (La Jolla)		\$150,000
Fire Station 38 (Mira Mesa)		\$150,000
Northeastern Police Station		\$150,000
Mid City Police Station		\$150,000
Southeastern Police Station		\$150,000
Western Police Station		\$150,000
Eastern Police Station		\$150,000
Southern Police Station		\$150,000
Traffic Division		\$100,000
Ocean Beach Library		\$150,000
Mission Hills Library		\$75,000
Casa Del Prado		\$1,500,000
SD Municipal Gym		\$300,000
North Clairemont Rec Center		\$250,000
La Jolla Senior Center		\$75,000
Mt. Hope Cemetary		\$75,000

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	Total Proj FY 2008	Estimate FY 2009
Public Safety Facilities		\$8,600,000
FS 5, Hillcrest - Design		\$750,000
Children's Pool LG Tower - Design & Construction		\$2,800,000
La Jolla Shores LG Tower - Construction		\$3,800,000
FS 22, Point Loma - Design		\$100,000
FS 17, City Heights - Design		\$750,000
Police Range Refurbishment - Design		\$400,000
Parking Lot Resurfacing (Overlay)		\$4,530,000
Fire Station 27 (Clairmont Drive)		\$30,000
Fire Station 32 (Paradise Hills)		\$50,000
Various Recreation Centers		\$100,000
Various Senior Centers		\$300,000
Western Police Station		\$50,000
Balboa Park Parking Lots		\$2,500,000
Mission Bay Parking Lots		\$1,500,000
HVAC Projects		\$3,250,000
Police Mid-City Communications Center		\$200,000
North Park Library		\$250,000
Casa del Prado		\$150,000
Museum of Man		\$300,000
Pacific Beach Library		\$550,000
Casa de Balboa		\$1,300,000
Fire Communications Center		\$500,000
Plumbing Projects		\$1,360,000
Police Headquarters		\$200,000
Spanish Village		\$660,000
Fire Station 25 (Bay Park)		\$75,000
Fire Station 36 (Clairemont)		\$75,000
Main Library		\$350,000
Electrical Projects		\$950,000
Fire Station 24 (Carmel Valley)		\$25,000
Lifeguard Headquarters		\$75,000
Police Headquarters		\$650,000
Southeastern Police Station		\$200,000
Elevator Modernization Projects		\$1,385,000
Casa de Balboa		\$100,000
Casa Del Prado		\$100,000
Old Globe Theater		\$100,000
Main Library		\$560,000
City Concourse		\$200,000
San Diego Aerospace Museum		\$100,000
Museum of Art		\$50,000
Museum of Man		\$25,000
Tierasanta Recreation Center		\$25,000
Rancho Bernardo Library		\$25,000
Development Review Center		\$100,000
Windows / Doors		\$1,000,000
Police Headquarters (reseal windows)		\$750,000
Police Headquarters (replace front doors)		\$100,000
Lifeguard Headquarters (replace garage doors)		\$100,000
Fire Station 16 La Jolla (apparatus door)		\$50,000
TOTAL	\$24,750,000	\$77,500,000



000437

THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: March 26, 2008 REPORT NO: 08-041
ATTENTION: Council President and City Council
Agenda of April 1, 2008
SUBJECT: General Fund Deferred Maintenance Capital Improvement Projects
Financing
REFERENCE: Companion Report – Deferred Maintenance Projects

REQUESTED ACTIONS:

1. Authorize the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of its Lease Revenue Bonds, Series 2008A (Various Capital Improvement Projects) ("2008A Bonds") in the principal amount not to exceed \$108 million and the execution of related financing documents, to finance various General Fund deferred maintenance capital improvement projects and costs of issuance. The related financing documents include:
 - a. A Site Lease between The City of San Diego ("the City") and the Authority;
 - b. A Lease Agreement between the City and the Authority;
 - c. An Assignment Agreement between the Authority and Wells Fargo Bank, National Association (the "Trustee");
 - d. A Purchase Agreement between Bank of America, N.A. (the "Purchaser") and the Authority; and
 - e. An Indenture between the Authority and Trustee
2. Declare the City's intent to use proceeds of indebtedness to reimburse itself if funds are advanced by the City for eligible capital improvement expenditures related to the General Fund Deferred Maintenance funding program.
3. Authorize the form of the Financial Advisory Services Agreement between the City and Montague DeRose and Associates, LLC to provide financial advisory services for the proposed 2008A Bonds for an amount not to exceed \$37,500, plus reasonable out-of-pocket expenses not to exceed \$5,000, contingent upon the closing of the transaction.
4. Authorize the City Attorney to appoint Hawkins Delafield and Wood LLP as Bond Counsel for the City in connection with the issuance of the 2008A Bonds, and pay an amount not to exceed \$70,000, plus reasonable out-of-pocket expenses not to exceed \$5,000, contingent upon the closing of the transaction.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:**I. Background**

The City's Five-Year Financial Outlook ("5-Year Outlook") released in November 2006 and revised in January 2008 lays out the City's General Fund deferred maintenance needs. The 5-Year Outlook identifies the total funding allocated to deferred maintenance capital improvement projects and the proposed breakdown between funding with cash on-hand and funding with proceeds of the 2008A Bonds (see table below). The financing plan for the 2008A Bonds addresses the financing needs identified for the General Fund deferred maintenance capital improvement projects for Fiscal Years 2008 (\$24.75 million) and 2009 (\$77.5 million) totaling \$102,250,000.

	<u>FY 2008</u> <u>Budget</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
		<u>Five-Year Financial Outlook</u>				
Buildings and Facilities	\$5,300,000	\$31,800,000	\$50,000,000	\$50,000,000	\$50,000,000	\$50,000,000
Cash	\$5,300,000	\$6,800,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000
Financed	\$0	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000
Streets and Storm Drains	\$33,000,000	\$70,000,000	\$90,000,000	\$90,000,000	\$90,000,000	\$90,000,000
Cash	\$8,250,000	\$17,500,000	\$22,500,000	\$22,500,000	\$22,500,000	\$22,500,000
Financed	\$24,750,000	\$52,500,000	\$67,500,000	\$67,500,000	\$67,500,000	\$67,500,000
Total Financed Amt	\$24,750,000	\$77,500,000	\$92,500,000	\$92,500,000	\$92,500,000	\$92,500,000

Source: Five-Year Financial Outlook, January 2008

In Fiscal Year 2008, \$24.75 million is programmed to fund street-related and storm drain deferred maintenance projects. Of this amount, \$18.5 million was estimated to be used for various street resurfacing projects, \$4.2 million for storm drain repairs, and \$2.05 million for sidewalk repairs.

In Fiscal Year 2009, \$52.5 million is proposed to fund street-related and storm drain deferred maintenance projects and \$25.0 million under buildings and facilities category. Of the \$52.5 million in Fiscal Year 2009, \$35 million is estimated to be used for various street resurfacing projects, \$10 million for storm drain repairs, and \$7.5 million for sidewalk repairs. The \$25.0 million in Fiscal Year 2009 deferred maintenance projects relating to buildings and facilities are anticipated to be allocated towards roof replacement projects, public safety facilities, parking lot resurfacing, heating and cooling system repairs and replacements, elevator modernization projects, windows and door replacements, and various electrical and plumbing upgrades to various General Fund supported City Facilities.

For a detail list of projects, refer to the Companion Report – Deferred Maintenance Projects.

II. Discussion

A. Financing Plan & Structure

The 2008A Bonds are an interim financing measure to address the funding needs identified for the General Fund deferred maintenance capital improvement projects in Fiscal Years 2008 and 2009.

The proposed interim borrowing was initially planned as a 2-year short term note obligation with a 2-year lease financing structure. Based on further legal analysis by the Bond Counsel, City Attorney, and the Purchaser's Counsel, the 2-year lease option was converted to a 10-year lease in order to conform to the outstanding legal precedent in structuring lease revenue obligations. It was determined that a 10-year term will provide adequate support and establishes necessary legal parameters to make the lease payments.

The financing plan contemplates refunding the proposed private borrowing in two years (2010) with a 30-year traditional public offering. Therefore, instead of fixing an interest rate for the full 10-year borrowing term which would be higher than for a borrowing term for 2-years, working with the Purchaser, a two-tier pricing (described below) was structured: a lower fixed interest rate (based on a 2-year Index plus fixed spread) for the first two year period and if the City is unable to refund the 2008A Bonds by 2010, a higher interest rate (based on an 8-year Index plus fixed spread) for years 3-10. Based on current interest rate levels as of March 12, 2008, the interest rate for the 2-year term is 3.46% and the interest rate for the 3-10 year term will be 4.45%, a 99 basis point (0.99%) differential in interest rate between the two year lease period and the 3-10 year lease period. Note that under the financing structure, if the City is not able to refund the notes by the two year point, based on the market conditions at that time, and the levels of the 8-year Index, the interest rate fixed for 3-10 year period (at the beginning of year 3) until the City can refund the Bonds could be a maximum of 12% (the maximum permitted legal rate).

Key Aspects of the financing plan and structure

- **Method of Sale:** The proposed 2008A Bonds will be privately placed with Bank of America, N.A ("BoFA").
- **Principal:** Not to exceed \$108 million.
- **Maturity:** Estimated 10-years from the date of closing, June 2018.
- **Pricing/Interest Rate:**
 - Fixed rate; two-tier pricing.
 - Tier 1: Years 1 and 2 interest only payments. The spread is 1.875% over the 2-year Index¹; the interest rate will be fixed at pricing which is currently projected to occur during the last week of May 2008.
 - The City covenants to use its reasonable best efforts to refund the Series 2008A Bonds at the end of year 2. If the bonds remain outstanding beyond year 2, the interest rate will be reset as specified under Tier 2 of the pricing structure.

¹ Index is the Cost of Funds Rate (COFR), which is 62.347% of Bank of America's cost of funding rate. As of March 12, 2008, the 2-year Index was 1.58% (62.347% of 2.54%) and the 8-year Index was 2.20% (62.347% of 3.52%).

- Tier 2: Fixed rate for years 3 - 10 with principal amortized on a level basis annually. The spread is fixed at 2.25% over the 8-year Index; interest rate fixed at the beginning of year 3.
- **Transferability:** 2008A Bonds may only be held by the Purchaser or transferred to a parent, subsidiary, or affiliate of the Purchaser or held in a tender option bond trust of which the Purchaser is the sponsor and the trustor provided that the shares of the said trust are held by twelve or fewer Qualified Institutional Buyers. (At the time the 2008A Bonds are closed, the Purchaser intends to treat this borrowing as a balance sheet lending and maintain such borrowing on its balance sheet until the 2008A Bonds are called).
- **Call Provision:** A call provision will allow the City to refund the 2008A Bonds, in whole or in part at any time after two years following the closing of the 2008A Bonds at no premium.
- **Repayment Source:** General Fund revenues to pay interest and principal payments.

For comparison purposes, as of the week of March 10, 2008, "BBB" rated lease revenue bonds in the public market would be priced at 3.08% for a 2-year term and at 4.67% for a 10-year term. The interest rate premium for the proposed 2-year term reflects, among other things, the illiquid nature of the bonds (the fact that the 2008A Bonds will be issued in the private market with resale restrictions), the absence of ratings and that the City does not have current financial statements. The financial advisor has reviewed the proposed pricing and concurs that the interest rate spreads for the initial two and eight-year financing periods are reasonable with the cost of funds of capital to the Purchaser for a 10-year financing term.

B. Legal Structure

Issuing Authority

The issuer of the 2008A Bonds is the Public Facilities Financing Authority of the City of San Diego. The Authority was established pursuant to a Joint Exercise of Powers Agreement, dated May 14, 1991, between the City and the Redevelopment Agency of the City. The Authority was established to serve as a financing vehicle for certain of the City's facilities and projects.

Lease Structure

Lease revenue bonds are based on a lease arrangement between two entities: a governmental entity and typically, a non-profit agency, financing authority, or joint powers authority which issues the bonds, which is also called a lease, lease-back transaction. In the case of the 2008A Bonds, the lease arrangement is between the City and the Authority. The proposed bonds are based on an abatement structure, whereby the City makes lease/rental payments for the duration it has use and occupancy of the facilities leased by the Authority. The City's duty to make lease payments abates if all or a portion of such facilities cannot be used; this applies even if the reason the facilities cannot be used is beyond the control of the City.

The capital improvement projects (for example, street resurfacing, existing facility repairs) being financed by the 2008A Bonds, are not leasable assets under the financing. Therefore, an asset-transfer is necessary in place of pledging the properties being improved with the proceeds of the proposed bonds. Under the proposed structure, the pledged assets are existing City-owned General Fund properties. The City initially leases these properties to the

Authority for a nominal rent of \$1. The Authority in turn leases the assets back to the City. The City would make rental payments to the Authority annually for leasing the properties, which is determined to be the fair market rental value of the properties. The Authority receives the rental payments from the City and makes principal and interest payments over the lease term on the proposed 2008A Bonds. The City has used this asset-transfer structure, pledging City properties, for various General Fund outstanding lease financings, including the Certificates of Participation related to the Balboa Park Mission and Bay Park Capital Improvements Program, Series 1996A, Series 1996B, and Series 2003, the Jack Murphy (Qualcomm) Stadium Lease Revenue Bonds, Series 1998, and the Fire and Life Safety Facilities Lease Revenue Bonds, Series 2002B. See attachment 1 for a list of City properties pledged for outstanding General Fund financing transactions.

Following are the General Fund assets being pledged for the 2008A financing and their respective current appraisal values:

1. Police Headquarters	\$64,719,000
2. Rose Canyon Operations Station	21,120,000
3. Mission Valley Library	10,579,000
4. Malcolm X Library	7,879,000
5. <u>Scripps Ranch Library</u>	<u>6,418,000</u>
TOTAL	\$110,715,000

The properties were appraised for current market value by an appraisal firm coordinated by the City's Real Estate Assets Department. A preliminary title report has been obtained for each of the properties, establishing that the properties are not already encumbered and are free and clear of liens, subject to standard exceptions.

C. Financing & Legal Documents

1. A Site Lease between the City and the Authority: The Site Lease is the agreement under which the City leases the pledged assets to the Authority.
2. A Lease Agreement between the City and the Authority: The Lease Agreement is the agreement under which the Authority leases back the pledged assets to the City. The Authority receives the rental payments from the City which will be equivalent to the debt service payments on the proposed 2008A Bonds.
3. An Assignment Agreement between the Authority and the Trustee: Under the Assignment Agreement, the Authority assigns to the Trustee, without recourse, all of its rights to receive lease payments under the Lease Agreement.
4. An Indenture between the Authority and the Trustee: The Indenture provides for the issuance of the 2008A Bonds and sets forth terms, including the specific rights, responsibilities, and obligations of each party with respect to the issuance of the 2008A Bonds.
5. A Purchase Agreement between the Purchaser and the Authority: The Purchase Agreement defines the terms of the 2008A Bonds, purpose of the financing, form of security, transfer restrictions, interest rate, and maturity.

D. Financing Time Line

March 13, 2008	DPWG approval of due diligence materials and financing documents
April 1, 2008	Introduction of the Ordinance for the approval of financing documents related to the 2008A Bonds
April 14, 2008	Approval of the Reimbursement Resolution Approval of the Ordinance for the approval of financing documents related to the 2008A Bonds
April 16, 2008	Public Facilities Financing Authority meeting to approve 2008A Bonds
Week of May 26, 2008	Pricing and execution of Purchase Agreement
Week of June 2, 2008	Closing and receipt of funds

E. Financing Team

The City's Financing Team for the 2008A Bonds consists of staff of the Chief Financial Officer, Debt Management, City Attorney's Office, Comptroller's Office, Treasurer's Office, Risk Management, General Services, and Real Estate Assets Department. Outside consultants, include Montague DeRose and Associates, LLC ("Montague DeRose") as the financial advisor, Hawkins Delafield & Wood LLP as the Bond Counsel, White & Case LLP as Purchaser's Counsel, and Wells Fargo Bank, National Association as Trustee.

Bank of America N.A. was selected as the direct purchaser for the 2008A Bonds through a competitive process. A Request for Proposals ("RFP") was issued on November 16, 2007 to 36 firms including underwriting firms, banks, and municipal fund managers. Six (6) conforming proposals were received – Bank of America, JP Morgan, Wachovia Securities, Goldman Sachs, DEPPA First Albany, and UBS Securities. Bank of America offered the most flexible and cost effective option within the terms and conditions established in the RFP.

Montague DeRose was selected to provide financial advisory services for this transaction from the as-needed financial advisors list based on their experience in General Fund lease revenue bond financings, fee estimate, and knowledge of City requirements for private offerings. The fee to Montague DeRose for this issuance, which is contingent upon the successful closing of the 2008A Bonds, is for an amount not to exceed \$37,500, plus out of pocket expenses not to exceed \$5,000.

The City Attorney's Office has identified Hawkins Delafield and Wood LLP ("Hawkins") to serve as bond counsel. Hawkins has proposed to provide such service for a fee in an amount not to exceed \$70,000. Expenses are not to exceed \$5,000. The bond counsel fee is contingent upon the successful closing of the 2008A Bond issue.

Wells Fargo Bank was selected as the Trustee for this transaction through a competitive process. Compensation for the Trustee includes \$3,550 for the transaction and ongoing annual fees of \$1,750.

F. Reimbursement Resolution

It is anticipated that funding for certain capital expenditures related to the General Fund deferred maintenance capital improvement projects ("Project") may need to be advanced by the City prior to the closing of the 2008A Bonds. In order to reimburse capital expenditures with proceeds from the short-term financing, the City must adopt a reimbursement resolution in accordance with section 1.150-2 of Treasury Regulations ("Regulations").

The City reasonably expects that certain of these expenses will be advanced by the City for any eligible Project expenditures in anticipation of receiving proceeds of the 2008A Bond offering. By adopting a reimbursement resolution, City will satisfy the Official Intent Requirement under the Regulations and be able to reimburse Project-related expenditures using proceeds of the 2008A Bonds.

FISCAL CONSIDERATIONS:

A. Estimated Sources and Uses of Bond Proceeds (preliminary and subject to change)

Estimated Sources

Par amount of 2008A Bonds	\$102,552,000
Total Proceeds	\$102,552,000

Estimated Uses

Net Proceeds for the project (acquisition fund)	\$102,250,000
Costs of Issuance	
Bond Counsel	\$ 75,000
Purchaser's Counsel	45,000
Financial Advisor	42,500
Trustee	3,550
Title Insurance Policy	80,000
Property Appraisals	40,000
CDIAC Fees	3,000
Contingency (approx. 5%)	12,950
Sub Total	<u>\$ 302,000</u>

Total Uses of Funds **\$102,552,000**

B. Interest Rate and Projected Debt Service

The interest rate for the first two years will be fixed at 187.5 basis points (1.875%) above the two-year Index². The interest rate will be set after the City Council approval of the proposed transaction and financing documents and is currently projected to occur during the week of May 26, 2008. As of March 12, 2008, the indicative interest rate is 3.46% for the first two years.

² Index is the Cost of Funds Rate (COFR), which is 62.347% of Bank of America's cost of funding rate. As of March 12, 2008, the 2-year Index was 1.58% (62.347% of 2.54%) and the 8-year Index was 2.20% (62.347% of 3.52%).

Interest only payments will be made during the first two years. Based on the principal amount of \$102.6 million, the annual interest payment is estimated at approximately \$3.5 million. Interest only payments will be made on a semi-annual basis on December 1 and June 1.

The City covenants to use its reasonable best efforts to repay (whether by refunding or otherwise) the Series 2008A Bonds at the end of year 2. If the bonds remain outstanding beyond year 2, the interest rate will be reset as specified under Tier-2 of the pricing for the years 3 to 10 at the beginning of year 3. The fixed interest rate will be at 225 basis points (2.25%) above the eight-year Index at that time. As of March 12, 2008, the indicative interest rate is 4.45% for the years 3 – 10. Beginning year 3, the principal will be amortized on a level basis annually. The first principal payment will be due on June 1, 2011, with annual debt service (interest and principal) projected to total approximately \$15.5 million beginning FY 2011, through FY 2018.

The maximum effective interest rate established in the authorizing ordinance is 5.45%. The 2008A Bonds will not be priced as anticipated in the last week of May in the event that the effective interest rate exceeds this limit. It is not currently expected that the actual pricing for Tier 1 will result in an effective interest rate of 5.45%, however, should that occur, the annual debt service (interest only payments) at this rate would be approximately \$5.6 million in Fiscal Years 2009 and 2010. As discussed earlier, if the 2008A Bonds remain outstanding beyond year 2, the pricing will be fixed in year 3; the maximum interest rate on Tier 2 could be up to 12% (the maximum permitted legal rate).

C. Revenue Pledge

The debt service on the 2008A Bonds is supported by the General Fund. The estimated debt service has been incorporated in the 5-year outlook and will be brought forward for the City Council authorization during the FY 2009 budget process. There will not be any operations and maintenance cost increases associated with the deferred maintenance projects.

D. Impact on current debt ratios

In accordance with the City's Debt Policy, an analysis of the impact of additional General Fund backed bond obligation was conducted. The Debt Policy recommends that debt service as a percentage of General Fund revenues be below 10%.

Under the current outstanding bond obligation levels, the debt service as a percentage of General Fund revenues is at 3.93% for Fiscal Year 2008, and is projected to steadily fall to 2.66% by Fiscal Year 2013.

The issuance of the proposed 2008A Bonds would increase the debt service as a percentage of General Fund revenues from 3.93% in Fiscal Year 2008 to 4.03% in Fiscal Year 2009 and 4.38% in Fiscal Year 2011, before steadily decreasing to 3.83% by Fiscal Year 2013. This assumes interest only payments at 3.46% for the 1st two years, and interest and principal payments at an interest rate of 4.45% commencing in Fiscal Year 2011.

Attachment 2 presents the calculations pertaining to the debt service as a percentage of General Fund revenues, including the underlying assumptions. The analysis supports that the City remains below the 10% threshold established in the City's Debt Policy.

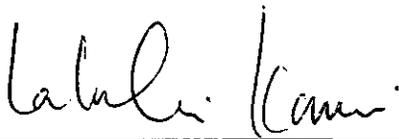
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PREVIOUS COUNCIL and/or COMMITTEE ACTION: N/A

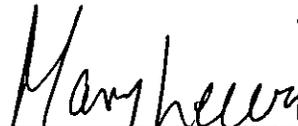
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in this transaction are: Bank of America, N.A. (Purchaser); Hawkins Delafield & Wood LLP (Bond Counsel); White & Case LLP (Purchaser's Counsel); Wells Fargo Bank, National Association (Trustee); and Montague DeRose and Associates, LLC, (Financial Advisor).



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

Attachments:

1. List of General Fund Lease Financings with Asset-Transfer Structure
2. Debt Service as a Percentage of General Fund Revenues

List of City Properties Pledged - Outstanding General Fund Financings with Asset Transfer Structure

Lease Revenue Bonds	Final Bond Payment	Properties Pledged
1 Public Facilities Financing Authority of the City of San Diego Taxable Lease Revenue Bonds Series 1996 A (San Diego Jack Murphy Stadium)	February 1, 2027	Stadium structure, the underlying real property, and portions of the adjacent parking areas
2 Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds Series 2002B (Fire and Life Safety Facilities Project)	April 1, 2032	Fire Stations # 9, 11, 14, 16, 20, 24, 28, 37, 41, 42, and 44
Certificates of Participation		
1 City of San Diego 2003 Certificates of Participation (1993 Balboa Park/Mission Bay Park Refunding)		
(1) Golf Course Portion	November 1, 2008	North Course of Torrey Pines Golf Course
(2) House of Charm Portion	November 1, 2023	House of Charm
2 City of San Diego Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1996A	November 1, 2010	South Course of Torrey Pines Golf Course
3 City of San Diego Refunding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991) Series 1996B	November 1, 2021	Balboa Park Municipal Golf Course

Source: Official Statements

Attachment 2

Debt Service as a Percentage of General Fund Revenues

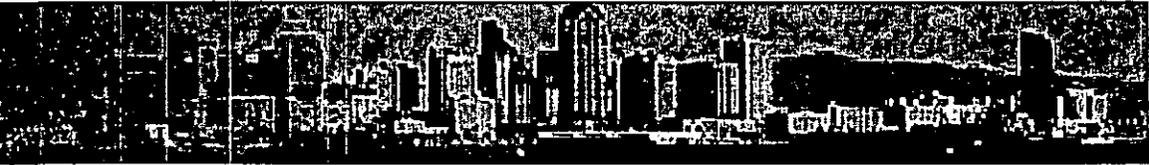
	Outstanding Principal & Interest as of 6/30/07	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Gen Fund Revenues (1) [A]		\$1,103,967,000	\$1,163,600,000	\$1,212,800,000	\$1,238,300,000	\$1,285,700,000	\$1,323,100,000
Current General Fund Backed Bond Obligations (2)							
Total Gross Debt Service [B]		\$43,418,870	\$43,390,731	\$38,735,325	\$38,740,383	\$35,215,308	\$35,210,331
- Open Space Park Refunding, Series 1994	\$871,625	\$437,025	\$434,600	--	--	--	--
- MTDB/City Bayside Trolley Extension/Police Facilities Refunding, 1994 (3)	\$8,566,086	\$2,849,173	\$2,847,906	--	--	--	--
- Balboa Park & Mission Bay Park, 1996A	\$14,120,729	\$3,528,679	\$3,529,135	\$3,531,735	\$3,531,180	--	--
- Balboa Park & Mission Bay Park Refunding, 1996B	\$13,313,130	\$882,865	\$877,130	\$884,778	\$880,630	\$879,775	\$886,861
- Jack Murphy (Qualcomm) Stadium Lease Revenue Bonds, Series 1996 A	\$115,423,728	\$5,773,203	\$5,769,852	\$5,769,853	\$5,772,503	\$5,772,103	\$5,768,303
- Convention Center Expansion, 1998	\$287,672,743	\$13,699,125	\$13,698,438	\$13,700,968	\$13,698,088	\$13,700,688	\$13,697,275
- Fire & Life Safety Improvements - Phase I, 2002B	\$40,988,903	\$1,621,208	\$1,611,208	\$1,617,570	\$1,626,945	\$1,629,325	\$1,630,125
- Balboa Park & Mission Bay Park Refunding, 2003	\$15,609,616	\$2,155,689	\$2,156,739	\$758,099	\$756,464	\$757,844	\$753,144
- City/MTDB Authority Refunding-Old Town Trolley Extension 2003	\$18,466,650	\$1,157,349	\$1,151,224	\$1,151,574	\$1,156,324	\$1,153,574	\$1,153,374
- Ballpark Refunding 2007	\$282,939,219	\$11,314,556	\$11,314,500	\$11,320,750	\$11,318,250	\$11,322,000	\$11,321,250
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [C = B/A%]		3.93%	3.73%	3.19%	3.13%	2.74%	2.66%
Proposed Additional Bond Obligations - 2008A Bonds							
Additional Debt Service (4) [D]		--	\$ 3,548,403	\$ 3,548,403	\$ 15,518,698	\$ 15,516,200	\$ 15,517,120
TOTAL EXISTING AND PROPOSED GROSS DEBT SERVICE [E=B+D]		\$ 43,418,870	\$ 46,939,134	\$ 42,283,728	\$ 54,259,081	\$ 50,731,508	\$ 50,727,451
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [F=E/A%]		3.93%	4.03%	3.49%	4.38%	3.95%	3.83%

(1) General Fund Revenues: FY 2008 - Final Budget; FY 2009 - 2013 estimates reflect Mayor's Five Year Outlook for Fiscal Years 2009 - 2013, January 2008.

(2) Based on Debt Service schedules.

(3) Outstanding principal and interest as of 6/30/07 is higher than the remaining lease payments; lease payments to pay principal and interest are budgeted and paid to the Trustee in prior fiscal year in advance of the debt payments to the bond holders.

(4) Assumes effective interest rate of 3.46% for first two years, and an effective interest rate of 4.45% for following years. First estimated principal payment due on 6/1/2011.



000449

Deferred Maintenance Funding Lease Revenue Bonds, Series 2008 A

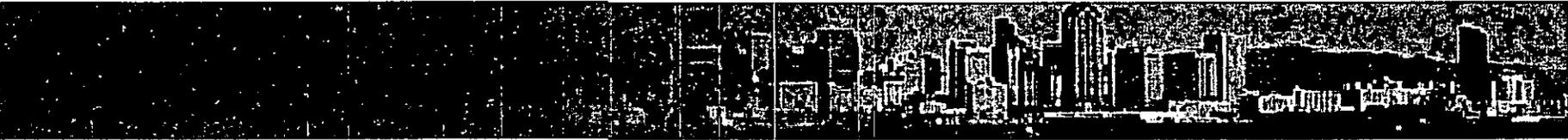
City Council Meeting of April 1, 2008
Item # 334



Deferred Maintenance Needs

000450

- Recapitalization of City infrastructure and facility assets is identified as one of the eight significant areas that require immediate resources
- The City's 5-year Outlook presents the Deferred Maintenance funding plan for FY 2009 - FY 2013
 - Cash Funding
 - ◆ \$24.3 million in FY 2009
 - ◆ \$47.5 million each from FY 2010 to 2013
 - Bond Financing
 - ◆ \$77.5 million in FY 2009
 - ◆ \$92.5 million each from FY 2010 to 2013

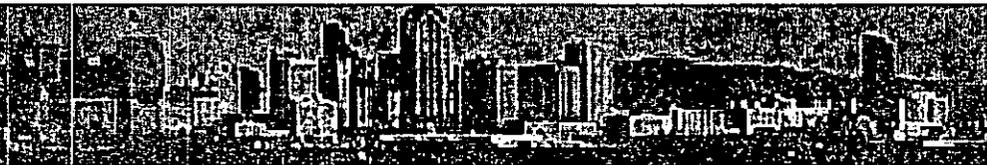


Financing Plan

000451

- The proposed financing will address the funding needs for FY 2008 & 2009
 - Buildings & Facilities: \$25 million (FY 09)
 - Streets, Sidewalks, & Storm Drains: \$77.25 million (FY 08 & 09)

- Eligible projects are identified
 - Funding can only be used for capital projects; cannot be used for maintenance projects
 - Periodic updates on status of projects will be provided to the City Council



Capital Improvement Projects

000452

Buildings & Facilities

Priorities are based upon:

- ◆ FY07 condition assessment of Public Safety facilities
- ◆ History of services calls and known facility problems
- ◆ Input from the departments “owning” the facilities
- ◆ Substantial known issues with facilities in Balboa Park

Planned Projects (In Millions)

	<u>FY 09</u>
◆ Roofing projects	\$ 3.93
◆ Public safety facilities	8.60
◆ Parking lot resurfacing	4.53
◆ HVAC projects	3.25
◆ Plumbing projects	1.36
◆ Electrical projects	0.95
◆ Elevator modernization	1.39
◆ Windows/doors	<u>1.00</u>
TOTAL	<u>\$25.00</u>



Capital Improvement Projects

000453

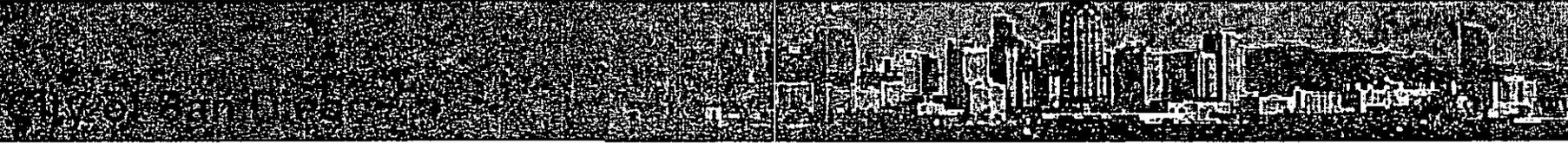
● Streets, Sidewalks, & Storm Drains

● Priorities are based upon:

- ◆ Biennial streets condition assessment (streets resurfacing)
- ◆ Areas that flood during storm events.(storm drains)
- ◆ Areas with failed storm drains
- ◆ Sidewalk problems due to City trees

● Planned Projects (In Millions)

	<u>FY 08</u>	<u>FY 09</u>
◆ Streets resurfacing	\$18.50	\$35.00
- Overlay projects		
- 30.8 miles in FY08 & 46.0 miles in FY09		
◆ Various storm drain repairs	4.20	10.00
- 7 projects in FY 08 & 21 projects in FY09		
◆ Sidewalk repairs	2.05	7.50
- 1,016 locations in FY08 & 1,300 locations in FY09		
TOTAL	<u>\$24.75</u>	<u>\$52.50</u>



000454

Proposed Financing



2008A Lease Revenue Bonds

000455

- Public Facilities Financing Authority - Lease Revenue Bonds, Series 2008A Bonds (Various Capital Projects)
 - In an amount not to exceed \$108 million
 - Estimated issuance size \$102.6 million



Key Financing Terms

000456

- Method of Sale: Direct Purchase
- Term: 10 years
- The City covenants to use its reasonable best efforts to refund the Series 2008A Bonds at the end of year 2
- Debt Service: General Fund supported
- Transferability: Bonds may only be held by the Purchaser or transferred to parent, a subsidiary, or affiliate of the Purchaser or held in a trust held by twelve or fewer Qualified Institutional Buyers
- Purchaser representations: Has sufficient knowledge and experience to evaluate the offering; aware of transfer restrictions; and the City is not current with its financial statements



Key Financing Terms

000457

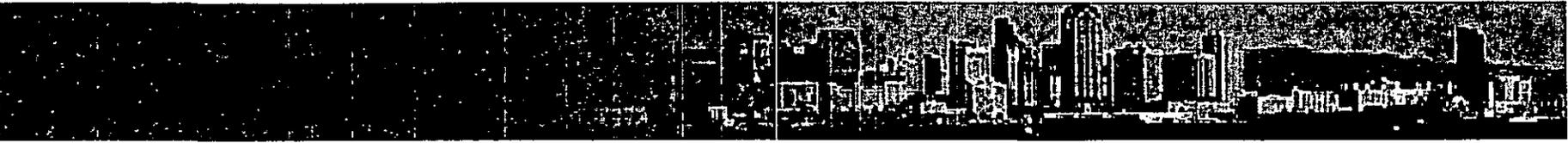
- Fixed Rate
- Pricing
 - Tier 1: Years 1 and 2
 - Tier 2: Years 3 to 10
- Years 1 and 2 - interest only payments
 - Fixed Spread: 1.875% over 2-year Index
 - Interest rate will be fixed at pricing to occur in late May
 - Indicative rate as of March 28, 2008 is 3.46%



Key Financing Terms

000458

- If the bonds remain outstanding beyond year 2, the interest rate for years 3-10 will be fixed at year 3
- Tier 2: Years 3 - 10 principal amortized on a level basis annually
 - Fixed Spread: 2.25% over the 8-year Index
 - Indicative rate as of March 28, 2008 is 4.45%



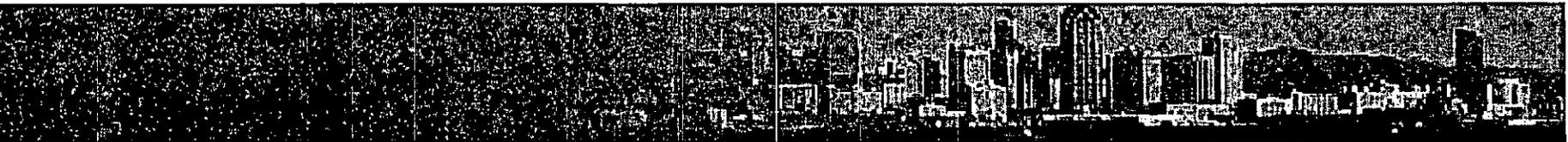
2008A Bonds – Projected Fiscal Impact

000459

- Years 1 and 2 - Estimated interest only payments based on indicative rates

● 12/01/2008	\$ 1.77 million
● 06/01/2009	\$ 1.77 million
● 12/01/2010	\$ 1.77 million
● 06/01/2010	\$ 1.77 million

- Total payments over 2 years: \$7.2 million



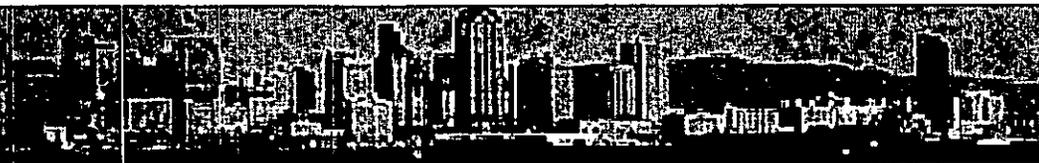
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2008A Bonds – Projected Fiscal Impact

- Tier 2: Estimated principal and interest payments based on indicative rates
 - FY 2011 – FY 2018: \$15.5 million

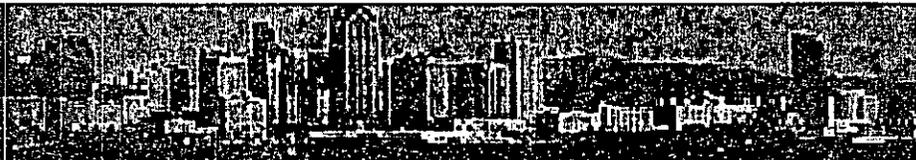
- Total Payments over 10 years

● Principal	\$102.6 million
● Interest	28.6 million
<hr/>	
Total	\$131.2 million



<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Fiscal Total (P+I)</u>
06/01/2008	-	-	-
12/01/2008	-	1,774,201.50	-
06/01/2009	-	1,774,201.50	3,548,403.00
12/01/2009	-	1,774,201.50	-
06/01/2010	-	1,774,201.50	3,548,403.00
12/01/2010	-	2,281,848.75	-
06/01/2011	10,955,000.00	2,281,848.75	15,518,697.50
12/01/2011	-	2,038,100.00	-
06/01/2012	11,440,000.00	2,038,100.00	15,516,200.00
12/01/2012	-	1,783,560.00	-
06/01/2013	11,950,000.00	1,783,560.00	15,517,120.00
12/01/2013	-	1,517,672.50	-
06/01/2014	12,480,000.00	1,517,672.50	15,515,345.00
12/01/2014	-	1,239,992.50	-
06/01/2015	13,035,000.00	1,239,992.50	15,514,985.00
12/01/2015	-	949,963.75	-
06/01/2016	13,615,000.00	949,963.75	15,514,927.50
12/01/2016	-	647,030.00	-
06/01/2017	14,225,000.00	647,030.00	15,519,060.00
12/01/2017	-	330,523.75	-
06/01/2018	14,855,000.00	330,523.75	15,516,047.50
Total	\$102,555,000.00	\$28,674,188.50	\$131,229,188.50

000461



Comparative Long Term Public Offering

000462

- 30 year maturity

● Issuance Size	\$109.2 million
(includes COI, UW discount, DSRF)	
● Average Annual Gross Debt service	\$7.5 million
● TIC	5.48%

- Total repayment

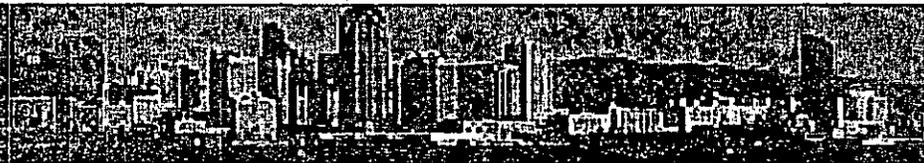
◆ Principal	\$109.2 million
◆ Interest	114.9 million
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Total	\$224.1 million



Debt Service Coverage

000463

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
General Fund Revenues [A]	\$1,103,967,000	\$1,163,600,000	\$1,212,800,000	\$1,238,300,000	\$1,285,700,000	\$1,323,100,000
Current General Fund Backed Bond Obligations						
Total Gross Debt Service [B]	\$43,418,870	\$43,390,731	\$38,735,325	\$38,740,383	\$35,215,308	\$35,210,331
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [C = B/A%]	3.93%	3.73%	3.19%	3.13%	2.74%	2.66%
Proposed Additional Bond Obligations - 2008A Bonds						
Additional Debt Service [D]	--	\$ 3,548,403	\$ 3,548,403	\$ 15,518,698	\$ 15,516,200	\$ 15,517,120
TOTAL EXISTING AND PROPOSED GROSS DEBT SERVICE [E=B+D]	\$ 43,418,870	\$ 46,939,134	\$ 42,283,728	\$ 54,259,081	\$ 50,731,508	\$ 50,727,451
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [F=E/A%]	3.93%	4.03%	3.49%	4.38%	3.95%	3.83%
Proposed Additional Bond Obligations - 2010A Bonds - 30 year Lease Revenue Bonds (Public Offering)						
Additional Debt Service [G]	--	\$ 3,548,403	\$ 3,548,403	\$ 7,500,000	\$ 7,500,000	\$ 7,500,000
TOTAL EXISTING AND PROPOSED GROSS DEBT SERVICE [H=B+G]	\$ 43,418,870	\$ 46,939,134	\$ 42,283,728	\$ 46,240,383	\$ 42,715,308	\$ 42,710,331
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [I=H/A%]	3.93%	4.03%	3.49%	3.73%	3.32%	3.23%



000464

Debt Service Coverage (contd.)

		<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
General Fund Revenues [A]		\$1,362,793,000	\$1,403,676,790	\$1,445,787,094	\$1,489,160,707	\$1,533,835,528
Current General Fund Backed Bond Obligations						
Total Gross Debt Service [B]		\$35,210,331	\$35,210,331	\$35,210,331	\$35,210,331	\$35,210,331
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [C = B/A%]		2.58%	2.51%	2.44%	2.36%	2.30%
Proposed Additional Bond Obligations - 2008A Bonds						
Additional Debt Service [D]		\$ 15,515,345	\$ 15,514,985	\$ 15,514,928	\$ 15,519,060	\$ 15,516,048
TOTAL EXISTING AND PROPOSED GROSS DEBT SERVICE [E=B+D]		\$ 50,725,676	\$ 50,725,316	\$ 50,725,259	\$ 50,729,391	\$ 50,726,379
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [F=E/A%]		3.72%	3.61%	3.51%	3.41%	3.31%
Proposed Additional Bond Obligations - 2010A Bonds - 30 year Lease Revenue Bonds (Public Offering)						
Additional Debt Service [G]		\$ 7,500,000	\$ 7,500,000	\$ 7,500,000	\$ 7,500,000	\$ 7,500,000
TOTAL EXISTING AND PROPOSED GROSS DEBT SERVICE [H=B+G]		\$ 42,710,331	\$ 42,710,331	\$ 42,710,331	\$ 42,710,331	\$ 42,710,331
GROSS DEBT SERVICE AS A % OF GENERAL FUND REVENUES [I=H/A%]		3.13%	3.04%	2.95%	2.87%	2.78%



Key Financing Terms

000465

- Maximum effective interest rate established in the authorizing ordinance is 5.45% for the first two year period.
 - At 5.45%, annual debt service (interest only payments) would be approximately \$5.6 million in Fiscal Years 2009 and 2010
- Interest rate ceiling when the rate is fixed for years 3-10 is 12%



000466

Properties Pledged

- General Fund properties are leased for the term of the bonds
 - Police Headquarters
 - Rose Canyon Operations Station
 - Mission Valley Library
 - Malcolm X Library
 - Scripps Ranch Library
- Appraisal value of properties encumbered is in the range of \$110 - \$118 million



Financing Team

000467

- CFO's Office, General Services, and READ
- City Attorney's Office
- Purchaser: Bank of America, N.A.
- Purchaser's Counsel: White & Case LLP
- Bond Counsel: Hawkins Delafield & Wood
- Financial Advisor: Montague DeRose & Associates
- Trustee: Wells Fargo



Sources and Uses

000468

● Sources:

● Par amount of the 2008A Bonds	\$102,552,000
---------------------------------	---------------

● Uses:

● Net proceeds	\$102,250,000
● Costs of Issuance (estimate)	\$ 302,000



Costs of Issuance

000469

● Costs of Issuance (estimate):

● Bond Counsel	\$ 75,000
● Purchaser's Counsel	45,000
● Financial Advisor	42,500
● Trustee	3,550
● Title Insurance Policy	80,000
● Property Appraisals	40,000
● CDIAC Fees	3,000
● Contingency (approx. 5%)	<u>\$ 12,950</u>
Total	\$302,000



Financing Timeline – Key Milestones

000470

- March 13 DPWG review of financing documents
- April 1 Introduction of the Ordinance for the approval of financing documents
- April 15 Approval of the Ordinance for the approval of financing documents
- April 16 PFFA meeting to approve 2008A Bonds
- Week of May 26 Pricing and execution of Bond Purchase Agreement
- Week of June 2 Closing and receipt of funds



000471

Requested Council Actions



City Council Resolution

000472

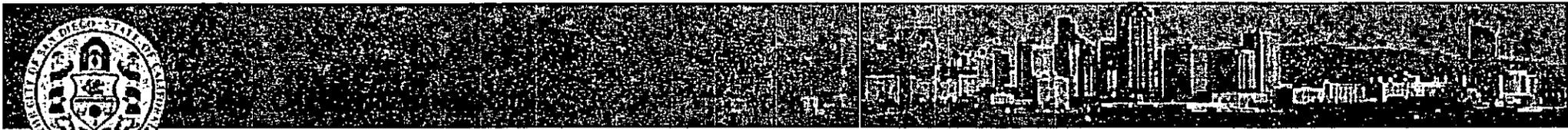
- Reimbursement Resolution declaring the City's intent to use proceeds of indebtedness to reimburse itself if funds are advanced by the City for eligible capital improvement expenditures related to the General Fund Deferred Maintenance funding program



City Council Ordinance

000473

- Authorize the issuance of the Lease Revenue Bonds, Series 2008A in the principal amount not to exceed \$108 million and the execution of related financing documents
 - Financing documents include
 - ◆ Site Lease
 - ◆ Lease Agreement
 - ◆ Assignment Lease
 - ◆ Bond Purchase Agreement
 - ◆ Indenture
- Authorize the form of the Financial Advisory Services Agreement between the City and Montague DeRose and Associates, LLC
- Authorize the City Attorney to appoint Hawkins Delafield and Wood LLP as Bond Counsel



000474

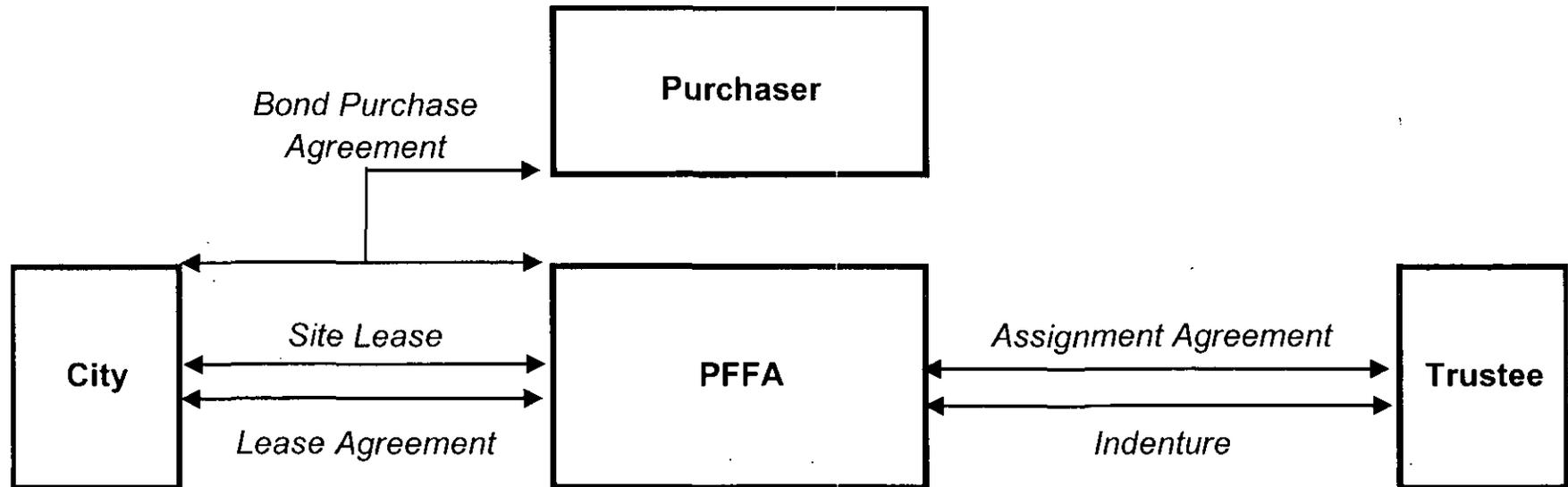
Legal Considerations

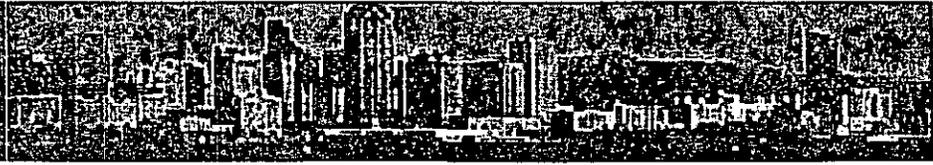


Legal Structure

00-0475

- Issuing Authority - Public Facilities Financing Authority of the City of San Diego





Financing Documents

000476

● Site Lease

- Parties: the City and the Authority
- City leases the pledged assets to the Authority

● Lease Agreement

- Parties: the City and the Authority
- The Authority leases back the pledged assets to the City
- The Authority receives the rental payments from the City which will be equivalent to the debt service payments on the proposed 2008A Bonds

● Assignment Agreement

- Parties: the Authority and the Trustee
- The Authority assigns to the Trustee, without recourse, all of its rights to receive lease payments under the Lease Agreement



Financing Documents

000477

- Indenture
 - Parties: the Authority and the Trustee
 - Provides for the issuance of the 2008A Bonds and sets forth terms, including the specific rights, responsibilities, and obligations of each party

- Bond Purchase Agreement
 - Parties: the Purchaser, the City, and the Authority
 - Defines the terms of the 2008A Bonds, purpose of the financing, form of security, and transfer restrictions



00-0478

Deferred Maintenance Funding Lease Revenue Bonds, Series 2008 A

City Council Meeting of April 1, 2008
Item # 334



000479

THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: March 27, 2008

IBA Report Number: 08-30

City Council Meeting Date: April 1, 2008

Item Number: 334

General Fund Deferred Maintenance Capital Improvement Projects Financing

OVERVIEW

The City Council is being asked to adopt an ordinance authorizing the issuance of Lease Revenue Bonds, Series 2008A (the "2008A Bonds") in a principal amount not to exceed \$108 million. Proceeds from the issuance of 2008A Bonds would finance various General Fund deferred maintenance capital improvement projects and costs associated with issuing the bonds. This report briefly comments on the FY 08 budget plan to finance deferred maintenance projects, the prioritization criteria used to identify deferred maintenance projects, and items related to the proposed 2008A Bonds.

FISCAL/POLICY DISCUSSION

Budget Plan to Finance Needed Deferred Maintenance Projects

The FY 08 Budget estimated the City's deferred maintenance/capital needs, excluding those related to Water and Wastewater enterprises, to be at least \$800 to \$900 million. This estimate was derived from a 2006 City staff estimate. A detailed update on the actual magnitude of the deferred maintenance problem has yet to be developed. The FY 08 Budget allocated \$38.3M to address facility repairs and improvements (\$5.3M) and street and storm drain improvements (\$33M). Of the \$33M budgeted for street and storm drain improvements, 75% or \$24.75M was to be financed with the remaining \$8.25M to be cash funded.

The City's deferred maintenance/capital needs, excluding those related to water, wastewater and landfill enterprises, is estimated to be at least \$800 to \$900 million based on a 2006 City staff estimate. A detailed update on the actual magnitude of the deferred maintenance problem has yet to be developed.



Office of Independent Budget Analyst

202 C Street, MS 3A • San Diego, CA 92101

Tel (619) 236-6555 Fax (619) 236-6556

000480

The Mayor's most recent Five-Year Financial Outlook ("Outlook") proposes to allocate \$472.3M in bond financing and \$308.7M in cash to finance deferred maintenance/capital needs through FY 13 (\$80.8M of the cash would be used to pay debt service on the bonds). In FY 09, \$77.5M in debt financing and \$29.7M in cash, specified within the Outlook, is planned to fund deferred maintenance/capital projects.

Citing limited available cash and an inability to access the public debt market earlier in FY 08, the proposal before the City Council would consolidate planned debt financing for FY 08 (\$24.75M) and FY 09 (\$77.5M) for a total borrowing of approximately \$102.6M, including certain costs associated with issuing debt. The ordinance before the City Council authorizes the sale of up to \$108M in 2008A Bonds. Pursuant to City Charter Section 99, the proposed ordinance requires six votes of the City Council for adoption.

Identified Deferred Maintenance Projects

The FY 08 Budget planned to finance \$24.75M for street and storm drain improvements in FY 08 and the Outlook committed to financing another \$77.5M in FY 09 that would also address City facilities. Attachment A of the Report to the City Council #08-042 lists all of the deferred maintenance projects to be debt financed in FY 08 and FY 09. The IBA has been informed that most of these projects have yet to be bid and will not be completed until FY 10.

In reviewing the FY 08 Budget with respect to deferred maintenance financing, the IBA was unable to determine how specific deferred maintenance projects were identified, given the extensive project backlog and limited funding. The City Council subsequently supported an IBA recommendation, generated during a review of the City's new Debt Policy, that a Capital Improvement Project (CIP) prioritization policy be developed. A CIP prioritization policy has since been developed and presented to the Budget and Finance Committee twice for review. The CIP prioritization policy will be forwarded to the City Council for final consideration this summer; however, the policy was not ready for use in identifying deferred maintenance projects to be funded with the 2008A Bonds.

Lacking a CIP prioritization policy, the Deputy Chief of Public Works and the General Services Department Director explained their selection criteria to the IBA for the various categories of deferred maintenance projects listed below. We have listed the deferred maintenance projects from Attachment A and noted the utilized selection criteria:

STREET AND STORM DRAINS (\$77.25M)

Project Category

Street Projects
\$53.5 M

Selection Criteria Utilized

Condition Assessments (every 2-3 years)
Pavement Management System
Maintenance History

000481

Project Category

Sidewalk/Concrete Projects
\$9.55M

Storm Drain Projects
\$14.2M

FACILITIES (\$25M)

Roofing
\$3.925M

Public Safety Facilities
\$8.6M

Parking Lot Resurfacing (Overlay)
\$4.53M

HVAC Projects
\$3.25M

Plumbing
\$1.36M

Electrical Projects
\$.95M

Elevator Modernization Projects
\$1.385M

Windows /Doors
\$1.0M

Selection Criteria Utilized

Maintenance Records
Public Work Requests

Known Problem Areas (i.e., flooding)
Maintenance History
Exceeded Life Expectancy
Potential Liability for Property Damage

(Emphasis on Public Safety Facilities)

Phase I Condition Assessment of 31 facilities
Maintenance History
Customer Input/Feedback

General Services worked jointly with E&CP to identify these as high priority projects.
Phase I Condition Assessment of 31 facilities
Maintenance History

Maintenance History
Customer Input/Feedback
Work with P&R to identify priority lots

Maintenance History
Exceeded Life Expectancy

Maintenance History
Exceeded Life Expectancy

Maintenance History
Exceeded Life Expectancy

Maintenance History
Entrapments
Service Contract Feedback

Customer Input/Feedback

The Deputy Chief of Public Works has indicated that the intent will be to use the proceeds of the 2008A Bonds to complete those projects identified in Attachment A; however, there is no bond document requirement to construct these specific projects and management retains the ability to substitute other projects should circumstances dictate that a higher priority needs to be addressed. **The IBA recommends that the City Council be updated on a semi-annual basis on the status of funded projects and of any project substitutions.**

2008A Bonds

As discussed in the staff report, the Public Facilities Financing Authority of the City of San Diego ("Authority") would issue the proposed 2008A Bonds. The 2008A Bonds have a 10 year maturity and would be privately placed with Bank of America, N.A. The contemplated borrowing is a lease-purchase financing whereby a lease is created between the City and the Authority. The City leases five General Fund assets/facilities to the Authority for a nominal rent of \$1 and the Authority subsequently leases back those same facilities to the City, at a rate sufficient to cover the debt service on the 2008A Bonds. The City has used asset transfers to facilitate previous General Fund lease financings (see Attachment 1 to the staff Report #08-041).

The IBA inquired as to how the identified General Fund assets/facilities were selected for this financing. We were informed that the Debt Management Department worked with the Real Estate Assets Department to select approximately \$111M of General Fund assets from a total suitable asset pool of approximately \$350M in order to facilitate the lease purchase transaction with the borrower. The five selected General Fund assets are Police Headquarters, Rose Canyon Operations Station, Mission Valley Library, Malcolm X Library and Scripps Ranch Library. Each of the five assets was recently appraised and does not carry other encumbrances.

Interest only payments of approximately \$3.5 million will be made on the 2008A Bonds for the first two years on a semi-annual basis. These interest payments will be made by the General Fund. The interest expense was incorporated into the Mayor's Outlook and will be included in the FY 09 budget.

The 2008A Bonds have been structured with two-tiered pricing that establishes a fixed rate for the first two years (estimated to be approximately 3.46%) and, if necessary, resets the fixed rate for years 3 through 10 at 2.25% above a specified Bank of America cost of funds rate. If the fixed rate for years 3 through 10 were to have been reset earlier this month, it would have been approximately 4.45%. The current financing plan calls for refunding the 2008A Bonds with a 30-year public offering at the end of the initial two-year term. If the long-term refunding plan is executed as planned, pricing terms for years 3 through 10 will be inconsequential.

In keeping with the plan to refund at the end of the second year, the 2008A Bonds are callable two years after the anticipated bond closing in June 2008. As structured, the 2008A Bonds cannot be called before June 2010. **If, however, long-term rates in the public markets were to go lower during the two year period, the IBA recommends that the Debt Management Department monitor the feasibility of an advance refunding.**

An advance refunding could allow the City to take advantage of lower long-term fixed interest rates in the near future without an earlier call feature on the 2008A Bonds. The City may be able to reenter the public markets as soon as this summer. Long-term interest rates are relatively low and may trend lower. If so, an advance refunding could enable the City to lock-in low, long-term fixed rates and potentially significant interest savings in the event that interest rates were forecasted to rise as we approach June 2010.

CONCLUSION

Given an urgent need for the City to begin addressing the significant backlog of deferred maintenance projects, the IBA recommends support of the proposed 2008A Bonds. We remain concerned, however, that without a detailed, quantified and prioritized inventory of current deferred maintenance needs, it is difficult to understand what progress is being made in reducing the citywide problem. It also makes it challenging to effectively plan to address the highest priority projects. We further note the related importance of 1) funding routine maintenance for all public infrastructure and 2) the impact that rising construction and materials costs could have on the total cost of addressing citywide deferred maintenance.

The proposed 2008A Bonds are effectively a two-year financing with a firm obligation to refund or re-price the debt in June of 2010. Because of the uncertainty of interest rate levels two years from now and the City's inability to call the bonds before that time, there is some interest rate risk associated with the subsequent re-pricing (fixed long-term interest rates could be better or worse than current rates). The IBA recommends that the Debt Management Department monitor long-term fixed interest rates and evaluate the feasibility of an advance refunding, to potentially achieve long-term interest savings, if interest rates move significantly lower in the near term or if future rates are forecasted to rise.

Additionally, the IBA recommends that the City Council be updated on a semi-annual basis regarding the construction status of the identified facilities. This will ensure that the City Council is periodically apprised of any project substitutions and how bonds proceeds are being expended.

The Office of the City Attorney will issue a useful due diligence and disclosure obligation memorandum related to the 2008A Bonds on March 28, 2008. In addition to

The due diligence and disclosure obligation memorandum issued by the Office of the City Attorney briefly describes the bond financing documents and provides useful questions and answers for the City Council to consider. The IBA encourages the City Council to ask any questions they might have directly to members of the City's financing team including the City's financial advisor, bond counsel and even the purchaser of the 2008A Bonds (Bank of America).

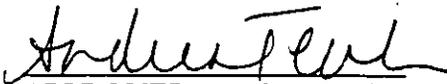
providing guidance to the City Council regarding due diligence obligations under federal securities laws, the memorandum briefly describes the bond financing documents and provides useful questions and answers for the City Council to consider. A certification by the Disclosure Practices Working Group has also been attached indicating that financial information disclosed in the 2008A Bonds has been reviewed to ensure accuracy.

The IBA has been informed that representatives of the entire financing team will be present for the City Council meeting on April 1, 2008. The IBA encourages the City Council to ask any questions they might have directly to members of the City's financing

team including the City's financial advisor, bond counsel and even the purchaser of the 2008A Bonds (Bank of America). The availability of financing consultants to the City Council at or before City Council meetings where approval is sought for debt is a recommendation within the comprehensive financial training program adopted by the City Council on December 6, 2006.



Jeff Kavar
Fiscal & Policy Analyst



APPROVED: Andrea Tevlin
Independent Budget Analyst

000485

DOCKET SUPPORTING INFORMATION
CITY OF SAN DIEGO

EQUAL OPPORTUNITY CONTRACTING PROGRAM EVALUATION

DATE: March 12, 2008

331
4/22

SUBJECT: General Fund Deferred Maintenance Capital Improvement Projects Financing

GENERAL CONTRACT INFORMATION

Recommended Consultant: **Montague DeRose and Associates, LLC**
This Action: \$42,500
Funding Source: City

Recommended Consultant: **Hawkins Delafield and Wood, LLP**
This Action: \$75,000
Funding Source: City

Montague, DeRose and Associates, LLC

SUBCONSULTANT PARTICIPATION

No sub consultant participation on this action

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity Required.

Montague, DeRose and Associates, LLC submitted a Work Force Report for their Los Angeles County employees dated October 18, 2007. The Work Force Report reflects fewer than 15 employees and is, therefore, exempt from employment category goals.

Hawkins Delafield and Wood, LLP

SUBCONSULTANT PARTICIPATION

No sub consultant participation on this action

EQUAL EMPLOYMENT OPPORTUNITY COMPLIANCE

Equal Opportunity Required.

Hawkins Delafield and Wood, LLP submitted a Work Force Report for their Los Angeles County employees dated November 15, 2007 with a total of 141 employees. The firms Work Force Analysis reflects under representations in the following categories:

Hispanics in Professional
Asians in Administrative Support
Filipinos in Professional, Administrative Support
Females in Professional

EOC has requested, received and approved and EO Plan from Hawkins Delafield and Wood, LLP. Staff will continue to monitor the firm's efforts to implement their plans.

ADDITIONAL COMMENTS

The Work Force Analysis are attached.

JLR

File: Admin WOFO 2000

Date WOFO Submitted: 11/12/2007
 Input by: jlr

Goals reflect statistical labor force availability for the following: 2000 CLFA
 San Diego, CA

City of San Diego/Equal Opportunity Contracting
WORK FORCE ANALYSIS REPORT
 FOR
 Company: Hawkins Delafield and Wood, LLP

I. TOTAL WORK FORCE:

	Black		Hispanic		Asian		American Indian		Filipino		White		Other							
	Goals	M	Goals	M	Goals	M	Goals	M	Goals	M	Goals	M	Goals	M						
Mgmt & Financial	3.3%	0	11.8%	0	8.2%	1	0.4%	0	6.2%	0	2	4	0	0						
Professional	4.0%	4	12.8%	3	6.5%	3	0.5%	0	6.5%	0	15	19	0	1						
A&E, Science, Computer	2.8%	0	7.3%	0	16.2%	0	0.3%	0	18.2%	0	0	0	0	0						
Technical	6.6%	0	14.8%	0	17.2%	0	0.4%	0	17.2%	0	0	0	0	0						
Sales	3.8%	0	19.5%	0	6.8%	0	0.6%	0	6.8%	0	0	0	0	0						
Administrative Support	7.0%	4	20.8%	2	8.8%	1	0.6%	0	8.8%	0	8	31	0	1						
Services	5.5%	0	36.9%	0	9.7%	0	0.8%	0	9.7%	0	0	0	0	0						
Crafts	4.5%	0	25.8%	0	9.1%	0	0.7%	0	9.1%	0	0	0	0	0						
Operative Workers	4.3%	0	38.8%	0	20.8%	0	0.3%	0	20.8%	0	0	0	0	0						
Transportation	8.1%	0	32.1%	0	4.5%	0	0.5%	0	4.5%	0	0	0	0	0						
Laborers	4.4%	0	54.0%	0	4.1%	0	0.5%	0	4.1%	0	0	0	0	0						
TOTAL		8		16		5		10		0		0		25		54		0		2

HOW TO READ TOTAL WORK FORCE SECTION:

The information blocks in Section 1 (Total Work Force) identify the absolute number of the firm's employees. Each employee is listed in their respective ethnic/gender and employment category. The percentages listed under the heading of "CLFA Goals" are the County Labor Force Availability goals for each employment and ethnic/gender category.

	M	F
Mgmt & Financial	3	4
Professional	25	30
A&E, Science, Computer	0	0
Technical	0	0
Sales	0	0
Administrative Support	15	64
Services	0	0
Crafts	0	0
Operative Workers	0	0
Transportation	0	0
Laborers	0	0

TOTAL EMPLOYEES			Female Goals
ALL	M	F	
7	3	4	39.8%
55	25	30	59.5%
0	0	0	22.3%
0	0	0	49.0%
0	0	0	49.4%
79	15	64	73.2%
0	0	0	62.3%
0	0	0	8.6%
0	0	0	36.7%
0	0	0	15.2%
0	0	0	11.1%
TOTAL	141	43	98

HOW TO READ EMPLOYMENT ANALYSIS SECTION:

The percentages listed in the goals column are calculated by multiplying the CLFA goals by the number of employees in that job category. The number in that column represents the percentage of each protected group that should be employed by the firm to meet the CLFA goal. A negative number will be shown in the discrepancy column for each underrepresented goal of at least 1.00 position.

II. EMPLOYMENT ANALYSIS

	Black			Hispanic			Asian			American Indian			Filipino			Female		
	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy	Goals	Actual	Discrepancy
Mgmt & Financial	0.23	0	N/A	0.83	0	N/A	0.43	1	N/A	0.03	0	N/A	0.43	0	N/A	2.79	4	1.21
Professional	2.20	7	4.80	6.93	3	(3.93)	3.58	10	6.43	0.28	0	N/A	3.58	0	(3.58)	32.73	30	(2.73)
A&E, Science, Computer	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Technical	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Sales	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Administrative Support	5.53	17	11.47	16.43	18	1.57	6.95	4	(2.95)	0.47	0	N/A	6.95	0	(6.95)	57.83	64	6.17
Services	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Crafts	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Operative Workers	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Transportation	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00
Laborers	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00

Goals are set by job categories for each protected group. An underrepresentation is indicated by a negative number, but if the DISCREPANCY is less than -1.00 position, a N/A will be displayed to show there is no underrepresentation.

File: Admin WOFO 2000

Date WOFO Submitted: 10/16/2007
 Input by: SH

Goals reflect statistical labor force availability for the following: 2000 CLFA
 Los Angeles County, CA

City of San Diego/Equal Opportunity Contracting

WORK FORCE ANALYSIS REPORT

FOR

Company: *Mortague DeRose And Associates, LLC*

I. TOTAL WORK FORCE:

	Black		Hispanic		Asian		American Indian		Filipino		White		Other					
	CLFA Goals	M	F	CLFA Goals	M	F	CLFA Goals	M	F	CLFA Goals	M	F	CLFA Goals	M	F			
Mgmt & Financial	7.3%	0	0	18.7%	0	0	14.9%	0	0	0.3%	0	0	14.9%	0	0	0	0	
Professional	8.9%	0	0	16.5%	0	0	12.3%	1	0	0.3%	0	0	12.3%	0	0	2	0	
A&E, Science, Computer	6.0%	0	0	10.5%	0	0	26.1%	0	0	0.2%	0	0	26.1%	0	0	0	0	
Technical	12.2%	0	0	24.7%	0	0	20.8%	0	0	0.3%	0	0	20.8%	0	0	0	0	
Sales	7.3%	0	0	33.7%	0	0	14.6%	0	0	0.3%	0	0	14.6%	0	0	0	0	
Administrative Support	13.1%	0	1	36.0%	0	0	12.8%	0	0	0.3%	0	0	12.8%	0	0	0	2	
Services	8.5%	0	0	54.2%	0	0	11.1%	0	0	0.2%	0	0	11.1%	0	0	0	0	
Crafts	6.1%	0	0	49.1%	0	0	10.5%	0	0	0.3%	0	0	10.5%	0	0	0	0	
Operative Workers	3.2%	0	0	73.3%	0	0	10.2%	0	0	0.1%	0	0	10.2%	0	0	0	0	
Transportation	11.2%	0	0	61.1%	0	0	4.7%	0	0	0.4%	0	0	4.7%	0	0	0	0	
Laborers	7.1%	0	0	69.8%	0	0	4.4%	0	0	0.3%	0	0	4.4%	0	0	0	0	
TOTAL		0	1		1	0		1	0		0	0		0	0		3	3

HOW TO READ TOTAL WORK FORCE SECTION:

The information blocks in Section 1 (Total Work Force) identify the absolute number of the firm's employees. Each employee is listed in their respective ethnic/gender and employment category. The percentages listed under the heading of "CLFA Goals" are the County Labor Force Availability goals for each employment and ethnic/gender category.

Mgmt & Financial
 Professional
 A&E, Science, Computer
 Technical
 Sales
 Administrative Support
 Services
 Crafts
 Operative Workers
 Transportation
 Laborers

TOTAL EMPLOYEES			Female Goals
ALL	M	F	
3	2	1	40.7%
3	3	0	53.9%
0	0	0	22.3%
0	0	0	48.9%
0	0	0	47.5%
3	0	3	69.6%
0	0	0	60.8%
0	0	0	9.2%
0	0	0	37.7%
0	0	0	16.0%
0	0	0	11.8%
9	5	4	

HOW TO READ EMPLOYMENT ANALYSIS SECTION:

The percentages listed in the goals column are calculated by multiplying the CLFA goals by the number of employees in that job category. The number in that column represents the percentage of each protected group that should be employed by the firm to meet the CLFA goal. A negative number will be shown in the discrepancy column for each underrepresented goal of at least 1.00 position.

II. EMPLOYMENT ANALYSIS

TOTAL

This firm has fewer than 15 employees and is, therefore, exempt from the employment category goals.

000489

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER (FOR AUDITOR'S USE ONLY) 331
N/A 4/22

TO: City Attorney

2. FROM (ORIGINATING DEPARTMENT): Debt Management

3. DATE: March 4, 2008

4. SUBJECT: GENERAL FUND DEFERRED MAINTENANCE CAPITAL IMPROVEMENT PROJECTS FINANCING

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)
Debt Management, Lakshmi Kommi, 236-6928, MS 7B

6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.)
Debt Management, Jyothi Pantulu, 236-6917, MS 7B

7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND				
DEPT.				
ORGANIZATION				
OBJECT ACCOUNT				
JOB ORDER				
C.I.P. NUMBER				
AMOUNT				

9. ADDITIONAL INFORMATION / ESTIMATED COST:
SEE FISCAL CONSIDERATIONS IN THE ATTACHED REPORT TO COUNCIL AND EXECUTIVE SUMMARY FOR FISCAL IMPACT IN FUTURE YEARS

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>Lakshmi Kommi</i>	3/5/08	8	DEPUTY CHIEF/CFO	<i>Wayne Helling</i>	3/17/08
2	GENERAL SERVICES			9	CITY ATTORNEY	<i>[Signature]</i>	3/12/08
3	EAS	<i>[Signature]</i>	3/7/08	10	ORIGINATING DEPARTMENT	<i>Lakshmi Kommi</i>	3/13/08
4	EOCP	<i>[Signature]</i>	3/12/08	11			
5	LIAISON OFFICE	<i>[Signature]</i>	3/13/08		DOCKET COORD: <i>SC</i>	COUNCIL LIAISON: <i>[Signature]</i>	3/18/08
6	FINANCIAL MANAGEMENT	<i>[Signature]</i>	3/11/08		COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input type="checkbox"/> ADOPTION <input checked="" type="checkbox"/>		
7	COMPTROLLER	<i>[Signature]</i>	3/14/08		COUNCIL DATE: 4/11/08		

11. PREPARATION OF: RESOLUTION(S) ORDINANCE(S) AGREEMENT(S) DEED(S)
See Attached

11A. STAFF RECOMMENDATIONS: Approve the authorization.

12. SPECIAL CONDITIONS:
COUNCIL DISTRICT(S): All Districts will be served.
COMMUNITY AREA(S): City-Wide.
ENVIRONMENTAL IMPACT: This activity is not a "project" and is therefore exempt from CEQA pursuant to State CEQA Guidelines Section 15060(c)(3).
HOUSING IMPACT: None with this action.
OTHER ISSUES: Per the Report of the Audit committee of the City of San Diego, dated August 8, 2006, and in accordance with Kroll's remediation recommendation therein, the disclosure documents pertaining to a bond offering must be distributed to the City Council at least 2 weeks prior to the City Council meeting date, to allow for sufficient review time.
This action is subject to City Charter Section 99; six (6) votes are required for approval.

REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO		1. CERTIFICATE NUMBER (FOR AUDITOR'S USE ONLY) N/A					
000490							
TO: City Attorney	2. FROM (ORIGINATING DEPARTMENT): Debt Management	3. DATE: March 4, 2008					
4. SUBJECT: GENERAL FUND DEFERRED MAINTENANCE CAPITAL IMPROVEMENT PROJECTS FINANCING							
5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.) Debt Management, Lakshmi Kommi, 236-6928, MS 7B		6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.) Debt Management, Jyothi Pantulu, 236-6917, MS 7B					
		7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED <input checked="" type="checkbox"/>					
8. COMPLETE FOR ACCOUNTING PURPOSES							
FUND		9. ADDITIONAL INFORMATION / ESTIMATED COST: SEE FISCAL CONSIDERATIONS IN THE ATTACHED REPORT TO COUNCIL AND EXECUTIVE SUMMARY FOR FISCAL IMPACT IN FUTURE YEARS					
DEPT.							
ORGANIZATION							
OBJECT ACCOUNT							
JOB ORDER							
C.I.P. NUMBER							
AMOUNT							
10. ROUTING AND APPROVALS							
ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>Valerie Lane</i>	3/5/08	8	DEPUTY CHIEF/CFO		
2	GENERAL SERVICES	<i>[Signature]</i>	3/14/08	9	CITY ATTORNEY		
3	EAS	<i>[Signature]</i>	3/7/08	10	ORIGINATING DEPARTMENT		
4	EOCP	<i>[Signature]</i>	3/12/08	11			
5	LIAISON OFFICE	<i>[Signature]</i>	3/13/08		DOCKET COORD: _____ COUNCIL LIAISON: _____		
6	FINANCIAL MANAGEMENT	<i>[Signature]</i>	3/14/08	✓	COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input type="checkbox"/> ADOPTION <input type="checkbox"/>		
7	COMPTROLLER	<i>[Signature]</i>	3/14/08		<input type="checkbox"/> REFER TO: _____ COUNCIL DATE: _____		
11. PREPARATION OF: <input checked="" type="checkbox"/> RESOLUTION(S) <input checked="" type="checkbox"/> ORDINANCE(S) <input type="checkbox"/> AGREEMENT(S) <input type="checkbox"/> DEED(S)							
See Attached							
11A. STAFF RECOMMENDATIONS: Approve the authorization.							
12. SPECIAL CONDITIONS:							
<u>COUNCIL DISTRICT(S):</u>		All Districts will be served.					
<u>COMMUNITY AREA(S):</u>		City-Wide.					
<u>ENVIRONMENTAL IMPACT:</u>		This activity is not a "project" and is therefore exempt from CEQA pursuant to State CEQA Guidelines Section 15060(c)(3).					
<u>HOUSING IMPACT:</u>		None with this action.					
<u>OTHER ISSUES:</u>		Per the Report of the Audit committee of the City of San Diego, dated August 8, 2006, and in accordance with Kroll's remediation recommendation therein, the disclosure documents pertaining to a bond offering must be distributed to the City Council at least 2 weeks prior to the City Council meeting date, to allow for sufficient review time. This action is subject to City Charter Section 99; six (6) votes are required for approval.					

REPORT TO THE CITY COUNCIL
EXECUTIVE SUMMARY SHEET

DATE REPORT ISSUED: _____ REPORT NO. _____
 ATTENTION: Council President and City Council
 ORIGINATING DEPT.: Department of Finance, Debt Management
 SUBJECT: General Fund Deferred Maintenance Capital Improvement Projects Financing
 COUNCIL DISTRICTS: Citywide
 STAFF CONTACT: Lakshmi Kommi, (619) 236-6928

REQUESTED ACTION(S):

(1) Authorize the issuance of the Public Facilities Financing Authority (the "Authority") of the City of San Diego ("City") Lease Revenue Bonds, Series 2008A - Various Capital Improvement Projects ("2008A Bonds") in the principal amount not to exceed \$108 million and the execution of related financing documents to finance various General Fund Deferred Maintenance Capital Improvement Projects and costs of issuance; (2) Declare the City's intent to use proceeds of indebtedness to reimburse itself if funds are advanced by the City for eligible capital improvement expenditures related to the General Fund Deferred Maintenance funding program; (3) Authorize the form of the Financial Advisory Services Agreement between the City and Montague DeRose and Associates, LLC to provide financial advisory services for the proposed 2008A Bonds for an amount not to exceed \$37,500, plus reasonable out-of-pocket expenses not to exceed \$5,000, contingent upon the closing of the transaction; and (4) Authorize the City Attorney to appoint Hawkins Delafield and Wood LLP as Bond Counsel for the City in connection with the issuance of the 2008A Bonds, and pay an amount not to exceed \$70,000, plus reasonable out-of-pocket expenses not to exceed \$5,000, contingent upon the closing of the transaction.

STAFF RECOMMENDATION: Approve the requested actions.

EXECUTIVE SUMMARY: (ALSO SEE FULL STAFF REPORT)

The 2008A Bonds are an interim financing measure to address the funding needs identified for the General Fund deferred maintenance capital improvement projects in Fiscal Years 2008 and 2009. The proposed 2008A Bonds, with a 10-year maturity, will be privately placed with Bank of America, N.A.

The financing plan contemplates refunding the proposed private borrowing in two years (2010) with a 30 year traditional public offering. Therefore, instead of fixing an interest rate for the full 10 year borrowing term which would be higher than for a borrowing term for 2 years, working with the Purchaser, a two-tier pricing (described below) was structured: a lower fixed interest rate (based on a 2-year index plus fixed spread) for the first two year period and if the City is unable to refund the 2008A Bonds by 2010, a higher interest rate (based on an 8-year index plus fixed spread) for years 3-10. Note that under the financing structure, if the City is not able to refund the notes by the two year point, based on the market conditions at that time, and the levels of the 8-year index, the interest rate is fixed for 3-10 year period until the City can refund the Bonds could be a maximum of 12% (the maximum permitted legal rate). Based on current interest rate levels as of March 12, 2008, the interest rate for the 2 year term is 3.46% and the interest rate for the 3-10 year term will be 4.45% (See full staff report for discussion on pricing).

The issuing authority for the 2008A Bonds is the Public Facilities Financing Authority (the "Authority"). Financing documents being authorized for this transaction include – A Site Lease between the City and the Authority; a Lease Agreement between the City and the Authority; an Assignment Agreement between the Authority and the Trustee; an Indenture between the Authority and the Trustee; and a Purchase Agreement between the Purchaser and the Authority. It is anticipated that funding for certain capital expenditures related to the projects may need to be advanced by the City prior to the

completion of the proposed financing. In order to reimburse capital expenditures with proceeds from the financing, the City must adopt a reimbursement resolution in accordance with section 1.150-2 of Treasury Regulations.

The City's Financing Team for the 2008A Bonds consists of staff of the Chief Financial Officer, Debt Management, City Attorney's Office, Comptroller's Office, Treasurer's Office, Risk Management, General Services, and the Real Estate Assets Department. Outside consultants, include Montague DeRose and Associates, LLC ("Montague DeRose") as financial advisor, Hawkins Delafield & Wood LLP ("Hawkins") as the Bond Counsel, White & Case as the Purchaser's Counsel, and Wells Fargo Bank as Trustee.

Should the City Council approve the Ordinance and related financing documents, it is anticipated that the bonds would be priced during the last week of May 2008 with the closing and receipt of funds to occur during the first week of June 2008.

FISCAL CONSIDERATIONS:

Sources and Uses (preliminary and subject to change)

Estimated Sources

Par amount of 2008A Bonds \$102,552,000

Estimated Uses

Net Proceeds for the project (acquisition fund) \$102,250,000

Costs of Issuance \$ 302,000

Based on the principal amount of approximately \$102.6 million, and pricing as of March 12, 2008, the annual interest payment is estimated at approximately \$3.5 million for years 1 and 2. Interest only payments during the first two years will be made on a semi-annual basis on December 1 and June 1. The estimated debt service has been incorporated in the 5-year outlook and will be brought forward for Council authorization during the FY 2009 budget process. If the bonds remain outstanding beyond 2 years, the annual debt service (principal and interest), based on the interest rate as of March 12, 2008, is projected at approximately \$15.5 million, FY 2011-FY 2018.

EQUAL OPPORTUNITY CONTRACTING:

The Funding Agency is the City. Montague DeRose will provide financial advisory services for an amount not to exceed \$42,500 for the proposed 2008A Bonds. Montague DeRose submitted a Work Force Report indicating less than 15 employees and is, therefore, exempt from employment category goals.

Hawkins will provide Bond Counsel services for an amount not to exceed \$75,000 for the proposed 2008A Bonds. Hawkins submitted a Work Force Report, EOC staff has requested, received and approved an EO Plan from Hawkins Delafield and Wood. Staff will continue to monitor the firm's efforts to implement their plans.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION: N/A

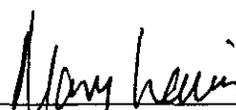
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in this transaction are: Bank of America, N.A. (Purchaser); Hawkins Delafield & Wood LLP (Bond Counsel); White & Case, LLP (Purchaser's Counsel); Wells Fargo Bank, National Association (Trustee); and Montague DeRose and Associates LLC., (Financial Advisor).



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

ORDINANCE NUMBER O-_____

DATE OF FINAL PASSAGE _____

AN ORDINANCE OF THE COUNCIL OF THE CITY OF SAN DIEGO APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SITE LEASE, A LEASE, AND A PURCHASE AGREEMENT AND AUTHORIZING THE EXECUTION, DELIVERY AND PERFORMANCE OF AN ASSIGNMENT AGREEMENT AND AN INDENTURE BY THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, AND APPROVING AND AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED \$108,000,000 OF THE AUTHORITY'S LEASE REVENUE BONDS, SERIES 2008A (VARIOUS CAPITAL IMPROVEMENT PROJECTS), APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A FINANCIAL ADVISORY SERVICES AGREEMENT, AUTHORIZING THE CITY ATTORNEY TO APPOINT BOND COUNSEL, AND APPROVING OTHER DOCUMENTS AND ACTIONS IN CONNECTION THEREWITH.

WHEREAS, Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes and empowers local agencies to form a joint powers authority and Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California [Marks-Roos Local Bond Pooling Act of 1985] authorizes and empowers such authority to issue bonds for the purpose of financing public capital improvements or projects to further public purposes and effect significant public benefits, as determined by the local agency; and

WHEREAS, The City of San Diego [City] and the Redevelopment Agency of the City of San Diego [Agency] have heretofore entered into a Joint Exercise of Powers Agreement dated May 14, 1991 [Joint Powers Agreement] as amended and restated, which created and established the Public Facilities Financing Authority of the City of San Diego [Authority] for the purpose,

among others, of issuing its bonds to be used to provide financial assistance to the City to finance public capital improvements, including but not limited to general municipal improvements; and

WHEREAS, the City has determined that (i) the issuance of the Series 2008A Bonds (defined below) by the Authority is desirable and furthers public purposes; (ii) there are significant public benefits to be derived from securing the assistance of the Authority in financing the construction, renovation, improvement and equipping of the certain public facilities for the City [collectively, the Project]; and (iii) the Project will be located within the geographic boundaries of the City and (iv) the City will be able to more efficiently deliver services to residential and commercial development as a result of the financing; and

WHEREAS, the Council of the City made the aforementioned determination after holding a public hearing on the date thereof and hearing all interested persons desiring to be heard; and

WHEREAS, a notice of public hearing was duly published once at least five days prior to the hearing in a newspaper of general circulation in the City; and

WHEREAS, in order to achieve such public purposes, the City desires to approve the Authority's issuance of not to exceed \$108,000,000 aggregate principal amount of the Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2008A (Various Capital Improvement Projects) [the Series 2008A Bonds]; and

WHEREAS, in order to provide moneys for such public purposes, the City will lease certain real property of the City [Leased Property] to the Authority pursuant to a Site Lease [Site Lease]; and

WHEREAS, the Authority has determined to issue the Series 2008A Bonds, all pursuant to and secured by an Indenture [Indenture] by and between the Authority and Wells Fargo Bank, National Association [Trustee]; and

WHEREAS, in order to provide for the repayment of the Series 2008A Bonds, the Authority will lease the Leased Property to the City pursuant to a Lease [Lease] under which the City will agree to make base rental payments to the Authority [Base Rental Payments] which will be calculated to be sufficient to enable the Authority to pay the principal of and interest and premium (if any) on the Series 2008A Bonds when due and payable; and

WHEREAS, the Authority desires to assign without recourse all of its right to receive the Base Rental Payments scheduled to be paid by the City under and pursuant to the Lease to the Trustee for the benefit of the owners of the Series 2008A Bonds pursuant to an Assignment Agreement [Assignment Agreement] by and between the Authority and the Trustee; and

WHEREAS, the Series 2008A Bonds will be issued under the provisions of the Marks-Roos Local Bond Pooling Act of 1985 and the Indenture; and

WHEREAS, the Authority proposes to sell the Series 2008A Bonds pursuant to a negotiated sale pursuant to the terms of the Series 2008A Bond Purchase Agreement [Purchase Agreement] among the City, the Authority and Bank of America, N.A. [Purchaser], a form of which is on file with the Office of the City Clerk; and

WHEREAS, there has been presented to this meeting the following documents relating to the issuance of the Series 2008A Bonds:

a. a proposed form of Site Lease between the City and the Authority, a copy of which is on file in the office of the City Clerk as document number OO-_____ -1 under which the City will lease the Leased Property to the Authority;

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b. a proposed form of Lease between the Authority and the City, a copy of which is on file in the office of the City Clerk as document number OO - _____-2, under which the Authority will lease the Leased Property to the City;

c. a proposed form of Assignment Agreement between the Authority and the Trustee, a copy of which is on file in the office of the City Clerk as document number OO - _____-3, under which the Authority assigns to the Trustee for the benefit of bondholders its rights under the Site Lease and Lease;

d. a proposed form of Indenture between the Authority and the Trustee, a copy of which is on file in the office of the City Clerk as document number OO - _____-4 under which the Authority will issue its Series 2008A Bonds;

e. a proposed form of Purchase Agreement, a copy of which is on file in the office of the City Clerk as document number OO - _____-5, by and among the City, the Authority and the Purchaser; and

f. a proposed form of Financial Advisory Services Agreement [Financial Advisory Services Agreement], a copy of which is on file in the office of the City Clerk as document number OO - _____-6, by and between the City and Montague DeRose and Associates, LLC [Financial Advisor]; and

WHEREAS, the City is authorized to undertake the actions described in this Ordinance pursuant to its Charter and the Constitution and other applicable laws of the State of California;

NOW, THEREFORE,

BE IT ORDAINED by the Council of The City of San Diego, as follows:

Section 1. All of the foregoing recitals are true and correct, and the City Council so finds and determines.

Section 2. The form and content of the Site Lease, pursuant to which the City agrees to lease the Leased Property to the Authority, is hereby authorized and approved. Any of the Mayor, the Chief Operating Officer or the Chief Financial Officer and each of them or any of their respective designees [each, an Authorized Signatory] are hereby severally authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Site Lease in *substantially the form presented to and considered at this meeting*, and the City Clerk or her specified designees, and each of them, are authorized and directed to attest thereto, with such additions and changes therein as any Authorized Signatory, in consultation with the City Attorney, shall require or approve as being in the best interests of the City, and as are approved as to form by the City Attorney or his specified designee, such approval to be conclusively evidenced by such Authorized Signatory's execution and delivery of the Site Lease.

Section 3. The form and content of the Lease, pursuant to which the Authority agrees to lease to the City the Leased Property, is hereby authorized and approved. Any Authorized Signatory is hereby severally authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Lease in *substantially the form presented to and considered at this meeting*, and the City Clerk or her specified designees, and each of them, are authorized and directed to attest thereto, with such additions and changes therein as any Authorized Signatory, in consultation with the City Attorney, shall require or approve as being in the best interests of the City, and as are approved as to form by the City Attorney or his specified designee, such approval to be conclusively evidenced by such Authorized Signatory's execution and delivery of the Lease.

Section 4. The form and content of the Assignment Agreement, pursuant to which the Authority assigns to the Trustee the Authority's rights under the Site Lease and the Lease,

and the execution, delivery and performance thereof by the Authority, are hereby authorized and approved. Each Authorized Signatory is authorized and directed to take such action as is necessary or appropriate to effectuate the transactions set forth in the Assignment Agreement with such additions and changes therein as any Authorized Signatory shall require or approve as being in the best interests of the City, and as are approved as to form by the City Attorney or his specified designee, such approval will be conclusively evidenced by such Authorized Signatory's execution and delivery thereof.

Section 5. The form and content of the Indenture, pursuant to which the Authority will issue its Bonds, and the execution, delivery and performance thereof by the Authority, are hereby authorized and approved. Each Authorized Signatory is authorized and directed to take such action as is necessary or appropriate to effectuate the transactions set forth in the Indenture with such additions and changes therein as any Authorized Signatory shall require or approve as being in the best interests of the City, and as are approved as to form by the City Attorney or his specified designee, such approval will be conclusively evidenced by such Authorized Signatory's execution and delivery thereof.

Section 6. The City hereby requests the Authority to approve and authorize the issuance and sale of the Series 2008A Bonds in an amount not to exceed One Hundred Eight Million Dollars (\$108,000,000) by private sale provided that: (i) the interest rate on the Series 2008A Bonds from their date of issuance through June 1, 2010 does not exceed 5.45 percent per annum and the interest rate on the Series 2008A Bonds subsequent to June 1, 2010 through the final maturity thereof will be as determined pursuant to the Indenture, provided such rate shall not exceed 12 percent per annum, (ii) the final maturity of the Series 2008A Bonds shall not be

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later than ten years following their date of issuance, and (iii) the costs of issuance on the Series 2008A Bonds does not exceed \$302,000.

Section 7. The anticipated source of revenue for payment of the Series 2008A Bonds hereby authorized is the Base Rental Payments under and as defined in the Lease.

Section 8. The form and content of the Purchase Agreement are hereby authorized and approved. Any Authorized Signatory is hereby authorized and directed for and in the name and on behalf of the City, to execute and deliver the Purchase Agreement in connection with the purchase and sale of the Series 2008A Bonds, substantially in the form presented to and considered at this meeting, with such changes and additions therein as such Authorized Signatory shall require or approve as being in the best interests of the City and as are approved as to form by the City Attorney or his specified designee, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 9. This Ordinance is subject to the provisions of the San Diego Municipal Code and San Diego City Charter. Subject to those provisions, this Ordinance shall take effect and be in force thirty (30) days from and after the date of its adoption and, prior to the expiration of fifteen (15) days from the passage hereof, the City Clerk shall cause this Ordinance to be published at least once in a newspaper of general circulation, published and circulated in the City.

Section 10. Any Authorized Signatory, and each of them, is hereby authorized to make necessary arrangements with an appropriate title insurance company to issue a title insurance binder with respect to land that may become the subject of the Site Lease and the Lease and to execute any agreement required for retention of such title insurance company or companies.

000500

Section 11. The Financial Advisory Services Agreement by and between the City and Financial Advisor to provide financial advisory services to the City and the Authority in connection with the Series 2008A Bonds, the form and content of which agreement has been presented to this meeting, for an amount not to exceed \$37,500 plus reasonable out-of-pocket expenses not to exceed \$5,000, is hereby authorized and approved. Each Authorized Signatory is authorized and directed to take such action as is necessary or appropriate to effectuate the transactions set forth in the Financial Advisory Services Agreement with such additions and changes therein as any Authorized Signatory shall require or approve as being in the best interests of the City, and as are approved as to form by the City Attorney or his specified designee, such approval will be conclusively evidenced by such Authorized Signatory's execution and delivery thereof.

Section 12. The City Attorney or his specified designee is authorized to retain Hawkins Delafield & Wood LLP as bond counsel for the City and the Authority [Bond Counsel] under such contract or other arrangement as the City Attorney or his specified designee shall approve as being in the best interests of the City. The City Attorney or his specified designee is further authorized to pay the fees of Bond Counsel in an amount not to exceed \$70,000 plus reasonable out-of-pocket expenses not to exceed \$5,000.

Section 13. All actions heretofore taken by any officers, employees or agents of the City with respect to the issuance, delivery or sale of the Series 2008A Bonds, or in connection with or related to any of the documents referenced herein or the refinancing of the Project, are hereby approved, confirmed and ratified; and such other officials, employees and agents of the City as may be authorized by any Authorized Signatory are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions

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Section 14. including, without limitation, payment of necessary and appropriate fees and expenses of bond counsel, financial advisor and other professionals retained by the City under contracts approved by the City Attorney and execute and deliver any and all certificates, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Series 2008A Bonds and the disbursement of proceeds thereof in accordance with this Ordinance.

Section 15. A full reading of this Ordinance is dispensed with prior to its final passage, a written or printed copy having been available to the City Council and the public a day prior to its final passage.

Section 16. This Ordinance shall take effect immediately upon its adoption by the Council of the City and its ratification by the Mayor.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By 
Mark D. Blake
Chief Deputy City Attorney

MDB:jdf
03/17/08
OR.Dept: Debt Management
O-2008-129

I hereby certify that the foregoing Ordinance was passed by the Council of The City of San Diego, at this meeting of _____.

ELIZABETH S. MALAND
City Clerk

By: _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

000503

Passed by the Council of The City of San Diego on _____, 2008, by the following
vote:

YEAS:

NAYS:

NOT PRESENT:

VACANT:

AUTHENTICATED BY:

JERRY SANDERS

Mayor of The City of San Diego, California

ELIZABETH S. MALAND

City Clerk of The City of San Diego, California

(Seal)

By: _____, Deputy

I HEREBY CERTIFY that the above and forgoing is a full, true and correct copy of
ORDINANCE NO. O-_____, approved by the Mayor of The City of San Diego,
California on _____.

ELIZABETH S. MALAND

City Clerk of The City of San Diego, California

(SEAL)

By: _____, Deputy

000505

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO REGARDING ITS INTENTION TO REIMBURSE EXPENDITURES FOR PROJECT COSTS FROM PROCEEDS OF TAX-EXEMPT OBLIGATIONS.

WHEREAS, Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes and empowers local agencies to form a joint powers authority and Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California [Marks-Roos Local Bond Pooling Act of 1985] authorizes and empowers such authority to issue bonds for the purpose of financing public capital improvements or projects to further public purposes and effect significant public benefits, as determined by the local agency; and

WHEREAS, The City of San Diego [City] and the Redevelopment Agency of the City of San Diego [Agency] have heretofore entered into a Joint Exercise of Powers Agreement dated May 14, 1991 [Joint Powers Agreement] as amended and restated, which created and established the Public Facilities Financing Authority of the City of San Diego [Authority] for the purpose, among others, of issuing its bonds to be used to provide financial assistance to the City to finance public capital improvements, including but not limited to general municipal improvements; and

WHEREAS, the City has determined that (i) the issuance of the Series 2008A Bonds (defined below) by the Authority is desirable and furthers public purposes; (ii) there are significant public benefits to be derived from securing the assistance of the Authority in financing the construction, renovation, improvement and equipping of the certain public facilities for the City as described in Exhibit A hereto [collectively, the Project]; and (iii) the Project will be located within the geographic boundaries of the City and (iv) the City will be able to more

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efficiently deliver services to residential and commercial development as a result of the financing; and

WHEREAS, in order to achieve such public purposes, including the financing of the construction, renovation, improvement and equipping of the Project or portions thereof, the City desires to approve the Authority's issuance of not to exceed \$108,000,000 aggregate principal amount of the Public Facilities Financing Authority of the City of San Diego Lease Revenue Bonds, Series 2008A (Various Capital Improvement Projects) [the Series 2008A Bonds], the interest upon which is excluded from gross income for federal income tax purposes; and

WHEREAS, prior to the issuance of the Series 2008A Bonds, the City has incurred or expects to incur certain capital expenditures [the Expenditures] with respect to the Project from available moneys of the City; and

WHEREAS, the Council of the City has determined that those moneys to be advanced on and after the date sixty (60) days prior to the date hereof to pay the Expenditures are available only for a temporary period where it may be necessary to reimburse the City for the Expenditures from the proceeds of the Series 2008A Bonds; and

WHEREAS, the City is authorized to undertake the actions described in this Resolution pursuant to its Charter and the Constitution and other applicable laws of the State of California;

NOW, THEREFORE,

BE IT ORDAINED by the Council of The City of San Diego, as follows:

Section 1. All of the foregoing recitals are true and correct, and the Council of the City so finds and determines.

Section 2. The City hereby states its intention and reasonably expects to reimburse Project costs incurred prior to the issuance of the Series 2008A Bonds with proceeds of the Series 2008A Bonds. Exhibit A describes either the general character, type, purpose, and

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function of the Project, or the fund or account from which Project costs are to be paid and the general functional purpose of the fund or account.

Section 3. The reasonably expected maximum principal amount of the Series 2008A Bonds is \$108,000,000.

Section 4. This Resolution is being adopted no later than sixty (60) days after the date on which the City has expended or will expend moneys for the portion of the Project costs to be reimbursed from proceeds of the Series 2008A Bonds.

Section 5. The City will make a reimbursement allocation, which is a written allocation that evidences the City's use of proceeds of the Series 2008A Bonds to reimburse an Expenditure, no later than eighteen (18) months after the later of the date on which the Expenditure has been paid or the Project has been placed in service or abandoned, but in no event more than three (3) years after the date on which the Expenditure has been paid.

Section 6. The limitations described in Section 4 and Section 5 do not apply to (a) costs of issuance of the Series 2008A Bonds, (b) an amount not in excess of the lesser of \$100,000 or five percent (5%) of the proceeds of the Series 2008A Bonds, or (c) any preliminary expenditures, such as architectural, engineering, surveying, soil testing, and similar costs other than land acquisition, site preparation, and similar costs incident to commencement of construction, not in excess of twenty percent (20%) of the aggregate issue price of the Series 2008A Bonds that finance costs of the Project for which the preliminary expenditures were incurred.

Section 7. This Resolution is adopted as official action of the City in order to comply with Treasury Regulation Section 1.150-2 and any other regulations of the Internal Revenue

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Service relating to the qualification for reimbursement of City expenditures incurred prior to the date of issue of the Series 2008A Bonds.

Section 8. This Resolution shall take effect immediately upon its adoption by the Council of the City and its ratification by the Mayor.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By Mark D. Blake B.C.W.
Mark D. Blake
Chief Deputy City Attorney

MDB:jdf
03/17/08
Or.Dept: Debt Management
R-2008-778

I hereby certify that the foregoing Resolution was passed by the Council of The City of San Diego, at this meeting of _____.

ELIZABETH S. MALAND
City Clerk

By: _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

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EXHIBIT A

DESCRIPTION OF THE PROJECT

The project to be financed consists of the construction, renovation, improvement and equipping of public buildings of The City of San Diego, facilities for the production, storage, transmission, or treatment of local streets, roads and bridges, all located within boundaries of The City of San Diego, California (including but not limited to staff time and capital and technology infrastructure related thereto), and all necessary legal, financial, architectural, environmental, engineering and contingent costs incurred in connection therewith.

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Passed by the Council of The City of San Diego on _____, 2008, by the following
vote:

YEAS:

NAYS:

NOT PRESENT:

VACANT:

AUTHENTICATED BY:

JERRY SANDERS

Mayor of The City of San Diego, California

ELIZABETH S. MALAND

City Clerk of The City of San Diego, California

(Seal)

By: _____, Deputy

I HEREBY CERTIFY that the above and forgoing is a full, true and correct copy of
RESOLUTION NO. R-_____, approved by the Mayor of The City of San Diego,
California on _____.

ELIZABETH S. MALAND

City Clerk of The City of San Diego, California

(SEAL)

By: _____, Deputy

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**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2008A
(VARIOUS CAPITAL IMPROVEMENT PROJECTS)**

Log of Outstanding Items as of March 17, 2008

City Ordinance

<i>Section</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Page 1	ORDINANCE NUMBER O-_____	City	Will be completed upon adoption
Page 1	DATE OF FINAL PASSAGE _____	City	Will be completed upon adoption
Signature Page	City Signatures	City	At Closing

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**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2008A
(VARIOUS CAPITAL IMPROVEMENT PROJECTS)**

Log of Outstanding Items as of March 17, 2008

Reimbursement Resolution

<i>Section</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Page 1	RESOLUTION NUMBER R-_____	City	Will be completed upon adoption
Page 1	DATE OF FINAL PASSAGE _____	City	Will be completed upon adoption
Signature Page	City Signatures	City	At Closing

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**City of San Diego
2008-09 Deferred Maintenance Revenue Bonds**

Log of Outstanding Items as of March 17, 2008

<i>Document</i>	<i>Page/Section No.</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Bond Purchase Agreement	Cover Page	• Resolution Number	City	After adoption by City
	Cover Page	• Principal Amount of Bond issue	City	As soon as the City sizes the Bond issue
	Cover Page	• Date of BPA	City	As soon as the City selects a Closing Date
	1	• Date of BPA		As soon as the City selects a Closing Date
	2	• Maturity Date	City	Tenth anniversary of the Closing Date. As soon as the City selects a Closing Date
	3	• Payment Account Information	BofA	Within the next week
	Page 4, Section 2.01	• Initial interest rate for Bonds	BofA/City	One or two Business Days prior to Closing
	Page 12, Section 7.08	• Date by which best efforts to refund must be achieved	City	Second anniversary of the Closing Date. As soon as the City selects a Closing Date
	Page 19, Section 8.13	• Date the 2005 CAFR is received and filed with the City Council	City	As soon as the event occurs
	Signature Page	• Signature of CFO and Chief Deputy City Attorney	City	At closing
	Signature Page	• Signature of Senior vice President of BofA	BofA	At closing
Exhibit A	• Form of Qualified Purchaser Investment Representation Letter	City/BofA	When created	

\$ __,000,000

BOND PURCHASE AGREEMENT

among

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE
CITY OF SAN DIEGO

THE CITY OF SAN DIEGO

and

BANK OF AMERICA, N.A.

Dated as of June __, 2008

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EXHIBIT

Exhibit A Form of Qualified Purchaser Investment Representation Letter

This BOND PURCHASE AGREEMENT, dated as of June __, 2008, is entered into by and among the PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), THE CITY OF SAN DIEGO, a municipal corporation duly organized and existing and by virtue of the laws of the State of California (the "City"), and BANK OF AMERICA, N.A., a national banking association ("BofA").

W I T N E S S E T H:

WHEREAS, the Authority desires to issue and sell a note payable solely from rental payments, if any, appropriated and made by the City in its sole and absolute discretion pursuant to the Lease Agreement (as defined below); and

WHEREAS, BofA is willing, on the terms and conditions contained herein, to purchase the note described herein from the Authority.

NOW, THEREFORE, in consideration of the respective agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions. The following terms have the meanings indicated below or in the referenced Section of this Agreement, unless the context shall clearly indicate otherwise:

"Affiliate" means, with respect to a specified Person, any other Person that directly, or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with such specified Person.

"Agreement" means this Series 2008A Bond Purchase Agreement, as amended, modified and supplemented from time to time.

"Applicable Lending Office" means the office of BofA at which the Series 2008A Bond is carried on the books and records of BofA.

"Assignment Agreement" means the Assignment Agreement, dated as of June 1, 2008, between the Authority (as assignor) and Wells Fargo Bank, National Association (as trustee).

"Authority" has the meaning assigned to that term in the introductory paragraph of this Agreement.

"Authorized Representative" means, (i) as to the Authority, its chairperson or any member, and (ii) as to the City, its mayor, its chief operating officer, its chief financial officer or any individual designated by the City's mayor, chief operating officer or chief financial officer in writing to BofA.

“BofA” has the meaning assigned to that term in the introductory paragraph of this Agreement.

“Business Day” means any day of the year (i) other than a Saturday; (ii) other than a Sunday; (iii) on which banks located in the city where BofA’s Applicable Lending Office is located are not required or authorized to close; and (iv) on which banks located in San Diego, California are not required or authorized to close.

“City” has the meaning assigned to that term in the introductory paragraph of this Agreement.

“City Charter” means, as of any date of determination, the charter of the City as in effect such date.

“City Council” means the council, i.e., the governing body, of the City.

“City Treasurer” means the treasurer of the City.

“Commission” has the meaning provided in the defined term “QIB”.

“Control” means the power, directly or indirectly, to direct or cause the direction of the management and policies of another Person, whether through the ownership of voting securities, by contract or otherwise.

“Dollars” and “\$” means the lawful currency of the United States of America.

“Effective Date” means the first date on which all of the conditions set forth in Section 3 have been satisfied.

“Indemnitee” has the meaning assigned to that term in Section 8.07(a) hereof.

“Indenture” means the Indenture, dated as of June 1, 2008, between the Authority and Wells Fargo Bank, National Association, in its capacity as trustee.

“Lease” means the Lease, dated as of June 1, 2008, between the Authority (as lessor) and the City (as lessee).

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), preference, priority or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement).

“Maturity Date” means June __, 2018.

“Notice” or “notice” means any form of written communication or a communication by means of electronic mail, facsimile device, telegraph or cable.

“Notice Office” means the office of BofA located at 333 South Hope Street, 13th Floor, Mail Code: CA9-193-13-17, Los Angeles, California or such other office or mail code as BofA

may hereafter designate in writing as such to the Authority. Any Notice of a change in the Notice Office shall become effective on the fifth day after the delivery of Notice thereof to the Authority.

“Payment Account” means Credit Account: [] maintained with Bank of America, GCIB Credit Services, Mail Code: CA9-702-05-73, New York ABA #026009593, For Further Credit to: Public Facilities Financing Authority of the City of San Diego, Obligor [], Facsimile Number: (626) 666-6766, or such other account as Bank of America may hereafter designate in writing as such to the Authority. Any Notice of a change in the Payment Account shall become effective on the fifth day after the delivery of Notice thereof to the Authority.

“Person” means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization, including a government or a political subdivision or an instrumentality thereof.

“Properties” means each of the properties described in Exhibit A to the Site Lease.

“QIB” means a “qualified institutional buyer” as such term is defined in Rule 144A promulgated by the Securities Exchange Commission (the “Commission”) pursuant to the Securities Act of 1933, as amended (the “Securities Act”).

“Qualified Purchaser” means a trust or other pass-through entity formed, created or established by BofA or any Affiliate thereof to purchase the Series 2008A Bond from BofA and to issue tender option derivative securities therein as long as such trust or other pass-through entity has no more than twelve (12) beneficiaries, each of whom is a QIB.

“Related Documents” means the Site Lease, the Lease, the Assignment Agreement, the Indenture and the Series 2008A Bond.

“Securities Act” has the meaning provided in the defined term “QIB”.

“Series 2008A Bond” has the meaning assigned to that term in Section 2.01 hereof.

“Site Lease” means the Site Lease, dated as of June 1, 2008, between the City (as lessor) and the Authority (as lessee).

“State” means the State of California.

“Trustee” means Wells Fargo Bank, National Association, and any successor trustee appointed in accordance with the terms of the Indenture.

Section 1.02 Construction. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement,

instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof and (d) all references herein to Articles, Sections and Exhibits shall be construed to refer to Articles and Sections of, and Exhibits to, this Agreement. All references herein to financial statements shall, unless expressly stated to be audited financial statements, shall be references to unaudited financial statements.

ARTICLE II SERIES 2008A BOND

Section 2.01 Commitment to Purchase. Subject to and upon the terms and conditions set forth herein, on the Effective Date, BofA agrees to purchase a Public Facilities Financing Authority of The City of San Diego Lease Revenue Bond, Series 2008A (Various Capital Improvement Projects) issued pursuant to the Indenture in an aggregate principal amount equal to \$ __, 000,000 and bearing interest at a per annum rate of [] % based on a year consisting of 360 days and actual days elapsed (the "Series 2008A Bond"). The Series 2008A Bond shall be registered in the name of Bank of America, N.A.

Section 2.02 Payment. No later than 10:00 A.M. (Los Angeles time) on the Effective Date, so long as the conditions precedent to such purchase as set forth in Article III are satisfied at such time on such date, BofA will make available to the order of the Authority the Principal Amount in Dollars and in immediately available funds.

ARTICLE III CONDITIONS PRECEDENT

The obligation of BofA to purchase the Series 2008A Bond on the Effective Date is subject to the satisfaction of the following conditions on such date:

Section 3.01 Representations. On the Effective Date, (i) all representations and warranties made by the Authority and the City herein or in any of the Related Documents shall be true and correct with the same effect as though such representations and warranties had been made at and as of such time; (ii) each of the Related Documents to which the Authority is a party is in full force and effect and has not been amended, modified or changed; and (iii) each of the Related Documents to which the City is a party is in full force and effect and has not been amended, modified or changed.

Section 3.02 Documents. On or prior to the Effective Date, BofA shall have received, in form and substance satisfactory to BofA, the following:

- (a) A true and complete fully executed original of this Agreement and each of the Related Documents, including, without limitation, the Series 2008A Bond;

(b) A true and complete copy of the ordinance of the City (together with the reimbursement resolution) approving the Related Documents to which the City is a party and the transactions contemplated therein certified on the Effective Date by the City Clerk;

(c) A true and complete copy of resolution of the Authority approving the Related Documents to which the Authority is a party and the transactions contemplated therein certified on the Effective Date by the Secretary of the Authority;

(d) Signature and incumbency certificates, dated the Effective Date, of the signatories of the Authority executing this Agreement and the Related Documents to which the Authority is a party;

(e) Signature and incumbency certificates, dated the Effective Date, of the signatories of the City executing this Agreement and the Related Documents to which the City is a party;

(f) A certificate of an Authorized Representative of the Authority, dated the Effective Date, making the representations set forth in Section 3.01 with respect to the Authority;

(g) A certificate of an Authorized Representative of the City, dated the Effective Date, making the representations set forth in Section 3.01 with respect to the City;

(h) Executed copies of (i) the legal opinion of counsel to the City and the Authority; and (ii) the legal opinion of bond counsel, which opinions shall be in form and substance satisfactory to BofA, dated the Effective Date and addressed to BofA;

(i) A copy of a CLTA leasehold title insurance policy, issued by a reputable title insurance company satisfactory to BofA in an amount not less than the principal amount of the Series 2008A Bond, showing (A) the City as fee title owner of the Properties; (B) a valid leasehold interest in the Properties in the name of the Authority pursuant to the Site Lease; and (C) a valid leasehold interest in the Properties in the name of the City pursuant to the Lease, in each case evidencing no exceptions to title other than Permitted Encumbrances (as such term is defined in the Lease); and

(j) a certificate of insurance for each of the insurance policies required to be maintained by the City pursuant to Section 7.03 of the Lease.

Section 3.03 Payment. The Authority shall have paid the fees and expenses of counsel to BofA as provided in Section 8.06 hereof.

Section 3.04 Other Matters. All other legal matters pertaining to the execution and delivery of this Agreement and the Related Documents shall be satisfactory to BofA, and BofA shall have received such other statements, certificates, agreements, documents and information with respect to the Authority and matters contemplated by this Agreement as BofA may request.

Section 3.05 Satisfaction. Delivery by BofA of fully executed signature pages to this Agreement shall constitute acknowledgment and acceptance by BofA that all conditions set forth in Sections 3.01, 3.02, 3.03 and 3.04 have been met or waived.

ARTICLE IV REPRESENTATIONS OF THE CITY

In order to induce BofA to purchase the Series 2008A Bond, the City makes the following representations and warranties to BofA as of the date hereof and as of the Effective Date:

Section 4.01 Valid Existence. The City is a municipal corporation duly organized and existing under and by virtue of the laws of the State and its Charter and has the necessary power and authority to execute and deliver this Agreement and the Related Documents to which it is a party, and to perform its obligations hereunder and thereunder.

Section 4.02 Authorization and Validity. The execution, delivery and performance by the City of this Agreement and the Related Documents to which it is a party have been duly authorized by proper proceedings of the City, and no further approval, authorization or consents are required by law or otherwise; provided, however, that the City through its Council shall have the right, to be exercised in its sole and absolute discretion, for any reason, not to budget and appropriate Rental Payments. This Agreement and the Related Documents to which it is a party constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, moratorium and other laws affecting creditors' rights generally and principles of equity and public policy.

Section 4.03 Compliance with Laws and Contracts. Neither the execution and delivery by the City of this Agreement and/or the Related Documents to which it is a party, nor the consummation of the transactions herein and therein contemplated, nor compliance with the provisions hereof or thereof will (a) violate any provision of the Charter, (b) violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the City, (c) result in any breach of, or default under the provisions of any material indenture, resolution, instrument or agreement to which the City is a party or is subject, or by which it or its property is bound, or (d) conflict with or result in the creation or imposition of any lien pursuant to the terms of any such indenture, instrument or agreement.

Section 4.04 Litigation. There is no action, suit, proceeding, inquiry or investigation; at law or in equity or by or before any court, governmental agency, public board or body, pending or, to the best knowledge of the City, after due investigation, threatened against the City (i) wherein an unfavorable decision, ruling, or finding would adversely affect the existence of the City or the title of any official of the City to such person's office, or (ii) seeking to restrain or enjoin the issuance, sale or delivery of the Series 2008A Bond, or the lease of the Properties to the Authority or the lease of the Properties from the Authority, or (iii) in any way contesting or affecting the validity or enforceability of this Agreement or the Related Documents to which the City is a party, or (iv) contesting the power of the City or its authority with respect to this Agreement or the Related Documents to which it is a party, or (v) contesting the exclusion of interest on the Series 2008A Bond from gross income for federal income tax purposes; nor, to

the best knowledge of the City, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the validity of the Series 2008A Bond, this Agreement or the other Related Documents to which the City is a party or the authorization, execution, delivery by the City of the this Agreement or the other Related Documents to which the City is a party or the performance of its obligations hereunder and thereunder.

Section 4.05 Regulatory Approvals. Each authorization, consent, approval, license or formal exemption from or filing, declaration or registration with, any court, governmental agency or regulatory authority (federal, state or local), required in connection with the City's execution and delivery of, and performance under this Agreement and the Related Documents to which it is a party has been obtained or made and is in full force and effect.

Section 4.06 Prospective Change in Law. To the best knowledge of the City, there is no amendment, or proposed amendment certified for placement on a statewide ballot, to the Constitution of the State or any published administrative interpretation of the Constitution of the State or any State law, or any legislation which has passed either house of the State legislature or is under consideration by any conference or similar committee, or any published judicial decision interpreting any of the foregoing, the effect of which is to materially adversely affect the ability of the City to perform its obligations under this Agreement or any of the Related Documents to which it is a party.

Section 4.07 Sovereign Immunity. Under California law, the City is not immune, by virtue of the fact that it is a governmental entity, from actions brought in contract.

Section 4.08 Properties. The City owns a fee title interest in each of the Properties free and clear of Liens other than those Liens set forth on the title reports delivered pursuant to Section 3.02(i). The lease of the Properties to the Authority pursuant to the Site Lease and the lease back of the Properties by the Authority to the City in each case further a valid public purpose. The Properties are essential to the day-to-day operations of the City.

Section 4.09 Related Documents. Each Related Document to which the City is a party is in full force and effect, and the City hereby makes to BofA each of the representations and warranties made by the City therein as if set forth at length herein together with the defined terms necessary for a complete understanding thereof. Each such Related Document has not been amended or supplemented.

Section 4.10 Revenue Projections: The City represents that the revenue projections included in the City's budget for fiscal year 2008/2009 previously provided to BofA were prepared on the basis of information and estimates that the City believed to be reasonable.

ARTICLE V REPRESENTATIONS OF THE AUTHORITY

In order to induce BofA to purchase the Series 2008A Bond, the Authority makes the following representations and warranties to BofA as of the date hereof and as of the Effective Date:

Section 5.01 Valid Existence. The Authority is a joint powers authority duly organized and existing under and by virtue of the laws of the State and the Amended and Restated Joint Exercise of Powers Agreement, dated January 11, 1999, by and between the City and the Redevelopment Agency of the City of San Diego (the "JPA Agreement"), and has the necessary power and authority to execute and deliver this Agreement and the Related Documents to which it is a party, and to perform its obligations hereunder and thereunder.

Section 5.02 Authorization and Validity. The execution, delivery and performance by the Authority of this Agreement and the Related Documents to which it is a party have been duly authorized by proper proceedings of the Authority, and no further approval, authorization or consents are required by law or otherwise. This Agreement and the Related Documents to which it is a party constitute the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, moratorium and other laws affecting creditors' rights generally and principles of equity and public policy.

Section 5.03 Compliance with Laws and Contracts. Neither the execution and delivery by the Authority of this Agreement and/or the Related Documents to which it is a party, nor the consummation of the transactions herein and therein contemplated, nor compliance with the provisions hereof or thereof will (a) violate any provision of the JPA Agreement, (b) violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Authority, (c) result in any breach of, or default under the provisions of any material indenture, resolution, instrument or agreement to which the Authority is a party or is subject, or by which it or its property is bound, or (d) conflict with or result in the creation or imposition of any lien pursuant to the terms of any such indenture, instrument or agreement.

Section 5.04 Litigation. There is no action, suit, proceeding, inquiry or investigation; at law or in equity or by or before any court, governmental agency, public board or body, pending or, to the best knowledge of the Authority, after due investigation, threatened against the Authority (i) wherein an unfavorable decision, ruling, or finding would adversely affect the existence of the Authority or the title of any official of the Authority to such person's office, or (ii) seeking to restrain or enjoin the issuance, sale or delivery of the Series 2008A Bond, or the lease of the Properties to the Authority or the lease of the Properties from the Authority, or (iii) in any way contesting or affecting the validity or enforceability of this Agreement or the Related Documents to which the Authority is a party, or (iv) contesting the power of the Authority or its authority with respect to this Agreement or the Related Documents to which it is a party, or (v) contesting the exclusion of interest on the Series 2008A Bond from gross income for federal income tax purposes; nor, to the best knowledge of the Authority, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the validity of the Series 2008A Bond, this Agreement or the other Related Documents to which the Authority is a party or the authorization, execution, delivery by the Authority of the this Agreement or the other Related Documents to which the Authority is a party or the performance of its obligations hereunder and thereunder.

Section 5.05 Regulatory Approvals. Each authorization, consent, approval, license or formal exemption from or filing, declaration or registration with, any court, governmental agency or regulatory authority (federal, state or local), required in connection with the

Authority's execution and delivery of, and performance under this Agreement and the Related Documents to which it is a party has been obtained or made and is in full force and effect.

Section 5.06 Prospective Change in Law. To the best knowledge of the Authority, there is no amendment, or proposed amendment certified for placement on a statewide ballot, to the Constitution of the State or any published administrative interpretation of the Constitution of the State or any State law, or any legislation which has passed either house of the State legislature or is under consideration by any conference or similar committee, or any published judicial decision interpreting any of the foregoing, the effect of which is to materially adversely affect the ability of the Authority to perform its obligations under this Agreement or any of the Related Documents to which it is a party.

Section 5.07 Sovereign Immunity. Under California law, the Authority is not immune, by virtue of the fact that it is a governmental entity, from actions brought in contract.

Section 5.08 Properties. The Authority owns a leasehold title interest in each of the Properties free and clear of Liens other than those Liens set forth on the title reports delivered pursuant to Section 3.02(i).

Section 5.09 Related Documents. Each Related Document to which the Authority is a party is in full force and effect, and the Authority hereby makes to BofA each of the representations and warranties made by the Authority therein as if set forth at length herein together with the defined terms necessary for a complete understanding thereof. Each such Related Document has not been amended or supplemented.

ARTICLE VI COVENANTS OF THE AUTHORITY

During the term of this Agreement, and until the Series 2008A Bond is paid in full, unless BofA shall otherwise consent in writing, the Authority covenants and agrees as follows:

Section 6.01 Compliance With Laws. The Authority shall comply with all laws, rules and regulations, and with all final orders, writs, judgments, injunctions, decrees or awards to which it may be subject; provided, however, that the Authority may contest the validity or application thereof and appeal or otherwise seek relief therefrom, and exercise any and all of the rights and remedies which it may have with regard thereto, so long as such acts do not affect the Authority's power and authority to execute and deliver this Agreement, to perform its obligations hereunder, or to execute and deliver the Related Documents to which it is a party and to perform its obligations thereunder.

Section 6.02 Related Documents; Exercise of Remedies. The Authority agrees that it will perform and comply with each and every covenant and agreement required to be performed or observed by it in the Related Documents to which it is a party, each of which covenants and agreements is, by this reference, incorporated into this Agreement in its entirety together with all defined terms and construction provisions necessary for a correct understanding thereof. The Authority shall not amend, modify, terminate or grant, or permit the amendment, modification, termination or grant of, any waiver under, or consent to, or permit or suffer to occur any action or omission which results in, or is equivalent to, an amendment, termination, modification, or

grant of a waiver under the Related Documents to which it is a party which would materially impair the ability of the Authority to perform its obligations under this Agreement without the prior written consent of BofA. The Authority shall not exercise any remedy under any Related Document to which it is a party without the prior written consent of BofA. In the event the City fails to cause to be included in the City mayor's annual budget estimate and the attendant annual appropriation ordinance prepared by the City council for a fiscal year an appropriation for all Base Rental Payments (as defined in the Lease) and Additional Rental (as defined in the Lease) payments due in such fiscal year and/or the City Council fails for any reason to budget and appropriate funds sufficient to pay the Base Rental Payments (as defined in the Lease) and Additional Rental (as defined in the Lease) payments coming due in a fiscal year, the Authority shall at the direction of BofA (without indemnity) exercise, or cause the Trustee to exercise, such remedies as are available to the Authority or the Trustee, as the case may be, under the Related Documents and at law.

Section 6.03 Inspection Rights. At any reasonable time and from time to time the Authority shall permit BofA or any agents or representatives thereof to visit the Properties and examine and make copies of the records and books of account related to the Properties and the transactions contemplated by this Agreement and the Related Documents and to discuss the Authority's affairs, finances and accounts with any of the Authority's officers and independent accountants.

Section 6.04 Use of Proceeds. The Authority shall use the proceeds of the Series 2008A Bond solely as provided in the Indenture.

Section 6.05 Existence. The Authority shall maintain its legal existence and shall not voluntarily merge or consolidate with or into any other Person.

Section 6.06 Assignments. The Authority shall not assign, transfer or otherwise convey any interest in the Properties without the prior written consent of BofA.

Section 6.07 Further Assurances. From time to time hereafter, the Authority will execute and deliver such additional instruments, certificates or documents, and will take all such actions as BofA may reasonably request for the purposes of implementing or effectuating the provisions of this Agreement and the Related Documents to which the Authority is a party.

ARTICLE VII COVENANTS OF THE CITY

During the term of this Agreement, and until the Series 2008A Bond is paid in full, unless BofA shall otherwise consent in writing, the City covenants and agrees as follows:

Section 7.01 Notice of Default. As soon as practicable but in any event not more than three Business Days after an Authorized Representative of the City shall have obtained knowledge of a breach of the terms of the Lease by the City, the City shall provide to BofA a written statement of an Authorized Representative setting forth the details of each such breach and, to the extent the City has made any determination with respect thereto, the action which the City proposes to take with respect thereto.

Section 7.02 Compliance With Laws. The City shall comply with all laws, rules and regulations, and with all final orders, writs, judgments, injunctions, decrees or awards to which it may be subject; provided, however, that the City may contest the validity or application thereof and appeal or otherwise seek relief therefrom, and exercise any and all of the rights and remedies which it may have with regard thereto, so long as such acts do not affect the City's power and authority to execute and deliver this Agreement, to perform its obligations hereunder, or to execute and deliver the Related Documents to which it is a party and to perform its obligations thereunder.

Section 7.03 Related Documents. The City agrees that it will perform and comply with each and every covenant and agreement required to be performed or observed by it in the Related Documents to which it is a party, each of which covenants and agreements is, by this reference, incorporated into this Agreement in its entirety together with all defined terms and construction provisions necessary for a correct understanding thereof. The City shall not amend, modify, terminate or grant, or permit the amendment, modification, termination or grant of, any waiver under, or consent to, or permit or suffer to occur any action or omission which results in, or is equivalent to, an amendment, termination, modification, or grant of a waiver under the Related Documents to which it is a party which would materially impair the ability of the City to perform its obligations under this Agreement without the prior written consent of BofA. The City shall not seek to remove any property for the Properties or substitute a property for the Properties without the prior written consent of BofA. To the extent the Indenture purports to create obligations on the part of the City, the City agrees to timely perform such obligations. To the extent the Indenture purports to create obligations on the part of the City Treasurer, the City agrees to use its reasonable best efforts to cause the City Treasurer to timely perform such obligations.

Section 7.04 Inspection Rights. At any reasonable time and from time to time the City shall permit BofA or any agents or representatives thereof to visit the Properties and examine and make copies of the records and books of account related to the Properties and the transactions contemplated by this Agreement and the Related Documents and to discuss the City's affairs, finances and accounts with any of the City's officers and independent accountants.

Section 7.05 Existence. The City shall maintain its legal existence and shall not merge or consolidate with or into any other Person.

Section 7.06 Assignments. The City shall not assign, transfer or otherwise convey any interest in the Properties without the prior written consent of BofA.

Section 7.07 Budgets; Financial Statements; Reports, Certificates and Other Information. As long as the Series 2008A Bond is outstanding, the City shall provide or cause to be provided to BofA copies of:

- (a) As soon as available, but no later than April 15, 2010, a copy of the audited CAFR for each of the City's following fiscal years: 2005-2006, 2006-2007, 2007-2008 and 2008-2009, in each case together with the report of the independent accountants who conducted the audit of the financial statements of the City contained in each such CAFR;

(b) As soon as available, but no later than April 15 of the calendar year immediately following the end of each fiscal year of the City, commencing with fiscal year 2009-2010, a copy of the audited CAFR of the City for such fiscal year, in each case together with the report of the independent accountants who conducted the audit of the financial statements of the City contained in each such CAFR;

(c) Until such time as the City has satisfied its obligations pursuant to Section 7.07(a), as soon as available, a copy of the unaudited CAFR of the City for such fiscal year, commencing with fiscal year 2005-2006;

(d) As soon as available the adopted annual budget for the City;

(e) Promptly, notice of any action, suit or proceeding known to it at law or in equity or by or before any governmental instrumentality, entity or other agency which, if adversely determined, would materially impair the ability of the City to carry out its obligations under this Agreement, or any Related Document or any other document, instrument or agreement required hereunder or thereunder, or would materially and adversely affect its assets or financial condition; and

(f) Promptly, notice of any matter or event which may result in a material adverse change in the City's financial condition or operations.

Section 7.08 Refunding. The City shall use its reasonable best efforts to repay (whether by refunding or otherwise) the Series 2008A Bond on or before June __, 2010.

Section 7.09 Further Assurances. From time to time hereafter, the City will execute and deliver such additional instruments, certificates or documents, and will take all such actions as BofA may reasonably request for the purposes of implementing or effectuating the provisions of this Agreement and the Related Documents to which the City is a party.

ARTICLE VIII MISCELLANEOUS

Section 8.01 Amendments. No provision of this Agreement may be amended, modified, changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the parties hereto.

Section 8.02 Assignments. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither the Authority nor the City may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of BofA.

Section 8.03 Governing Law; Waiver of Jury Trial; Judicial Reference.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA WITHOUT REFERENCE TO CHOICE OF LAW DOCTRINE.

(b) TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH OF THE AUTHORITY, THE CITY AND BOFA IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY RELATED DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

(c) If any action or proceeding is filed in a court of the State by or against any party hereto in connection with any of the transactions contemplated by this Agreement or any other Related Document, (i) the court shall, and is hereby directed to, make a general reference pursuant to California Code of Civil Procedure Section 638 to a referee (who shall be a single active or retired judge) to hear and determine all of the issues in such action or proceeding (whether of fact or of law) and to report a statement of decision, provided that at the option of any party to such proceeding, any such issues pertaining to a "provisional remedy" as defined in California Code of Civil Procedure Section 1281.8 shall be heard and determined by the court, and (ii) without limiting the generality of Section 8.06, the Authority and the City shall be solely responsible to pay all fees and expenses of any referee appointed in such action or proceeding.

Section 8.04 Severability. If any provision of this Agreement shall be held or deemed to be or shall in fact be illegal, inoperative or unenforceable the same shall not affect any other provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatever.

Section 8.05 Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be deemed an original and all of which shall constitute but one and the same instrument.

Section 8.06 Expenses. In connection with the negotiation, execution and delivery of this Agreement and the Related Documents, the City shall pay to White & Case LLP, counsel for BofA, \$45,000. The City shall also pay (a) all reasonable out-of-pocket expenses of BofA, including reasonable fees and expenses of counsel retained by BofA in connection with any waiver or consent hereunder or under any Related Documents or any amendment hereof or thereof; (b) all out-of-pocket expenses incurred by BofA, including the fees and disbursements of counsel and experts retained by BofA in connection with the enforcement of remedies under this Agreement or any Related Document; and (c) the filing fee for the notice of issuance of debt that the Authority and/or the City is required to make with the California Debt and Investment Advisory Commission in connection with the issuance of the Series 2008A Bond.

Section 8.07 Indemnification.

(a) To the maximum extent permitted by law, the City agrees to indemnify and hold harmless BofA and its officers, directors, employees and their agents (each, an "Indemnitee") from and against any and all claims, damages, penalties, actions, losses, liabilities, judgments, suits and reasonable costs or expenses (including, without limitation, reasonable attorney's fees and expenses) whatsoever which an Indemnitee may incur (or which may be claimed against an Indemnitee by any person or entity whatsoever) by reason of or in connection with any action, proceeding or investigation (whether or not BofA is a party

thereto) arising from the entering into and/or performance of this Agreement or any Related Document or the use of the proceeds of the Series 2008A Bond or the consummation of any transactions contemplated herein or in any Related Document, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such action, proceeding or investigation (but excluding any such claims, damages, penalties, actions, losses, liabilities, judgments, suits and reasonable costs or expenses, to the extent incurred by reason of the gross negligence or willful misconduct of the Indemnitee, including the sale, transfer or participation of the Series 2008A Bond in violation of Section 8.13(c) hereof).

(b) Promptly after receipt by an Indemnitee of notice of the commencement of any action, proceeding, or investigation in respect of which indemnity or reimbursement may be sought as provided above (each, an "Indemnified Claim"), such Indemnitee will notify the City in writing of the receipt or commencement thereof, but the failure of an Indemnitee to notify the City with respect to a particular action, proceeding or investigation shall not relieve the City from any obligation or liability which it may have pursuant to this Section 8.07 with respect to such action, proceeding or investigation, or which it may have otherwise than pursuant to this Agreement with respect to any action, proceeding, or investigation, except to the extent such failure to so notify the City with respect to a particular action, proceeding or investigation results in substantial prejudice to the City, in which case the City's indemnification and reimbursement obligations shall be reduced to the extent of such prejudice.

(c) The City shall be entitled at its own expense to participate in and control the defense of any action, proceeding or investigation with counsel reasonably satisfactory to such Indemnitee. Notwithstanding the preceding sentence, an Indemnitee will be entitled to employ counsel separate from counsel for the Authority and from any other party in such action, proceeding or investigation and to participate in the action, proceeding, or investigation, and the City shall bear the fees and expenses of such separate counsel (and shall pay such fees and expenses as and when incurred), only if the Indemnitee and the counsel selected pursuant to the preceding sentence shall have reasonably concluded that there may be one or more legal defenses available to the Indemnitee which are different from or additional to those available to the City and which cannot be adequately raised by the selected counsel for conflict reasons. Each Indemnitee shall cause its counsel to cooperate with the City in the defense of any action, proceeding or investigation to the extent consistent with its professional responsibilities. The City shall not be liable for the settlement by any Indemnitee of any action, proceeding or investigation effected without its consent, which consent will not be unreasonably or untimely withheld. The City shall not settle or compromise any action, proceeding or investigation, or permit a default or consent to the entry of any judgment with respect thereto, unless such settlement, compromise, default or consent includes, as an unconditional term thereof, the giving by the party other than the City thereto of an unconditional general release to all Indemnitees from all liability in respect of such action, proceeding, or investigation.

(d) To the maximum extent permitted by law, the City agrees to indemnify and hold BofA and its officers, directors, employees and their agents harmless (on a net after-tax basis) from any present or future claim or liability for stamp, transfer, documentary, excise or other similar tax and any penalties or interest with respect thereto, which may be assessed,

levied or collected by any jurisdiction in connection with the execution, delivery and performance of, or any payment made under, this Agreement, the Series 2008A Bond and the other Related Documents, or any amendment thereto.

Section 8.08 Termination of the Agreement. Except for the City's obligation to indemnify BofA and each Indemnitee, which shall survive the termination of this Agreement, this Agreement shall terminate when the Series 2008A Bond has been paid in full.

Section 8.09 Notice. Any notice, demand, direction, request or other instrument authorized or required by this Agreement to be given to or filed with the Authority, the City or BofA shall be deemed or have been sufficiently given or filed for all purposes, if any, when delivered by hand or three Business Days after being sent by registered mail, return receipt requested, postage prepaid, and if given by telecopy or telegraphic means shall be deemed given when transmitted (receipt confirmed):

If to the Authority or the City:

The City of San Diego
 Department of Finance
 202 C Street
 San Diego, CA 92101
 Attention: Chief Financial Officer

If to BofA:

Bank of America, N.A.
 333 South Hope Street, 13th Floor
 Mail Code: CA9-193-13-17
 Los Angeles, CA 90071
 Attention: Paul F. Sutherlen
 Telephone: (213) 621-7134
 Facsimile: (213) 621-3606

or to such other address, telephone number or facsimile number as one party hereto shall notify to the other party hereto.

Section 8.10 Holidays. Except as otherwise provided herein, whenever any payment or action to be made or taken hereunder shall be stated to be due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day, and such extension of time shall be included in computing interest or fees, if any, in connection with such payment or action.

Section 8.11 Survival. All representations, warranties, covenants and agreements of the Authority and the City contained in this Agreement as amended or supplemented from time to time or made in writing in connection herewith shall survive the execution and delivery hereof shall continue in full force and effect until payment in full of the Series 2008A Bond, it being understood that the agreements of the Authority found in Section 8.05 hereof shall survive the termination of this Agreement and payment in full of the Series 2008A Bond.

Section 8.12 No Liability. Each of the Authority and the City agrees that none of BofA, its officers, directors, employees and their agents shall have any liability or responsibility for the acts or omissions of the Authority and/or the City in respect of its use of this Agreement or any amounts made available by BofA hereunder. BofA agrees that none of the Authority, the City, their respective officers, City Council members, their respective employees and their respective agents shall have any liability or responsibility for the acts or omissions of BofA in respect of the performance of BofA's obligations under this Agreement.

Section 8.13 BofA's Representations. BofA represents, warrants to and agrees with the Authority and the City that:

(a) BofA has authority to purchase the Series 2008A Bond and to enter into this Agreement on a private placement basis without provision by the Authority or the City of an official statement or other offering document;

(b) BofA has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Series 2008A Bond and is able to bear the economic risks of such investment;

(c) The Series 2008A Bond is being acquired by BofA for investment and not *with a view to, or for resale in connection with, any distribution of the Series 2008A Bond*. BofA intends to hold the Series 2008A Bond for its own investment portfolio through the maturity of the Series 2008A Bond, and acknowledges that the Series 2008A Bond is non-negotiable and, except as provided below, is non-transferable prior to maturity and, except as provided below, BofA does not have the right prior to maturity to sell or transfer the Series 2008A Bond, to create any participation interests in the Series 2008A Bond, to deposit the Series 2008A Bond into any affiliated investment companies or trusts or to otherwise directly or indirectly transfer or assign any interests in the Series 2008A Bond. BofA understands that the Series 2008A Bond will be in certificated form and that the foregoing transfer restrictions will be a legend on the Series 2008A Bond. BofA understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity is not permitted. Notwithstanding the foregoing provisions of this paragraph (c), BofA may transfer and assign the Series 2008A Bond to a Qualified Purchaser as long as BofA (i) notifies the Authority and the City in writing of such transfer and assignment; and (ii) causes the Qualified Purchaser to deliver to the Authority and the City an investment representation letter substantially in the form of Exhibit A hereto;

(d) BofA understands that the Series 2008A Bond is not registered under the Securities Act and that such registration is not legally required as of the date hereof; and further understands that the Series 2008A Bond (a) is not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state; (b) will not be listed in any stock or other securities exchange; (c) will not carry a rating from any rating service; and (d) will be delivered in a form which is non-negotiable and, except as provided in paragraph (c) above, is non-transferable;

(e) BofA acknowledges that it has either been supplied with or been given access to information to which a reasonable investor would attach significance in making investment decisions, and BofA has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the financial condition of the Authority and the City, the Properties, the Series 2008A Bond and the security therefor so that, as a reasonable investor, BofA has been able to make an informed investment decision to purchase the Series 2008A Bond;

(f) BofA acknowledges that the obligation of the Authority to pay debt service on the Series 2008A Bond is an obligation payable solely from Revenues as defined in the Indenture;

(g) BofA has made its own inquiry and analysis with respect to the Series 2008A Bond and the security therefor, and other material factors affecting the security and payment of the Series 2008A Bond;

(h) BofA has received and reviewed the Voluntary Reports of Information dated January 27, 2004 and March 12, 2004 relating to the General Fund, which advised that there were certain errors in the Comprehensive Annual Financial Report of the City of San Diego, California for the fiscal year ended June 30, 2002, which was audited by Calderon, Jaham & Osborn; and

(i) BofA acknowledges certain matters regarding the City's financial statements and certain ongoing investigations relating to the City. The City found errors in various financial statements for the fiscal year ended June 30, 2002. Certain of these errors were reported by the City to the nationally recognized municipal securities information repositories in filings dated January 27, 2004, and March 12, 2004. As a result of the discovery of such errors, the City retained the accounting firm of KPMG LLP to perform a full scope audit and render an opinion on the financial statements of the City for the fiscal year ended June 30, 2003.

On February 13, 2004, the Commission notified the City that it was investigating certain City bond offerings. At the same time, the United States Attorney's Office began its investigation regarding certain bond offerings by the City. The City retained Vinson & Elkins L.L.P. ("V&E") to investigate the City's disclosure practices regarding the funding of pension fund liability for the period 1996-2004. V&E released their report on September 16, 2004. KPMG advised the City that in its view the V&E report did not provide a basis for the City to conclude whether there was any "intentional misconduct or other conduct, which violated any law, rule, or regulation having the force of law." On August 4, 2005 V&E released an additional report intended to complete the additional investigative procedures to be responsive to KPMG's concerns. KPMG found the second V&E report to be inadequate as well and the City retained the firm of Kroll Inc. ("Kroll") to conduct further investigations and reconcile the previous reports on investigations that had already been completed. Kroll and the law firm of Willkie, Farr and Gallagher was constituted as the Audit Committee of the City of San Diego ("Kroll Audit Committee").

On August 8, 2006, the Kroll Audit Committee released its report entitled, "Investigation Into the San Diego City's Employees' Retirement System and the City of San Diego Sewer Rate Structure" (the "Report"). The Report concluded that failures of San Diego city government, including government officials, contributed to the City's failure to conform to requirements of law and to adhere to principles of sound governance and financial reporting. Moreover, the Report concluded that City officials deliberately failed to obey the law with regard to rate setting requirement for the sewer system.

On November 14, 2006, the City entered into a cease-and-desist order with the Commission relating to violations of the antifraud provisions of the Securities Act and the Securities Exchange Act of 1934 in connection with the offer and sale of municipal securities in 2002 and 2003, and other related public financial disclosures.

The Commission concluded that the "City's public disclosures in the preliminary official statements and official statements for its 2002 and 2003 offerings, its 2003 continuing disclosures, and presentations to the rating agencies failed to disclose material information regarding the City's current funding of its pension and retiree health care obligations, the City's future pension and retiree health care obligations, and the City's ability to pay those future obligations." The Commission further concluded that "[t]he City, through its officials, acted with scienter."

The cease-and-desist order imposed certain remedial sanctions on the City, including the retention of an independent consultant to review and assess its policies, procedures and internal controls with respect to bond offerings, including disclosures made in its financial statements. On January 16, 2007 the City retained the law firm of Edwards Angell Palmer & Dodge, LLP to serve as independent consultant. The independent consultant is required to conduct annual reviews of the City's policies, procedures and internal controls for a three year period, and provide copies of such annual reports to the Commission. On June 7, 2007, the independent consultant released his initial report.

The Commission's investigation is ongoing as to individuals and other entities that may have violated federal security laws. On December 10, 2007, the Commission filed a settled civil fraud action against Calderon, Jaham & Osborn, the City's former outside auditors, for issuing unqualified audit opinions on the City's 2002 and 2003 financial statements which contained materially misleading information and were used in the City bond issues described above.

The City Attorney has prepared several reports regarding the City's underfunding of its pension system in which he concluded that various City officials violated provisions of federal securities laws and other State law. The City Attorney has also prepared several reports regarding ongoing governance problems within SDCERS. All of those reports are available on the City Attorney's website.

The City continues to be significantly overdue in releasing audited City financial statements. On March 16, 2007, KPMG released an unqualified opinion regarding the City's financial statements for the fiscal year ending June 30, 2003. The 2003 CAFR was referred to

the City's newly-established Audit Committee, which consists of three members of the City Council ("Audit Committee"). The Audit Committee completed its review of the 2003 CAFR and it was subsequently received by and filed with the City Council received on May 22, 2007.

The City retained the accounting firm of Macias, Gini & O'Connell LLP ("Macias") to audit the City's financial statements for the fiscal years ending June 30, 2004, 2005, 2006 and 2007. On May 11, 2007, Macias released an unqualified opinion on the City's fiscal year 2004 financial reports. The 2004 CAFR was reviewed by the Audit Committee and received by and filed with the City Council on July 24, 2007.

On October 26, 2007, Macias released an unqualified opinion on the City's fiscal year 2005 financial reports. Subsequently, on December 12, 2007, the City decided to re-open the 2005 CAFR for the limited purpose of revising certain disclosures related to the City's Preservation of Benefits Plan. On February 8, 2008, Macias issued a further unqualified opinion on the 2005 CAFR that incorporated the October 26, 2007 opinion and covered the revisions to the 2005 CAFR. The 2005 CAFR was reviewed by the Audit Committee [and received by and filed with the City Council on March __, 2008].

The City's financial statements for the fiscal years ending 2006 and 2007 have not been completed. At this time, it cannot be determined when Macias will provide an opinion letters regarding the City's outstanding financial statements.

BofA acknowledges that the City can give no assurances regarding such investigations or when such investigations will be completed. As well, the City can give no assurance that other investigations will not be initiated against the City in the future.

* * *

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IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed and delivered this Agreement, effective as of the day and year first above written.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE
CITY OF SAN DIEGO

By: _____
Name:
Title:

THE CITY OF SAN DIEGO

By: _____
Name:
Title: Chief Financial Officer

Approved as to form:

MICHAEL AGUIRRE, City Attorney

By: _____
Mark D. Blake, Esq.
Chief Deputy City Attorney

BANK OF AMERICA, N.A.

By: _____
Name: Paul F. Sutherlen
Title: Senior Vice President

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**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2008A
(VARIOUS CAPITAL IMPROVEMENT PROJECTS)**

Log of Outstanding Items as of March 17, 2008

Site Lease			
<i>Section</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Cover and Page 1	\$(Principal Amount]	UW/City	Will be completed at Pricing
Page 3	The City shall use its reasonable best efforts to repay (whether by refunding or otherwise) the Series 2008A Bond on or before June __, 2010.	UW/City	Will be completed at Pricing
Signature Page	JPA and City Signatures	JPA, City	At Closing

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RECORDING REQUESTED BY AND)
 WHEN RECORDED MAIL TO:)
)
 Attn: Arto C. Becker, Esq.)
 Hawkins Delafield & Wood LLP)
 333 South Grand Avenue, Suite 3650)
 Los Angeles, California 90071)

(Space above for Recorder's Use)

This document is recorded for the benefit of the City of San Diego and the recording is fee-exempt under Section 6103 of the California Governmental Code.

SITE LEASE

by and between

THE CITY OF SAN DIEGO

and the

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO**

relating to the

\$[Principal Amount]

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2008A
(VARIOUS CAPITAL IMPROVEMENT PROJECTS)**

Dated as of June 1, 2008

SITE LEASE

This Site Lease (this "Site Lease"), dated as of June 1, 2008, by and between THE CITY OF SAN DIEGO, a municipal corporation duly organized and existing under its charter and the laws of the State of California (the "City"), and the PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the "Authority");

WITNESSETH:

WHEREAS, the City and the Authority desire to finance real property and improvements (the "Project") to certain facilities of the City, as more specifically described in Exhibit A to the Lease (as defined below); and

WHEREAS, to finance the Project, the City proposes to enter into this Site Lease with the Authority, pursuant to which the City will lease to the Authority certain real property belonging to the City, together with the buildings located or to be located thereon (collectively the "Leased Property," as more particularly described in Exhibit A hereto); and

WHEREAS, concurrently with the execution of this Site Lease, the Authority and the City are entering into a Lease, dated as of June 1, 2008 (the "Lease"), pursuant to which the Authority will lease the Leased Property back to the City; and

WHEREAS, in connection with the financing of the Project, the Authority will issue its \$[Principal Amount] Lease Revenue Bonds, Series 2008A (Various Capital Improvement Projects) (the "Series 2008A Bonds") pursuant to that certain Indenture, dated as of June 1, 2008 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee thereunder; and

WHEREAS, the City is authorized by law to lease the Leased Property and the Project is necessary and proper for public purposes; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Site Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Site Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

Section 1. Lease of the Leased Property. The City hereby leases to the Authority and the Authority hereby rents and hires from the City, on the terms and conditions hereinafter set forth, the Leased Property. Capitalized terms used herein and not otherwise defined herein shall have the meanings given such terms pursuant to the Lease and if such terms

are not defined in the Lease, then such terms shall have the meanings given such terms pursuant to the Indenture.

Section 2. Term. (a) The term of this Site Lease shall commence on the Closing Date and shall end on the Expiry Date, unless such term is extended or sooner terminated as hereinafter provided. If prior to the Expiry Date, all rental payable under the Lease shall have been paid, or provision therefor has been made in accordance with Article X of the Indenture, the term of this Site Lease shall end the first Business Day thereafter or ten (10) days after written notice by the Authority to the City in accordance with Section 14 hereof to the effect that the rental payable under the Lease is fully paid and all Series 2008A Bonds have been fully paid, whichever is earlier.

(b) The term of this Site Lease shall not be extended beyond the Expiry Date except as otherwise provided in the Lease.

Section 3. Rent. The Authority shall pay to the City an advance rent of \$1.00 as full consideration for this Site Lease over its term. The Authority hereby waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Authority of the Leased Property or portion thereof as a result of material damage, destruction or condemnation.

Section 4. Purpose. The Authority shall use the Leased Property solely for the purpose of subleasing the same to the City and the City hereby leases the Leased Property to the Authority expressly on said condition; provided, however, that in the event of default by the City under the Lease, the Authority may exercise the remedies provided in the Lease.

Section 5. Owner in Fee. The City covenants that it has the right to lease the Leased Property hereunder free and clear of all liens, claims or encumbrances which affect marketability.

Section 6. Assignments and Subleases. The Authority may not, without the prior written consent of the City, assign its rights hereunder or sublet the Leased Property, except as contemplated by the Lease and as security for the Series 2008A Bonds.

Section 7. Right of Entry. The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Section 8. Termination. The Authority agrees, upon the termination hereof, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the term hereunder, reasonable wear and tear excepted, and agrees that any additions, improvements or alterations to the Leased Property at the time of the termination hereof shall remain thereon and title thereto shall vest in the City.

Section 9. Default. In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms hereof, which default

continues for thirty (30) days following notice and demand for correction thereof to the Authority, the City may exercise any and all remedies granted by law, except that no merger of this Site Lease and the Lease shall be deemed to occur as a result thereof; provided, prior to the Expiry Date, the City shall have no power to terminate this Site Lease by reason of any default on the part of the Authority, if such termination would affect or impair any assignment of the Lease then in effect between the Authority and the Trustee.

Section 10. Quiet Enjoyment. The Authority at all times during the term hereof shall peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the City.

Section 11. Waiver of Personal Liability. All liabilities hereunder on the part of the Authority shall be solely corporate liabilities of the Authority, and the City hereby releases each and every director, officer and employee of the Authority of and from any personal or individual liability hereunder. No director, officer or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder for anything done or omitted to be done by the Authority hereunder.

Section 12. Eminent Domain. In the event the whole or any portion of the Leased Property is taken by eminent domain proceedings, any interests of the Authority shall be recognized in accordance with Section 8.01 of the Lease.

Section 13. Pledge of Revenues. The City hereby irrevocably pledges all Revenues (as defined in the Indenture) and amounts on deposit in the Costs of Issuance Fund and the Construction Fund established pursuant to Section 3.01 of the Indenture and held by the Office of the Auditor and Comptroller for the benefit of the Owners, subject to the provisions of the Indenture.

Section 14. Observance and Performance under the Indenture. The City hereby agrees and covenants that during the term hereof and so long as the Indenture remains in effect, it will observe and perform the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Indenture. The City shall use its reasonable best efforts to repay (whether by refunding or otherwise) the Series 2008A Bond on or before June __, 2010.

Section 15. Amendments. This Site Lease may be amended for the purpose of effecting a Substitution or Removal, as further described in the Lease.

Section 16. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of this Site Lease shall be valid and enforceable to the fullest extent permitted by law.

() **Section 17. Notices.** All written notices to be given shall be given by first class mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the City:

The City of San Diego
Department of Finance
202 C Street
San Diego, California 92101
Attention: Chief Financial Officer

If to the Authority:

Public Facilities Financing Authority of the City of San Diego
c/o City of San Diego
Department of Finance
202 C Street
San Diego, California 92101
Attention: Chief Financial Officer

Section 18. Section Headings. All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

Section 19. Execution in Counterparts. This Site Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

Section 20. Governing Law. This Site Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

000546

IN WITNESS WHEREOF, the parties hereto have executed and entered into this Site Lease by their officers thereunder duly authorized as of the day and year first above written.

THE CITY OF SAN DIEGO

By: _____
Chief Financial Officer

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM AND LEGALITY:

MICHAEL J. AGUIRRE, City Attorney

By: _____
Mark D. Blake
Chief Deputy City Attorney

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: _____
Chair

ATTEST:

By: _____
Secretary

APPROVED AS TO FORM AND LEGALITY:

MICHAEL J. AGUIRRE, General Counsel

By: _____
Mark D. Blake
Deputy General Counsel

PARCEL A (Library Site): (APN 433-101-09)

Parcel 9 of Parcel Map No. 18354, in the City of San Diego, County of San Diego, State of California, filed in the Office of the County Recorder of San Diego County on October 8, 1999 as Document No. 1999-0683291.

PARCEL B (Access and Utility Easement):

A non-exclusive easement, appurtenant to the real property described in Parcel A above, for pedestrian and vehicular ingress and egress and for utility purposes, over that portion of Parcel 8 of Parcel Map No. 18354 that is depicted on the Parcel Map as "Private Access and Utility Easement" and is more particularly described as:

A portion of Parcel 8 of Parcel Map No. 18354, in the City of San Diego, County of San Diego, State of California, filed in the Office of the County Recorder of San Diego County on October 8, 1999 as Document No. 1999-0683291, being more particularly described as:

Beginning at the most Westerly corner of said Parcel 9, said point also being a Southwesterly corner of Parcel 8 of said Parcel Map No. 18354; thence North 77°38'45" West, 74.00 feet; thence North 12°21'16" East, 62.05 feet; thence North 48°46' 28" East, 259.85 feet; thence South 41°42'34" East, 46.04feet; thence South 48°46' 28" West, 189.71 feet to the beginning of a tangent 24.00 foot radius curve, concave Southeasterly, a radial bearing to said point bears North 41°13' 32" West; thence Southwesterly along said curve through a central angle of 36°25'12", 15.26 feet; thence tangent to said curve, South 12°21'16" West, 76.91 feet to the point of beginning.

000548

LEGAL DESCRIPTION

Lots "A" through "I" inclusive in block 22 of Las Alturas No. 5, in the city of San Diego, County of San Diego, State of California, according to map thereof No. 2053 filed in the office of the County Recorder of San Diego County, August 17, 1927.

APNs 548-040-18 through 26 inclusive

000549

LEGAL DESCRIPTION

Parcel A: APN 319-170-33

Lot 14 of Scripps Ranch Business Park Phase III, in the city of San Diego, County of San Diego, State of California, according to map thereof No. 12130 filed in the office of the County Recorder of San Diego County July 27, 1988.

Parcel A1:

An easement and right-of-way for sewer, water, gas, electric, telephone and cable T.V. purposes over, under, along and across that portion of lot 2 of said map no. 12130 lying within the area delineated and designated on said map as "23 foot easement for sewer, water, gas, electric, telephone and cable T.V."

Parcel B: APN 319-160-19 (portion)

All that portion of Parcel 1-D described in the deed to the City of San Diego recorded November 17, 1959 as Instrument No. 237786, in book 7996, page 566 of Official Records lying Southerly of the Northerly line of the Southerly 40 feet of Scripps Lake Drive, as set aside and dedicated to public use by Resolution No. 224184, adopted on August 6, 1979 and recorded December 15, 1982 as File No. 82-383515 of Official Records and shown on map of Scripps Ranch Business Park Phase III, in the city of San Diego, County of San Diego, State of California, according to map thereof No. 12130 filed in the office of the County Recorder of San Diego County July 27, 1988 and lying Northwesterly of the Northwesterly boundary of lot 14 of said Map no. 12130, being a portion of the North half of the Southeast quarter of section 32, township 14 South, range 2 West, San Bernardino meridian, in the City of San Diego, County of San Diego, State of California, according to Official Plat Thereof.

000551

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2008A
(VARIOUS CAPITAL IMPROVEMENT PROJECTS)**

Log of Outstanding Items as of March 17, 2008

Lease			
<i>Section</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Cover Page	\$(Principal Amount]	UW/City	Will be completed at Pricing
Article VI - Page 11	... the term of this Lease shall be extended until the first Business Day following the day the rental payable hereunder shall be fully paid and all Series 2008A Bonds shall be fully paid and defeased, except that the term of this Lease shall in no event be extended beyond June __, 2023.	UW/City	Will be completed at Pricing
Article VI - Page 15	Any abatement of rental payments pursuant to this Section shall not be considered an event of default as defined in Article X hereof, but shall result in the extension of the Expiry Date by a period equal to the period of abatement for which Base Rental Payment has not been paid in full (but in no event later than June __, 2023),	UW/City	Will be completed at Pricing
Signature Page	JPA and City Signatures	JPA, City	At Closing

000553

() RECORDING REQUESTED BY AND)
 WHEN RECORDED MAIL TO:)
)
 Attn: Arto C. Becker, Esq.)
 Hawkins Delafield & Wood LLP)
 333 South Grand Avenue, Suite 3650)
 Los Angeles, California 90071)

(Space above for Recorder's Use)

This document is recorded for the benefit of the City of San Diego and the recording is fee-exempt under Section 6103 of the California Government Code.

LEASE

by and between the

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

and

THE CITY OF SAN DIEGO

relating to the

\$(Principal Amount]
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2008A
(VARIOUS CAPITAL IMPROVEMENT PROJECTS)

Dated as of June 1, 2008

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LEASE

This Lease (the "Lease"), dated as of June 1, 2008, by and between the PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), and THE CITY OF SAN DIEGO, a municipal corporation duly organized and existing under its charter and laws of the State of California (the "City");

WITNESSETH:

WHEREAS, the City and the Authority desire to finance real property and improvements (the "Project") to certain facilities of the City, as more specifically described in Exhibit A attached hereto; and

WHEREAS, the City has determined that it is in the public interest, convenience and welfare and for the common benefits of the inhabitants of the City that the City finance the Project through the delivery of this Lease and the issuance and delivery of lease revenue bonds of the Authority secured by Base Rental Payments under this Lease; and

WHEREAS, to finance the Project, the City proposes to enter into a Site Lease, dated as of June 1, 2008 (the "Site Lease"), with the Authority, pursuant to which the City will lease to the Authority certain real property belonging to the City, together with the buildings located or to be located thereon and certain equipment located thereon (collectively, the "Leased Property," as more particularly described in Exhibit B hereto); and

WHEREAS, the Authority now proposes to sublease the Leased Property to the City and the City proposes to lease the Leased Property from the Authority pursuant to this Lease; and

WHEREAS, the City is authorized by law to lease the Leased Property and the Leased Property is necessary and proper for public purposes; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Lease do exist, have happened and have been performed in a regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Lease.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes hereof and of any amendment hereof have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All references herein to "Sections" and other subdivisions hereof are to the corresponding Sections or subdivisions of this Lease as originally executed; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Lease as a whole and not to any particular Section or subdivision hereof. All other capitalized terms used herein without definition shall have the meanings as set forth in the Indenture.

Additional Rental

"Additional Rental" means all amounts payable by the City pursuant to Section 6.01(b) hereof.

Agency

"Agency" means the Redevelopment Agency of the City of San Diego, a public body, corporate and politic, duly organized and existing under and by virtue of the laws of the State of California.

Assignment Agreement

"Assignment Agreement" means that certain Assignment Agreement, dated as of June 1, 2008, by and between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Authority

"Authority" means the Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers entity created by the City and the Agency pursuant to California Government Code Sections 6500 et seq. and the Joint Exercise of Power Agreement by and between the City and the Agency.

Base Rental Payments

"Base Rental Payments" means all amounts payable by the City as Base Rental pursuant to Section 6.01(a) hereof.

City

"City" means the City of San Diego, a municipal corporation duly organized and existing under its charter and the laws of the State.

() Claim

“Claim” shall have the meaning contained in Section 10.03 hereof.

Closing Date

“Closing Date” shall mean the date the Series 2008A Bonds are issued and delivered to the Purchaser.

Code

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

Damaged Improvement

“Damaged Improvement” shall have the meaning contained in Section 8.01(a) hereof.

Default

“Default” shall have the meaning contained in Section 11.01 hereof.

Event of Default

“Event of Default” shall have the meaning contained in Section 11.01 hereof.

Expiry Date

“Expiry Date” June 1, 2018, except as extended or sooner terminated pursuant to Sections 4.01 or 6.04 hereof.

Financing Documents

“Financing Documents” means this Lease, the Site Lease, the Indenture and the Assignment Agreement.

Indenture

“Indenture” means that certain Indenture, dated as of June 1, 2008, by and between the Authority and the Trustee, providing for the terms and conditions of the Series 2008A Bonds, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

() Insurance Consultant

“Insurance Consultant” means an individual or firm retained by the City as an independent insurance consultant, experienced in the field of risk management.

()

Lease

“Lease” means this Lease, dated as of June 1, 2008, by and between the Authority and the City, as initially executed and as it may from time to time be amended or supplemented in accordance with the terms hereof.

Lease Year

“Lease Year” means the period from June 2 to and including the following June 1, during the term hereof; except that the initial Lease Year means the period from the Closing Date to and including June 1, 2009.

Leased Property

“Leased Property” means that certain personal and real property, which is the subject of the Site Lease comprising those parcels described in Exhibit B, as the same may be changed from time to time by Removal or Substitution as provided in Section 3.06 hereof.

Net Proceeds

“Net Proceeds” means, collectively, the net proceeds of any insurance or condemnation award resulting from any damage or destruction of any portion of the Leased Property payable in accordance with Section 8.01 hereof.

Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the City.

Owner

“Owner” means the registered owner of any Outstanding Series 2008A Bond.

Permitted Encumbrances

“Permitted Encumbrances” means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to Section 7.02, permit to remain unpaid; (ii) the Site Lease, this Lease and the Assignment Agreement, as each may be amended from time to time; (iii) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (iv) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the Closing Date; and (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established

()

() following the date of recordation of this Lease and to which the Authority and the City consent in writing.

Project

“Project” means the real property and capital improvements and equipment to be acquired, delivered, installed, equipped, or constructed with proceeds of the Series 2008A Bonds made available to the City and all additions, betterments, extensions and improvements thereto, all as further described in Exhibit A hereto.

Purchaser

“Purchaser” means Bank of America, N.A.

Removal

“Removal” means the release of all or a portion of the Leased Property from the leasehold hereof as provided in Section 3.06 hereof.

Site Lease

“Site Lease” means that certain Site Lease, dated as of June 1, 2008, by and between the City and the Authority under which the City leases the Leased Property to the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

Substitution

“Substitution” means the release of all or a portion of the Leased Property from the leasehold hereof, and the lease of substituted real property and improvements hereunder as provided in Section 3.06 hereof.

Trustee

“Trustee” means Wells Fargo Bank, National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, the trustee acting in its capacity as such under the Indenture, or any successor as therein provided.

Section 1.02. Construction. The singular form of any word used herein, including the terms defined in Section 1.01 hereof, shall include the plural, and vice versa, unless the context otherwise requires. The use herein of a pronoun of any gender shall include correlative words of the other genders. All references herein to “Sections” and other subdivisions hereof are to the corresponding Sections or subdivisions of this Lease as originally executed; and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Lease as a whole and not to any particular Section or subdivision hereof.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.01. Representations, Covenants and Warranties of the City. The City makes the following representations, covenants and warranties to the Authority as of the date of the execution and delivery of this Lease:

(a) The City is a municipal corporation and chartered city duly organized and validly existing under the laws of the State of California.

(b) The laws of the State of California authorize the City to enter into the Site Lease and this Lease and to enter into the transactions contemplated by and to carry out its obligations under each of the aforesaid agreements, and by proper action the City has duly authorized and executed each of the aforesaid agreements in accordance with the laws of the State of California.

(c) The representatives of the City executing the Site Lease and this Lease have been fully authorized to execute the same pursuant to a resolution duly adopted by the City Council of the City.

(d) The Site Lease and this Lease have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms.

(e) The execution and delivery of the Site Lease and this Lease, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease, or the financial condition, assets, properties or operations of the City.

(f) No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Site Lease and this Lease, or the consummation of any transactions herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(g) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or

() the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Site Lease and this Lease, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Site Lease and this Lease, or the financial conditions, assets, properties or operations of the City.

(h) The lease and use of the Leased Property by the City is essential to the purposes of the City.

Section 2.02. Representations, Covenants and Warranties of the Authority.

The Authority makes the following representations, covenants and warranties to the City as the bases for its undertakings herein contained:

(a) The Authority is a joint exercise of powers authority duly organized, existing and in good standing under and by virtue of the laws of the State of California; has power to enter into this Lease, the Site Lease and the Indenture; is possessed of full power to own and hold real and personal property and to lease and sell the same; and has duly authorized the execution and delivery of all of the aforesaid agreements and such agreements constitute the legal, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms.

(b) The Authority will not pledge the Base Rental Payments or other amounts derived from the Leased Property and from its other rights under this Lease, and will not encumber the Leased Property, except as provided under the terms of this Lease and the Indenture.

(c) The representatives of the Authority executing this Lease, the Site Lease and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.

(d) This Lease, the Site Lease and the Indenture have been authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

(e) The execution and delivery of this Lease, the Site Lease and the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contractor other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would

materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease and the Indenture or the financial condition, assets, properties or operations of the Authority.

(f) No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Lease, the Site Lease and the Indenture or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(g) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Lease, the Site Lease or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Lease, the Site Lease or the Indenture or the financial conditions, assets, properties or operations of the Authority.

(h) Except as provided in this Lease, and in the Indenture, the Authority will not assign this Lease, its right to receive Base Rental Payments from the City, or its duties and obligations under this Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in this Section.

ARTICLE III

THE LEASED PROPERTY

Section 3.01. Lease of the Leased Property. The Authority hereby leases to the City, and the City hereby rents and hires from the Authority, the Leased Property on the conditions and terms hereinafter set forth. The City hereby agrees and covenants that during the term hereof, except as hereinafter provided, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated hereby and so as to permit the Authority to carry out its agreements and covenants contained herein and in the Indenture, and the City hereby further agrees and covenants that during the term hereof that it will not abandon or vacate the Leased Property.

Section 3.02. Quiet Enjoyment. The parties hereto mutually covenant that the City, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained herein and is not in default hereunder, shall at all times during the term hereof peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

Section 3.03. Right of Entry and Inspection. The Authority shall have the right to enter the Leased Property and inspect the Leased Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations hereunder and for all other lawful purposes.

Section 3.04. Prohibition Against Encumbrance or Sale. The City and the Authority will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Leased Property, except Permitted Encumbrances. The City and the Authority will not sell or otherwise dispose of the Leased Property or any property essential to the proper operation of the Leased Property, except as otherwise provided herein. Notwithstanding anything to the contrary herein contained, the City may assign, transfer or sublease any and all of the Leased Property or its other rights hereunder, provided that (i) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Authority hereunder; (ii) no such assignment, transfer or sublease shall relieve the City of any of its obligations hereunder; (iii) the assignment, transfer or sublease shall not result in a breach of any covenant of the City contained in any other Section hereof; (iv) any such assignment, transfer or sublease shall by its terms expressly provide that the fair rental value of the Leased Property for all purposes shall be first allocated to this Lease, as the same may be amended from time to time before or after any such assignment, transfer or sublease; and (v) no such assignment, transfer or sublease shall confer upon the parties thereto (other than the City) any remedy which allows reentry upon the Leased Property.

Section 3.05. Liens. In the event the City shall at any time during the term hereof cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the City shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens against the Leased Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City shall forthwith pay and discharge or cause to be paid and discharged such judgment.

Section 3.06. Substitution or Removal of Leased Property. (a) The City and the Authority may amend this Lease to substitute and/or add real property and/or improvements (the "Substituted Property") for the existing Leased Property or to remove real property (including undivided interests therein) or improvements from the definition of Leased Property, upon compliance with all of the conditions set forth in subsection (b). After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected shall be released from the leasehold hereunder.

(b) No Substitution or Removal shall take place hereunder until the City delivers to the Authority and the Trustee the following:

(1) a Certificate of the City containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) an Opinion of Counsel to the effect that the amendments hereto in connection with such Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the City and the Authority enforceable in accordance with their terms;

(3) in the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the Base Rental Payments for the Substituted Property bears to the total Base Rental Payments (as shown in a Certificate of the City), insuring the leasehold estate of the Authority under the Site Lease and the City under this Lease in the Substituted Property (except any portion thereof which is not real property) subject to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Series 2008A Bonds;

(4) in the event of a Substitution, an opinion of the City Attorney of the City to the effect that the exceptions, if any, contained in the title insurance policy referred to in (3) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the City for the purposes of leasing or using the Substituted Property;

(5) an Opinion of Counsel that the Substitution or Removal will not, in and of itself, cause the interest on the Series 2008A Bonds to be includable in gross income of the Owners thereof for federal income tax purposes; and

(6) a Certificate of the City stating that the City has complied with the covenants contained in clauses (1) and (2) of Section 7.03 hereof with respect to the Substituted Property.

Section 3.07. Acquisition and Construction of the Project; Components. The City hereby agrees to cause the Project to be constructed, acquired and installed as agent of the Authority. The City shall enter into contracts and provide for, as agent of the Authority, the complete construction, acquisition and installation of the Project. The City hereby agrees that it will cause the construction, acquisition and installation of the Project to be diligently performed.

ARTICLE IV

TERM OF THE LEASE

Section 4.01. Commencement of the Lease. (a) The term of this Lease shall commence on the Closing Date, and shall end on the Expiry Date, unless the Expiry Date is extended or is sooner terminated as hereinafter provided. If on the Expiry Date, the stated rental payable hereunder shall not be fully paid and all Series 2008A Bonds shall not be fully paid and defeased, or if the rental payable hereunder shall have been abated at any time or for any reason, then the term of this Lease shall be extended until the first Business Day following the day the

rental payable hereunder shall be fully paid and all Series 2008A Bonds shall be fully paid and defeased, except that the term of this Lease shall in no event be extended beyond June __, 2023. If prior to the Expiry Date, the rental payable hereunder shall be fully paid and all Series 2008A Bonds shall have been fully paid or defeased in accordance with Article X of the Indenture, the term of this Lease shall end the first Business Day thereafter or ten (10) days after written notice by the City to the Authority to the effect that the rental payable hereunder shall be fully paid and all Series 2008A Bonds have been fully paid, whichever is earlier, and this Lease shall thereupon terminate.

(b) The City shall take possession of the Leased Property on the Closing Date, and the obligation of the City to pay Base Rental Payments and Additional Rental shall commence on the Closing Date, subject to the limitations set forth in Section 6.01 hereof.

ARTICLE V

USE OF PROCEEDS; TAX COVENANTS

Section 5.01. Use of Proceeds. The parties hereto agree that the proceeds of the Series 2008A Bonds will be used to pay the costs of issuance of the Series 2008A Bonds and to construct and complete the Project.

Section 5.02. Acquisition of Substitute Project Components. (a) Moneys deposited into the Construction Fund shall be applied to acquire, deliver, install, equip, remodel or construct the Project described in Exhibit A hereto; provided however, that the City shall have the right to substitute the Project or any component thereof scheduled to be acquired, delivered, installed, equipped, remodeled or constructed for another Project or, in the event the actual cost of construction or acquisition of the Project is less than that estimated by the City as of the date hereof, to add a new component of the Project (or any part thereof) in an amount equal to the difference between such estimated and actual cost of construction or acquisition, whether or not listed in Exhibit A, and not yet acquired, by delivering or causing to be delivered to the Authority a bill of sale or other evidence of cost therefor. Any substitution or addition of a Project component shall be identified on the books of the City. Upon completion of all Project components and the delivery of the Certificate of Completion in accordance with the Indenture, in the event the Project components were changed from those set forth in Exhibit A attached hereto, the City shall amend or supplement this Lease and revise Exhibit A hereto describing the final Project.

(b) All third party costs and expenses incurred in connection with such addition or substitution shall be borne by the City. Notwithstanding the addition or substitution of any new Project, (1) there shall be no reduction in the Base Rental Payments due from the City hereunder as a result of such addition or substitution and (2) any Project substituted under this Section shall have a useful life no shorter than that of the original Project hereunder.

Section 5.03. Tax Covenants. (a) The City will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Series 2008A Bonds pursuant to Section 103 of the Code and specifically the City will not directly or indirectly use or make any use of the proceeds

of the Series 2008A Bonds or any other funds of the City or take or omit to take any action that would cause the Series 2008A Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code, as applicable. The City, with respect to the proceeds of the Series 2008A Bonds and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; provided, however, that if the City shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Series 2008A Bonds pursuant to Section 103 of the Code, as applicable, the City may rely conclusively on such opinion in complying with the provisions hereof. In the event that at any time the City is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise the City shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(b) The City hereby specifically agrees to ensure that the following requirements are met:

(1) No more than 5% of the Leased Property (determined both on the basis of space and cost) shall be used in the trade or business of one or more non-governmental persons (not including the portion of the proceeds properly allocable to facilities expected to be used by an organization described in Section 501(c)(3) of the Code), except to the extent contemplated by the Tax Certificate.

(2) The City will not invest or allow to be invested proceeds of this Lease or the Series 2008A Bonds at a yield in excess of the yield on the Series 2008A Bonds, except to the extent allowed under the Tax Certificate.

(3) The City will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

ARTICLE VI

RENTAL PAYMENTS

Section 6.01. Rental Payments. The City agrees to pay to the Authority, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Leased Property, the following amounts at the following times:

(a) Base Rental. The City shall pay to the Authority rental hereunder as Base Rental Payments with respect to the Leased Property at the times and in the amounts set forth in the Base Rental Payment Schedule attached hereto as Exhibit C and incorporated herein. The obligation of the City to pay Base Rental Payments (and Additional Rental) shall commence on the Closing Date. Notwithstanding the foregoing, the City shall deposit with the Authority not later than the third Business Day preceding each Interest Payment Date and Principal Payment Date, the Base Rental Payment due on such Interest Payment Date or Principal Payment Date, as

() the case may be, and the same shall be held by the Authority as security for the Base Rental Payments due on such dates.

(b) Additional Rental. The City shall also pay, as rental hereunder in addition to the Base Rental Payments, to the Authority or the Trustee, as hereinafter provided, such amounts in each year as shall be required for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of this Lease or the assignment hereof pursuant to the Assignment Agreement, the Indenture (including any fees, costs and expenses under Section 2.02(d) of the Indenture) or the respective interests in the Leased Property and the lease of the Leased Property by the Authority to the City hereunder, *including but not limited to all fees, costs and expenses and all administrative costs of the Authority relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Series 2008A Bonds), fees of auditors, accountants, attorneys or engineers, insurance premiums, rebate amounts payable to the United States pursuant to the Tax Certificate, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Series 2008A Bonds or the Indenture.*

(1) The foregoing Additional Rental shall be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority, the Trustee or the Trustee on behalf of the Authority for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the City not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the City for such amounts.

(2) The Authority may issue bonds and may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Authority shall be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. Any taxes levied against the Authority with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property shall be included in the Additional Rental payable hereunder. Any taxes levied against the Authority with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing bonds of the Authority or any trust agreement or indenture other than the Indenture, and any other expenses directly attributable to any facilities other than the Leased Property shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Rental payable hereunder. Any expenses of the Authority not directly attributable to any particular project of the Authority shall be equitably allocated among all such projects, including the Leased Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate

of the Authority in making any determination that costs are payable as Additional Rental hereunder, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

(c) Consideration. Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of this Lease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the City for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property.

(d) Payment; Credit. Each installment of Base Rental Payments payable hereunder shall be paid in lawful money of the United States of America to or upon the order of the Authority at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Trustee shall designate. Any such installment of rental accruing hereunder which shall not be paid when due shall remain due and payable until received by the Trustee and to the extent permitted by law shall bear simple interest at the rate of ten percent per annum from the date when the same is due hereunder until the same shall be paid. Notwithstanding any dispute between the City and the Authority, the City shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the City was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the City, be credited against subsequent rental payments due hereunder or be refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this Section 6.01(d) on any date shall be reduced to the extent of amounts on deposit on such date in the Interest Account or the Principal Account held under the Indenture.

Section 6.02. Annual Budgets. The City covenants to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under this Lease in its operating budget for each fiscal year commencing after the date hereof (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Rental payments. In addition, to the extent permitted by law, the City covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments under this Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the City's budget.

Section 6.03. Application of Rental Payments. All rental payments received shall be applied first to the Base Rental Payments due hereunder (including any prepayment premium components) and thereafter to all Additional Rental due hereunder, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default hereunder.

Section 6.04. Rental Abatement. (a) Except to the extent of (i) amounts held by the Trustee in the Interest Account, Principal Account or the Reserve Account of the Payment Fund, (ii) amounts received in respect of use and occupancy insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2008A Bonds.

during any period in which, by reason of material damage, destruction, title defect or condemnation there is substantial interference with the use and possession by the City of any portion of the Leased Property, rental payments due hereunder with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the City shall assign, transfer or sublease any or all of the Leased Property or other rights hereunder, as permitted by Section 3.04 hereof, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Leased Property shall first be allocated to this Lease as provided in clause (iv) of Section 3.04 hereof. Any abatement of rental payments pursuant to this Section shall not be considered an event of default as defined in Article X hereof, but shall result in the extension of the Expiry Date by a period equal to the period of abatement for which Base Rental Payment has not been paid in full (but in no event later than June __, 2023), and Base Rental Payment for such extension period shall be equal to the unpaid Base Rental payments during the period of abatement but without interest thereon. The City waives the benefits of California Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate this Lease by virtue of any such interference and this Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

(b) In the event that rental is abated, in whole or in part, pursuant to this Section due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the Net Proceeds, if any, the City agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

Section 6.05. Prepayment of Base Rental Payments. (a) Subject to the provisions of Section 8.01 hereof, the City may prepay, from Net Proceeds received by it pursuant to Section 8.01 hereof, all or any portion of the components of Base Rental Payments relating to any portion of the Leased Property then unpaid on any date, in whole or in part, in an aggregate principal amount of at least \$1,000,000 and integral multiples of \$50,000 in excess thereof so that the aggregate annual amounts of Base Rental Payments which shall be payable after such prepayment date shall as nearly as possible increase or decrease to no greater extent from year to year than did annual Base Rental Payments before giving effect to such prepayment of Base Rental Payments, with respect to the portion of the Leased Property so prepaid.

(b) The City may prepay, from any source of available moneys and in accordance with the provisions of Section 2.03(c) of the Indenture, all or any part (in an integral multiple of an Authorized Denomination) of the Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments under this Lease which shall be payable after such prepayment date shall as nearly as possible increase or decrease to no greater extent from year to year than did annual Base Rental Payments before giving effect to such prepayment of

Base Rental Payments, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

(c) At least 20 days before any action pursuant to this Section, the City shall give written notice to the Authority and the Trustee describing such event specifying the principal amount to be prepaid and the prepayment date, which date shall be not less than 14 days from the date such written notice is given to the Authority and the Trustee.

Section 6.06. Obligation to Make Rental Payments. (a) The agreements and covenants on the part of the City contained herein shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the agreements and covenants contained herein agreed to be carried out and performed by the City.

THE OBLIGATION OF THE CITY OF SAN DIEGO TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2008A BONDS NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

ARTICLE VII

MAINTENANCE; TAXES; INSURANCE AND OTHER CHARGES

Section 7.01. Maintenance of the Leased Property by the City. The City agrees that, at all times during the term hereof, it will, at its own cost and expense, maintain, preserve and keep the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority shall have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

Section 7.02. Taxes, Other Governmental Charges and Utility Charges. The parties hereto contemplate that the Leased Property will be used for public purposes by the City and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the City or the Authority of the Leased Property is found to be subject to taxation in any form, the City will pay during the term hereof, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation,

maintenance, use, occupancy and upkeep of the Leased Property; provided, however, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as this Lease is in effect.

Section 7.03. Insurance. (a) The City shall procure or cause to be procured and maintain or cause to be maintained throughout the term hereof for the Leased Property insurance against the following risks in the following respective amounts:

(1) Insurance against loss or damage to the Leased Property caused by fire and lightning but exclusive of earthquake, with an extended coverage endorsement covering the risk of vandalism and malicious mischief, sprinkler system leakage and boiler loss. The insurance described in this paragraph (1) shall be in an amount equal to the lesser of (A) replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Property; or (B) the remaining unpaid principal amount of Bonds Outstanding plus the amount of use and occupancy coverage described in paragraph (2) below, except that such insurance may be subject to deductible clauses of not to exceed the first one hundred thousand dollars (\$100,000) of the amount of any one loss. Insurance described in this paragraph (1) and in paragraph (2) below may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property insured by the City; provided that the amount of coverage available thereunder shall be at least equal to the cumulative replacement values of the Leased Property and any other such property which is the subject of a lease, installment purchase or other financing arrangement ("Financed Property") for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") plus the amount of use and occupancy coverage required by paragraph (2) below; in the event the City elects to obtain insurance for the Leased Property and one or more additional parcels of real property and the amount of the insurance proceeds available to pay all claims thereunder is not sufficient to cover the replacement values of all such properties, then any such proceeds shall be used first to rebuild or repair the Leased Property and all Financed Properties or to repay all Obligations and the Series 2008A Bonds.

(2) Use and occupancy insurance against loss, total or partial, of the use and occupancy of the Leased Property as a result of any of the hazards covered by the insurance required by paragraph (1) hereof, in an amount sufficient to pay the Base Rental Payments attributable to the Leased Property for a twenty-four month period; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments; provided further, that such insurance may be part of a policy permitted under paragraph (1) above, which policy may provide that insurance proceeds paid for coverages contemplated by paragraph (1) above may reduce amounts payable under coverage required by this paragraph (2), and vice-versa; the City may obtain use and occupancy insurance covering the Leased Property as well as other parcels of property owned by the City, provided that the cumulative amount thereof is at least equal to the cumulative amount of use and occupancy insurance required by this paragraph (2) and any agreements relating to Financed Property in respect of which Obligations are outstanding.

(b) The City shall adjust all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, may compromise any and all claims thereunder and shall cause the deposit of the Net Proceeds with the Trustee for application as provided herein or in the Indenture. The Trustee shall not be responsible for the sufficiency of any insurance herein required. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City.

(c) Any insurance policy issued pursuant to paragraph (a)(1) above shall be so written or endorsed as to make losses, if any, payable to the City, the Authority and the Trustee as their respective interests may appear and the Net Proceeds of the insurance required by paragraph (a)(1) above shall be applied as provided in Section 8.01 hereof. The net proceeds, if any, of the insurance policy described in paragraph (a)(1) above shall, to the extent that such proceeds are paid on account of loss or damage to the Leased Property, be payable to the Trustee and deposited in the Insurance Proceeds and Condemnation Awards Fund and applied as described in the Indenture. The net proceeds, if any, of the insurance policy described in paragraph (a)(2) above shall, to the extent that such proceeds relate to the use and occupancy of the Leased Property, be payable to the Trustee and deposited in the Payment Fund. Each insurance policy provided for in the Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority and the Trustee without first giving written notice thereof to the Authority and the Trustee at least 60 days in advance of such intended cancellation or modification. If the insurance carrier cannot include this notice provision, the policy shall require the insurance company to so notify the Authority and the Trustee.

(d) By the date each year that is 30 days after the effective date of the insurance policies, the City's insurance consultant shall certify that the type of insurance required by this Section 7.03 is in place, subject to subsequent confirmation of the certificates and endorsements. The City shall file a certificate with the Authority and the Trustee not later than nine months following the effective date of the insurance policies each year, commencing in 2008, certifying that the insurance required by this Section is in full force and effect and that the Trustee and the Authority are named as loss payees on each insurance policy which this Lease requires to be so endorsed.

Section 7.04. Advances. In the event the City shall fail to maintain the full insurance coverage required by Section 7.03 hereof or shall fail to keep the Leased Property in good repair and operating condition, the Authority may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority shall become Additional Rental, which amounts the City agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Section 7.05. Title Insurance. The City covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal amount represented by the Series 2008A Bonds. Such

policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the Authority under the Site Lease and the City under this Lease in the Leased Property subject only to such exceptions as do not materially affect the City's right to the use and occupancy of the Leased Property.

ARTICLE VIII

DAMAGE, DESTRUCTION, TITLE DEFECT AND CONDEMNATION

Section 8.01. Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. (a) If prior to the termination of the term hereof (i) the Leased Property or any improvements in or on the Leased Property are damaged (each of which is hereinafter called "Damaged Improvements") by a peril covered by a policy of insurance described in Section 7.03(1) hereof (an "Insured Peril"); or (ii) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the City or the Authority in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City and the Authority will cause the Net Proceeds of any insurance claim (other than rental interruption insurance pursuant to Section 7.03(a)(2) hereof which shall be directly transferred to the Trustee for deposit in the Payment Fund pursuant to Section 7.03 hereof) or condemnation award to be transferred to the Trustee for deposit in the Insurance Proceeds and Condemnation Awards Fund established pursuant to Section 7.08 of the Indenture and applied as follows:

(1) Net Proceeds Exceeding Costs. Within 120 days of the date of said Insured Peril, the City shall obtain a written estimate(s) of the (i) cost of the repair, replacement and reconstruction of the Damaged Improvements (collectively referred to herein as the "Reconstruction"); and (ii) Net Proceeds available to pay such costs. Copies of such estimate(s) shall be made available to the Trustee at the Trustee's request. If the 120 day period is insufficient to obtain said estimates, the period shall be reasonably extended by the Mayor or Chief Financial Officer of the City. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the estimated costs of Reconstruction, the Damaged Improvements shall be repaired, replaced and reconstructed to the same or better quality as existed before the damage occurred. The City shall commence and manage the Reconstruction and shall complete the Reconstruction as soon as reasonably possible after the occurrence of such damage. Any balance of Net Proceeds remaining after the Reconstruction has been completed shall be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem Outstanding Series 2008A Bonds in the manner provided by Section 3.03(a).

(2) Costs Exceeding Net Proceeds. If the estimated costs of Reconstruction exceed the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property), the City, in its sole discretion, may elect to budget and appropriate to the Reconstruction the amount of such excess, whether the same is greater or less than the estimated excess, and

to manage the Reconstruction as set forth in Section 8.01(a)(5) hereof. The City shall exercise this election by written notice thereof delivered to the Trustee within 30 days after the City obtains said written estimate(s).

(3) Net Proceeds Sufficient to Redeem All Bonds. If the City does not exercise the election to reconstruct pursuant to Section 8.01(a)(2) hereof and Net Proceeds are at least sufficient to redeem all Outstanding Series 2008A Bonds pursuant to Section 3.03(a) of the Indenture, such Net Proceeds shall be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem all Outstanding Series 2008A Bonds in the manner provided by Section 3.03(a) of the Indenture. If the Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) exceed the amount necessary to redeem all Outstanding Series 2008A Bonds, the City shall be entitled to the amount of proceeds remaining after redemption of all Outstanding Series 2008A Bonds ("Excess Proceeds") and shall have the option (i) to distribute the Excess Proceeds to the Reconstruction and to manage the Reconstruction pursuant to Section 8.01(a)(5) hereof; or (ii) if required by law or if the City so elects, to demolish any remaining improvements on the site and remove all debris from the site.

(4) Net Proceeds Insufficient to Redeem All Bonds. If the City does not exercise the election to reconstruct pursuant to Section 8.01(a)(2) hereof and Net Proceeds are insufficient to redeem all Outstanding Series 2008A Bonds pursuant to Section 3.03(a) of the Indenture, the City, in its sole discretion, may elect to budget and appropriate funds to cause the redemption of the remaining Outstanding Series 2008A Bonds and the Net Proceeds, together with such funds, shall be transferred to the Trustee with directions to apply the proceeds to the Redemption Account established under the Indenture to redeem all Outstanding Series 2008A Bonds in the manner provided by Section 3.03(a) of the Indenture; provided, that if the City elects not to appropriate funds for the redemption of the remaining Outstanding Series 2008A Bonds, the City shall apply Net Proceeds (not including proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property) to the Reconstruction. If the City, in its sole discretion, elects to budget or appropriate funds for the redemption of the remaining Outstanding Series 2008A Bonds, the City shall transfer such funds to the Trustee for deposit in the Redemption Account established pursuant to the Indenture.

(5) Management of Reconstruction. If the Leased Property or any part thereof becomes Damaged Improvements, the City shall promptly cause, manage and supervise the Reconstruction. Nothing in this Section 8.01 shall be construed to preclude the City from agreeing to issue a joint contract for, or otherwise cooperating in, the Reconstruction of any of the Damaged Improvements.

(b) The proceeds of any policy of title insurance or condemnation award received by the Trustee in respect of the Leased Property shall be applied in accordance with Section 5.08(c) of the Indenture.

ARTICLE IX

DISCLAIMER OF WARRANTIES;
USE OF THE LEASED PROPERTY

Section 9.01. Disclaimer of Warranties. THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE CITY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event shall the Authority or its assigns be liable for any incidental, indirect, special or consequential damage in connection with or arising out of this Lease or the existence, furnishing, functioning or the City's use of the Leased Property as provided hereby.

Section 9.02. Use of the Leased Property. The City will not use, operate or maintain the Leased Property in violation of any applicable law or in a manner contrary to that contemplated hereby. The City shall provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; provided, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the City adversely affect the estate of the Authority in and to the Leased Property or its interest or rights hereunder.

ARTICLE X

ASSIGNMENT AND INDEMNIFICATION

Section 10.01. Assignment by Authority. The parties understand that certain of the rights of the Authority hereunder will be assigned to the Trustee pursuant to the Assignment Agreement and accordingly the City agrees to make all payments due hereunder to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach hereof or otherwise) that the City may from time to time have against the Authority. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Authority or the Trustee to protect their interests in the Leased Property during the term hereof.

Section 10.02. Assignment by City. This Lease and the interest of the City in the Leased Property may not be assigned or encumbered by the City except as permitted by Section 3.04 hereof.

Section 10.03. Indemnification. The City shall, to the full extent permitted by law, indemnify, protect, hold harmless, save and keep harmless the Authority and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses as incurred, penalties and interest (collectively, a "Claim"), arising out of or as the result of entering into the Financing Documents, and the acquisition, construction, reconstruction, operation, use, condition, or possession of the Leased Property or the Project and any portion thereof, including:

(a) any accident in connection with the operation, use, condition or possession of the Leased Property or the Project and any portion thereof, resulting in damage to property or injury to or death to any person including, without limitation, any Claim alleging latent and other defects, whether or not discoverable by the City or the Authority;

(b) patent, trademark or copyright infringement as a consequence of the operation of the Leased Property and any portion thereof;

(c) strict liability in tort as a consequence of the operation of the Leased Property and any portion thereof;

(d) any environmental law or regulation as a consequence of the operation of the Leased Property;

(e) delivery, storage or release of hazardous materials at the Leased Property or any part thereof, or the contamination of property arising therefrom; and

(f) the Trustee's acceptance or administration of the trusts imposed by the Indenture, including performance of the Trustee's duties, to the extent provided herein.

ARTICLE XI

DEFAULT

Section 11.01. Default. (a) The following events shall be "Events of Default" under this Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in this Lease, any one or more of the following events:

(1) the City shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to Section 6.01(a) hereof, provided, that the failure to deposit any Base Rental Payments abated pursuant to Section 6.04 hereof shall not constitute an Event of Default;

(2) subject to the provisions of subsection (c) of this section, the City shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to Section 6.01(b) hereof; or

(3) the City shall breach any other terms, covenants or conditions contained herein or in the Indenture, and shall fail to remedy any such breach with all reasonable

dispatch within a period of 30 days after written notice thereof from the Authority to the City; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Authority shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within such period and is diligently pursued until the default is corrected.

(b) Upon the happening of any Event of Default, the Authority or its assignee, subject to the terms of this Lease, may exercise only those remedies granted to it pursuant to law or hereunder. The Authority or its assignee, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate this Lease in the manner hereinafter provided on account of default by the City, notwithstanding any retaking of possession or re-letting of the Leased Property as hereinafter provided for in subparagraph (2), and to retake possession of the Leased Property. In the event of such termination, the City agrees to surrender immediately possession of the Leased Property, without let or hindrance, and to pay the Authority or its assignee all damages recoverable at law that the Authority or its assignee may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Leased Property. Neither notice to pay rent nor to deliver up possession of the Leased Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of obtaining possession of the Leased Property nor the appointment of a receiver upon initiative of the Authority or its assignee to protect the Authority's or its assignee's interest under this Lease shall of itself operate to terminate this Lease, and no termination of this Lease on account of default by the City shall be or become effective by operation of law or acts of the parties hereto, unless and until the Authority or its assignee shall have given written notice to the City of the election on the part of the Authority or its assignee to terminate this Lease.

(2) Without terminating this Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision hereof to be kept or performed by the City, and/or (ii) to exercise any and all rights to retake possession of the Leased Property. In the event the Authority or its assignee does not elect to terminate this Lease in the manner provided for in subparagraph (1) hereof, the City shall remain liable and agrees to keep or perform all covenants and conditions herein contained to be kept or performed by the City and, to pay the rent to the end of the term of this Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent hereunder (without acceleration), notwithstanding the fact that the Authority or its assignee may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental herein specified and notwithstanding any retaking of possession of the Leased Property by the Authority or its assignee or suit in unlawful detainer, or otherwise, brought by the Authority or its assignee for the purpose of obtaining possession of the Leased Property. Should the Authority or its assignee elect to retake possession of the Leased Property as herein provided, the City hereby irrevocably

appoints the Authority or its assignee as the agent and attorney-in-fact of the City to re-let the Leased Property, or any items thereof, from time to time, either in the Authority's or its assignee's name or otherwise, upon such terms and conditions and for such use and period as the Authority or its assignee may deem advisable and the City hereby indemnifies and agrees to save harmless the Authority or its assignee from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any retaking of possession of and re-letting of the Leased Property by the Authority or its assignee or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease constitute full and sufficient notice of the right of the Authority or its assignee to re-let the Leased Property in the event of such reentry without effecting a surrender of this Lease, and further agrees that no acts of the Authority or its assignee in effecting such re-letting shall constitute a surrender or termination of this Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the City, the right to terminate this Lease shall vest in the Authority or its assignee to be effected in the sole and exclusive manner provided for in subparagraph (1). The City further waives the right to rental obtained by the Authority or its assignee in excess of the rental herein specified and hereby conveys and releases such excess to the Authority or its assignee as compensation to the Authority or its assignee for its services in re-letting the Leased Property or any items thereof.

The City hereby waives any and all claims for damages caused or which may be caused by the Authority or its assignee in taking possession of the Leased Property as herein provided and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be on or about the Leased Property.

(c) The Authority expressly waives the right to receive any amount from the City pursuant to Section 1951.2(a)(3) of the California Civil Code.

(d) In addition to any default resulting from breach by the City of any agreement, condition, covenant or term hereof, if (i) the City's interest herein or any part thereof be assigned, sublet or transferred without the written consent of the Authority (except as otherwise permitted by Section 3.04 hereof), either voluntarily or by operation of law; or (ii) the City or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the City shall make a general or any assignment for the benefit of its creditors; or (iii) the City shall abandon or vacate the Leased Property or any portion thereof (except as permitted by Section 3.04 hereof); then in each and every such case an Event of Default shall be deemed to have occurred hereunder.

(e) The City and Authority and its successors and assigns shall honor the exclusive rights of the City hereunder to use the Leased Facility, subject to the exercise of any and all rights to retake possession of the Leased Property upon the happening of any Event of Default pursuant to Section 11.01(b) hereof.

ARTICLE XII

MISCELLANEOUS

Section 12.01. Notices. All written notices to be given hereunder shall be given by first class mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the Authority:

Public Facilities Financing Authority of the City of San Diego
c/o City of San Diego
Department of Finance
202 C Street
San Diego, California 92101
Attention: Chief Financial Officer

If to the City:

City of San Diego
Department of Finance
202 C Street
San Diego, California 92101
Attention: Chief Financial Officer

If to the Trustee:

Wells Fargo Bank, National Association
707 Wilshire Boulevard
Los Angeles, California 90017
Attention: Account Administrator

Section 12.02. Binding Effect. This Lease shall inure to the benefit of and shall be binding upon the Authority and the City and their respective successors and assigns.

Section 12.03. Third Party Beneficiaries. The Trustee is hereby designated as a third party beneficiary hereunder for the purpose of enforcing any of the rights hereunder assigned to the Trustee under the Assignment Agreement and for the purpose of the Trustee enforcing its own rights.

Section 12.04. Net Lease. This Lease is a triple net lease. It is the purpose and intent of the Authority and the City that lease payments hereunder shall be absolutely net to the Authority so that this Lease shall yield to the Authority the lease payments, free of any charges,

assessments or impositions of any kind charged, assessed or imposed on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the City except as herein specifically otherwise provided. The Authority shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability hereunder except as herein expressly set forth, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Leased Property which may arise or become due during the term of this Lease shall be paid by the City.

Section 12.05. Amendments to the Lease. (a) This Lease may be amended in writing as may be mutually agreed by the Authority and the City, subject to the written approval of the Trustee; provided, however, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Series 2008A Bonds Outstanding, and provided further, that no such amendment shall (i) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Series 2008A Bond so affected; or (ii) reduce the percentage of the value of the Series 2008A Bonds Outstanding, the consent of the Owners of which is required for the execution of any amendment hereof.

(b) This Lease and the rights and obligations of the Authority and the City hereunder may also be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed herein and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved herein to or conferred herein on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Owners;

(2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Authority or the City may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the Owners;

(3) to effect a Substitution or Removal in accordance with Section 3.06 hereof;

(4) to effect a substitution of the Project in accordance with Section 5.02 hereof;

(5) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

) Section 12.06. Discharge of City. Upon the payment to the Owners of all Outstanding Series 2008A Bonds in accordance with Section 11.01 of the Indenture, all of the obligations of the City hereunder shall thereupon cease, terminate and become void and shall be discharged and satisfied; provided, however, if any Outstanding Series 2008A Bonds shall be deemed to have been paid by virtue of a deposit contemplated by Section 11.01(d) of the Indenture, then the obligation of the City hereunder to make Base Rental Payments shall continue in full force and effect until all Outstanding Series 2008A Bonds have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by Section 11.01(d) of the Indenture, and that shall be the sole source of satisfaction of the City's obligation to make Base Rental Payments. The time period for giving notice by the City to the Authority and the Trustee specified in the third paragraph of Section 6.04 hereof shall not apply incident to the payment to the Owners of all Outstanding Series 2008A Bonds in accordance with Section 9.01, including Section 9.01(d), of the Indenture.

Section 12.07. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 12.08. California Law. This Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

Section 12.09. Section Headings. All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

Section 12.10. Execution in Counterparts. This Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed and entered into this Lease by their officers thereunto duly authorized as of the day and year first written above.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By _____
Chair

ATTEST:

By _____
Secretary

APPROVED AS TO FORM AND LEGALITY:

MICHAEL J. AGUIRRE, General Counsel

By: _____
Mark D. Blake
Deputy General Counsel

THE CITY OF SAN DIEGO

By _____
Chief Financial Officer

ATTEST:

By _____
City Clerk

APPROVED AS TO FORM AND LEGALITY:

MICHAEL J. AGUIRRE, General Counsel

By: _____
Mark D. Blake
Chief Deputy City Attorney

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CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

STATE OF CALIFORNIA)
COUNTY OF SAN DIEGO) ss.

On _____, before me, _____
Date Name and Title of Officer (e.g. "Jane Doe, Notary Public")

Personally appeared _____
Name of Signer(s)

personally known to me - OR -

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY(IES) CLAIMED BY SIGNER(S)

DESCRIPTION OF ATTACHED DOCUMENT

- Individual
Corporate Officer

Title(s)

Title or Type of Document

- Partner(s) Limited
General

- Attorney-In-Fact
Trustee(s)
Guardian/Conservator
Other:

Number of Pages

Date of Document

Signer is Representing:
Name of Person(s) or Entity(ies)

Signer(s) Other Than Named Above

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

STATE OF CALIFORNIA)
COUNTY OF SAN DIEGO) ss.

On _____, before me, _____
Date Name and Title of Officer (e.g. "Jane Doe, Notary Public")

Personally appeared _____
Name of Signer(s)

personally known to me - OR -

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY(IES) CLAIMED BY SIGNER(S)

DESCRIPTION OF ATTACHED DOCUMENT

- Individual
Corporate Officer

Title(s)

Title or Type of Document

- Partner(s) Limited
General

- Attorney-In-Fact
Trustee(s)
Guardian/Conservator
Other:

Number of Pages

Date of Document

Signer is Representing:
Name of Person(s) or Entity(ies)

Signer(s) Other Than Named Above

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CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

STATE OF CALIFORNIA)
COUNTY OF SAN DIEGO) ss.

On _____, before me, _____
Date Name and Title of Officer (e.g. "Jane Doe, Notary Public")

Personally appeared _____
Name of Signer(s)

personally known to me - OR -

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY(IES) CLAIMED BY SIGNER(S)

DESCRIPTION OF ATTACHED DOCUMENT

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Corporate Officer

Title(s)

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- Partner(s) Limited
General

- Attorney-In-Fact
Trustee(s)
Guardian/Conservator
Other:

Number of Pages

Date of Document

Signer is Representing:
Name of Person(s) or Entity(ies)

Signer(s) Other Than Named Above

EXHIBIT A

DESCRIPTION OF PROJECT

The Project to be financed consists of the construction, renovation, improvement and equipping of public buildings of The City of San Diego, facilities for the production, storage, transmission, or treatment of local streets, roads and bridges, all located within boundaries of The City of San Diego, California (including but not limited to staff time, capital and technology infrastructure related thereto), and all necessary legal, financial, architectural, environmental, engineering and contingent costs incurred in connection therewith, including but not limited to the following:

Fiscal Year 2008-09 Financed Deferred Maintenance Projects	Total Project Estimate	
	Fiscal Year 2008	Fiscal Year 2009
STREETS AND STORM DRAINS	\$24,750,000	\$52,500,000
Street Projects	\$18,500,000	\$35,000,000
Street Resurfacing - 30.8 miles	18,500,000	
Street Resurfacing - 46.0 miles		27,500,000
Concrete Street Projects		7,500,000
Sidewalk/Concrete Projects	\$ 2,050,000	\$ 7,500,000
Sidewalk Repair Projects - 1,016 locations	2,050,000	
Sidewalk Repair Projects - 1,300 locations		7,500,000
Storm Drain Projects	\$ 4,200,000	\$10,000,000
Rowena 54" CMP Replacement	600,000	
6th Avenue 12" CMP Replacement	475,000	
Ransom/Darwin 42" CMP Replacement	700,000	
La Playa 30" RCP Outfall	450,000	
Campus Point 18" CMP Replacement	800,000	
Glen Curtis Surface Drain	825,000	
Ingulf Place 36" CMP Replacement	350,000	
Torrey Pines Road Slope		950,000
Riviera (3663)		150,000
Scripps Storm Drain		50,000
Via Rialto		400,000
Mission Bay Interceptor System		1,400,000
Fontaine		750,000
Wenrich		400,000
Boat Depot		500,000
Alvarado Creek/Fairmont		500,000
Carmel Country Road		250,000
Via Alicante		200,000

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Beardsley Street		600,000
National Ave		600,000
Avocado Place		500,000
Neptune		400,000
Garnet Ave (2550)		200,000
Arcadia Dr.		600,000
Arista St		400,000
Talbot St		500,000
La Cresta Dr		400,000
Arden Way		250,000
FACILITIES	\$ 0	\$25,000,000
Roofing Projects		\$ 3,925,000
Fire Station 17 (Chamoun Ave)		200,000
Fire Station 09 (La Jolla)		150,000
Fire Station 38 (Mira Mesa)		150,000
Northeastern Police Station		150,000
Mid City Police Station		150,000
Southeastern Police Station		150,000
Western Police Station		150,000
Eastern Police Station		150,000
Southern Police Station		150,000
Traffic Division		100,000
Ocean Beach Library		150,000
Mission Hills Library		75,000
Casa Del Prado		1,500,000
SD Municipal Gym		300,000
North Clairemont Rec Center		250,000
La Jolla Senior Center		75,000
Mt. Hope Cemetary		75,000
Public Safety Facilities		\$ 8,600,000
FS 5, Hillcrest - Design		750,000
Children's Pool LG Tower - Design & Construction		\$ 2,800,000
La Jolla Shores LG Tower - Construction		3,800,000
FS 22, Point Loma - Design		100,000
FS 17, City Heights - Design		750,000
Police Range Refurbishment - Design		400,000
Parking Lot Resurfacing (Overlay)		\$ 4,530,000
Fire Station 27 (Clairmont Drive)		30,000
Fire Station 32 (Paradise Hills)		50,000
Various Recreation Centers		100,000
Various Senior Centers		300,000
Western Police Station		50,000

000590

Balboa Park Parking Lots	2,500,000
Mission Bay Parking Lots	1,500,000
HVAC Projects	\$ 3,250,000
Police Mid-City Communications Center	200,000
North Park Library	250,000
Casa del Prado	150,000
Museum of Man	300,000
Pacific Beach Library	550,000
Casa de Balboa	1,300,000
Fire Communications Center	500,000
Plumbing Projects	\$ 1,360,000
Police Headquarters	200,000
Spanish Village	660,000
Fire Station 25 (Bay Park)	75,000
Fire Station 36 (Clairemont)	75,000
Main Library	350,000
Electrical Projects	\$ 950,000
Fire Station 24 (Carmel Valley)	25,000
Lifeguard Headquarters	75,000
Police Headquarters	650,000
Southeastern Police Station	200,000
Elevator Modernization Projects	\$ 1,385,000
Casa de Balboa	100,000
Casa Del Prado	100,000
Old Globe Theater	100,000
Main Library	560,000
City Concourse	200,000
San Diego Aerospace Museum	100,000
Museum of Art	50,000
Museum of Man	25,000
Tierasanta Recreation Center	25,000
Rancho Bernardo Library	25,000
Development Review Center	100,000
Windows / Doors	\$ 1,000,000
Police Headquarters (reseal windows)	750,000
Police Headquarters (replace front doors)	100,000
Lifeguard Headquarters (replace garage doors)	100,000
Fire Station 16 La Jolla (apparatus door)	50,000
TOTAL	\$24,750,000 \$77,500,000

000591

EXHIBIT B
DESCRIPTION OF LEASED PROPERTY

See attached.

000592

LEGAL DESCRIPTION

All of Block 5 of Culverwell's Addition, in the city of San Diego, County of San Diego, State of California, according to map thereof No. 143 filed in the office of the County Recorder of San Diego County June 3, 1870.

Together with the alley in said Block 5 as vacated and closed to public use by resolution No. R-261484, adopted on September 10, 1984 and recorded September 24, 1984 as File No. 84-360181.

Also together with all of Block 178 of Horton's Addition, in the city of San Diego, County of San Diego, State of California, according to map thereof on file in the office of the County Recorder of San Diego County.

APN 534-351-05

000593

LEGAL DESCRIPTION

) [23.1 acres; The City purchased 23.1 acres between 1957, 1958 and 1969 for public service yard. The property is improved with numerous operations buildings and related facilities, the majority of which were built in the 1960s.]

LEGAL DESCRIPTION

PARCEL A (Library Site): (APN 433-101-09)

Parcel 9 of Parcel Map No. 18354, in the City of San Diego, County of San Diego, State of California, filed in the Office of the County Recorder of San Diego County on October 8, 1999 as Document No. 1999-0683291.

PARCEL B (Access and Utility Easement):

A non-exclusive easement, appurtenant to the real property described in Parcel A above, for pedestrian and vehicular ingress and egress and for utility purposes, over that portion of Parcel 8 of Parcel Map No. 18354 that is depicted on the Parcel Map as "Private Access and Utility Easement" and is more particularly described as:

A portion of Parcel 8 of Parcel Map No. 18354, in the City of San Diego, County of San Diego, State of California, filed in the Office of the County Recorder of San Diego County on October 8, 1999 as Document No. 1999-0683291, being more particularly described as:

Beginning at the most Westerly corner of said Parcel 9, said point also being a Southwesterly corner of Parcel 8 of said Parcel Map No. 18354; thence North $77^{\circ}38'45''$ West, 74.00 feet; thence North $12^{\circ}21'16''$ East, 62.05 feet; thence North $48^{\circ}46'28''$ East, 259.85 feet; thence South $41^{\circ}42'34''$ East, 46.04 feet; thence South $48^{\circ}46'28''$ West, 189.71 feet to the beginning of a tangent 24.00 foot radius curve, concave Southeasterly, a radial bearing to said point bears North $41^{\circ}13'32''$ West; thence Southwesterly along said curve through a central angle of $36^{\circ}25'12''$, 15.26 feet; thence tangent to said curve, South $12^{\circ}21'16''$ West, 76.91 feet to the point of beginning.

000595

LEGAL DESCRIPTION

)
Lots "A" through "I" inclusive in block 22 of Las Alturas No. 5, in the city of San Diego, County of San Diego, State of California, according to map thereof No. 2053 filed in the office of the County Recorder of San Diego County, August 17, 1927.

APNs 548-040-18 through 26 inclusive

000596

LEGAL DESCRIPTION

Parcel A: APN 319-170-33

Lot 14 of Scripps Ranch Business Park Phase III, in the city of San Diego, County of San Diego, State of California, according to map thereof No. 12130 filed in the office of the County Recorder of San Diego County July 27, 1988.

Parcel A1:

An easement and right-of-way for sewer, water, gas, electric, telephone and cable T.V. purposes over, under, along and across that portion of lot 2 of said map no. 12130 lying within the area delineated and designated on said map as "23 foot easement for sewer, water, gas, electric, telephone and cable T.V."

Parcel B: APN 319-160-19 (portion)

All that portion of Parcel 1-D described in the deed to the City of San Diego recorded November 17, 1959 as Instrument No. 237786, in book 7996, page 566 of Official Records lying Southerly of the Northerly line of the Southerly 40 feet of Scripps Lake Drive, as set aside and dedicated to public use by Resolution No. 224184, adopted on August 6, 1979 and recorded December 15, 1982 as File No. 82-383515 of Official Records and shown on map of Scripps Ranch Business Park Phase III, in the city of San Diego, County of San Diego, State of California, according to map thereof No. 12130 filed in the office of the County Recorder of San Diego County July 27, 1988 and lying *Northwesterly of the Northwesterly boundary of lot 14 of said Map no. 12130*, being a portion of the North half of the Southeast quarter of section 32, township 14 South, range 2 West, San Bernardino meridian, in the City of San Diego, County of San Diego, State of California, according to Official Plat Thereof.

009597

EXHIBIT C

BASE RENTAL PAYMENT SCHEDULE

Payment Date

Amount

000599

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
LEASE REVENUE BONDS, SERIES 2008A
(VARIOUS CAPITAL IMPROVEMENT PROJECTS)**

Log of Outstanding Items as of March 17, 2008

Assignment Agreement

<i>Section</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Cover	[Principal Amount]	UW/City	Will be completed at Pricing
Signature Page	City Signatures, JPA, and Trustee	City, JPA, Trustee	At Closing