

EXHIBIT A

[FORM OF BOND]

No. R-1

PRINCIPAL AMOUNT: \$ _____

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
[SUBORDINATED] WATER REVENUE BOND, REFUNDING SERIES 2009A
(PAYABLE SOLELY FROM
[SUBORDINATED] INSTALLMENT PAYMENTS SECURED BY
NET SYSTEM REVENUES OF THE WATER UTILITY FUND)

<u>Maturity</u> <u>Date</u>	<u>Dated</u> <u>Date</u>	<u>Interest Rate</u>	<u>CUSIP</u>
August 1, 20__			

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ MILLION DOLLARS

The PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a California joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter referred to) to the registered owner specified above or registered assigns on the maturity date specified above (subject to any right of prior redemption provided for) the principal amount specified above, together with interest thereon at the interest rate specified above in accordance with the Indenture (herein defined) on each Interest Payment Date.

Payment of principal of and interest on this Bond shall be made to the Owner by check or wire transfer, as provided in the Indenture, sent by first class mail by the Trustee to the Owner of this Bond as of the applicable Record Date at the address shown on the books required to be kept by the Trustee pursuant to the provisions of the Indenture. The Bonds are subject to optional redemption as described in the Indenture.

This Bond is one of a duly authorized issue of the Authority's "Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, (Payable Solely From [Subordinated] Installment Payments Secured by Net System Revenues of the Water Utility Fund)" further designated Refunding Series 2009A (the "Bonds") in the aggregate principal amount of _____ Million Dollars (\$ _____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates), and is issued under and pursuant to the provisions of an Indenture, dated as of January 1, 2009 (the "Indenture"), between the Authority and Wells Fargo Bank, National

Association, as trustee (the "Trustee") (copies of which are on file at the office of the Secretary of the Authority and at the Corporate Trust Office of the Trustee). Capitalized terms used in this Bond and not defined herein shall have the meaning given those terms in the Indenture.

The Bonds are issued to provide funds to finance the cost of constructing and improving the Water System of the City and to prepay or redeem certain outstanding obligations of the City. The Bonds are limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from the revenues derived from 2009A [Subordinated] Installment Payments made by the City (the "Revenues") pursuant to an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as supplemented by a 2009A Supplement to Master Installment Purchase Agreement, dated as of January 1, 2009 (collectively, the "Agreement"), each entered into between the San Diego Facilities and Equipment Leasing Corporation and the City, as amended and supplemented from time to time. [Such installment payments are classified as Subordinated Obligations under the Agreement and thus are subordinate in right of payment to Parity Obligations of the City under the Agreement which may be outstanding from time to time and heretofore or hereafter incurred.] All the Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of the Revenues, which Revenues shall be held in trust for the security and payment of the interest on, principal of and redemption premiums, if any, on the Bonds as provided in the Indenture.

The Bonds shall be limited obligations of the Authority and shall be payable solely from the Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). The Bonds do not constitute a debt or liability of the Authority, the City or of the State of California and neither the faith and credit of the Authority, the City nor of the State of California are pledged to the payment of the principal of or interest on the Bonds. The Authority has no taxing power.

Reference is hereby made to the Agreement and the Indenture and any and all amendments thereof and supplements thereto for a description of the terms under which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues, and the rights of the registered owners of the Bonds. All of the terms of the Indenture are hereby incorporated herein and constitute a contract between the Authority and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents. The Owner shall have recourse to all of the provisions of the Indenture and shall be bound by all of the terms and conditions thereof.

Reference is made to the Indenture for a description of the funds pledged and to the rights, limitations of rights, duties, obligations and immunities of the Authority, the Trustee and the Owner of this Bond, including restrictions on the rights of the Owner to bring suit. Definitions given or referred to in the Indenture are incorporated herein by this reference. The Indenture may be amended to the extent and in the manner provided therein.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been manually executed and dated by the Trustee.

It is hereby certified that all acts and proceedings required by law necessary to make this Bond, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal limited obligation of the Authority have been done and taken, and have been in all respects duly authorized.

IN WITNESS WHEREOF, the Public Facilities Financing Authority of the City of San Diego has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Chair or Vice-Chair and attested to by the facsimile signature of its Secretary, and has caused this Bond to be dated as of the Dated Date set forth above.

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

By: _____
Chair or Vice-Chair

Attest:

Secretary

CERTIFICATE OF AUTHENTICATION AND
REGISTRATION

This is one of the Bonds described in the within-mentioned Indenture which has been authenticated and registered on _____, 2009.

WELLS FARGO BANK,
NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer

EXHIBIT B

FORM OF REQUISITION REQUEST

PAID DATE:

TO: Comptroller, City of San Diego

DATE:

RE: Costs of Issuance Account
Requisition N^o

Pursuant to Section 5.03(a) of the Indenture, dated as of January 1, 2009 (the "Indenture"), by and between the Public Facilities Financing Authority (the "Authority") and Wells Fargo Bank, National Association (the "Trustee"), the City of San Diego (the "City"), on behalf of the Authority, instructs you to disburse from the Costs of Issuance Account established within the Acquisition Fund established under the Indenture, for the payment of Costs of Issuance relating to the issuance of the Public Facilities Financing Authority of the City of San Diego [Subordinated] Water Revenue Bonds, Refunding Series 2009A (Payable Solely From [Subordinated] Installment Payments Secured By Net System Revenues of the Water Utility Fund) in the sum(s) specified in Schedule I attached hereto, for payment made or due to the individuals, firms or corporations whose names and addresses appear therein, for payment of the specified costs and specified purposes. In respect to each payment, the City on behalf of the Authority certifies that:

- (a) the obligations in the stated amounts have been incurred by the City on behalf of itself or the Authority and each item thereof is a proper charge against the Costs of Issuance Account and has not been the basis of a previous disbursement; and
- (b) a bill or statement of account for each obligation accompanies this Requisition.

Capitalized terms used in this Requisition, and not otherwise defined, shall have the meanings attributable to them in the Indenture.

THE CITY OF SAN DIEGO

By: _____
Authorized Officer

REQUISITION SCHEDULE I

PURPOSE

PAYEE

AMOUNT

EXHIBIT C

TRUSTEE'S FEE LETTER

707 Wilshire Blvd
17th Floor
Los Angeles, CA 90017
213-614-3351 - t
213-614-3355 - f
john.deleray@wellsfargo.com



May 30, 2008 (Revised 09.15.08)

Ms. Anne Neumayr
Montague, DeRose and Associates
2801 Townsgate Road, Suite 221
Westlake Village, CA 91361
neumayr@montaguederose.com

**Re: City of San Diego Water System
Water Revenue Bond Issue, Series of 2008**

Dear Ms. Neumayr:

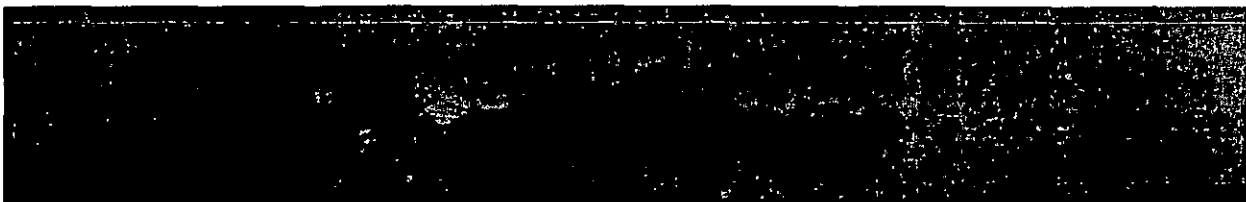
Thank you for inviting us to propose our services as Trustee and Escrow Agent for the above referenced financing. Offering the clout of the Nation's 5th Largest Bank, Wells Fargo Bank, N.A. has the highest possible credit rating, "Aaa," from Moody's Investors Service and the highest credit rating given to a U.S. bank, "AAA," from Standard & Poor's Ratings Services.

Since our entrance into the California marketplace in April 1999, Wells Fargo has redefined the way trust services are viewed by California entities. Once considered just a commodity, Wells Fargo has proven that trust services are truly about *SERVICE*. Our service includes market responsiveness, innovative products and continual investment in state-of-the-art technology. Wells Fargo delivers a full range of Trustee services including Master Trustee, Indenture Trustee, Issuing Agent, Paying Agent, Fiscal Agent, Registrar, Tender Agent, Transfer Agent, Auction Agent and Escrow Agent services.

Attached is our formal response to the City's RFP. As per Section IV of the RFP, we take no exceptions to the City's request for proposals to provide trustee and escrow agent services.

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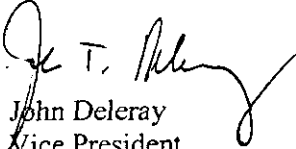
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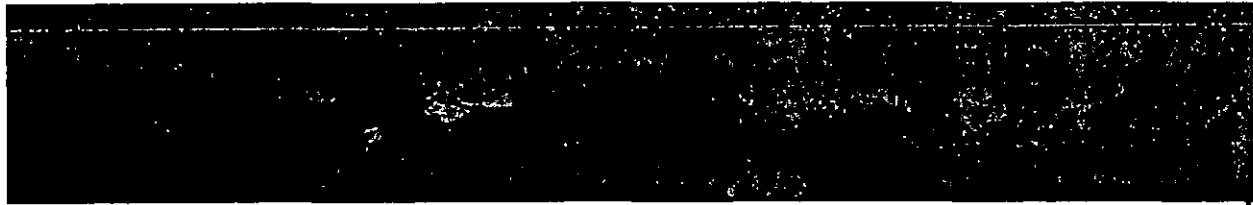
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We are very interested in working with you on this and other financings, as I hope our response indicates. If you have any questions or need any additional information, please do not hesitate to contact me at (213) 614-3351. Thank you again for considering Wells Fargo Corporate Trust.

Sincerely,



John Deleray
Vice President
Director of CA Sales & Marketing



Response to Request for Proposal

Minimum Capital Requirement:

Wells Fargo is a qualified Trustee and Escrow Agent as per Section III, Paragraph I of the RFP.

As of March 31, 2008, Wells Fargo reported \$595 billion in assets, total shareholder equity of \$48.15 billion (capital), surplus (additional paid in capital) of \$8.25 billion, and retained earnings of \$39.86 billion (undivided profits).

1. Briefly describe your commitment to the California public finance market. How long have you maintained corporate/municipal trust offices in California? What are your institution's plans for growth or contraction in the corporate/municipal trust business? Please disclose any current plans to merge, sell your trust services division, or assign trust accounts to another institution.

Wells Fargo is very committed to the California public finance marketplace. In 1999 we opened our first California Corporate Trust office in Los Angeles quickly followed by a second location in San Francisco. Since that time we have grown to a combined staff of 48 experienced professionals. We currently provide trustee services for over 2,200 California originated bond issues representing over 141.5 Billion in Par Value. Of this number we administer 39 City of San Diego issues representing 2.643 Billion in Par Value. We also administer five County of San Diego issues representing 178.5 Billion in Par Value.

Above and beyond the public finance marketplace, Wells Fargo Bank believes in being a good corporate citizen with the communities we serve. We employ 1,306 people in the City of San Diego from 69 different offices. In 2007 the Wells Fargo Foundation made donations to 229 San Diego area charitable organizations totaling approximately \$1.6 million.

Though occasionally, we evaluate the purchase of an existing book of business from a trustee exiting the business, we have chosen to invest our funds in our technology and our people. With this combination, our clients enjoy a sense of stability, knowing that when they call, they will get questions answered quickly by individuals that know the history of their accounts. This business model is applied across the nation and assists in continual growth and maintaining a top three trustee ranking year after year. At this time, we are not aware of any plans of growth or contraction that would cause an impact on our ability to provide superior customer service to the City. We are unaware if any merger or sales plans for our division and have no intention of re-assigning our administrative duties elsewhere.

2. Provide a description of your trust department's organization and how you would administer the day-to-day management of the City's program with respect to staffing, management, client communications, and reporting. Specify office locations for each principal Trustee function and Escrow Agent function. If multiple offices are involved, identify key assigned personnel including office location, background, experience, etc.

Wells Fargo Corporate Trust Services is a cornerstone division of Wells Fargo Bank, N.A. We are one of the nation's leading corporate trust organizations having served the securities markets since 1934. Presently, we have 32 Corporate Trust offices throughout the United States.

Our model of account team management assigned to specific accounts is the basis, for superior customer service. The **Primary Relationship Manager** has overall responsibility to administer the accounts, negotiate the financing documents, direct the account set-up, monitor the day-to-day administration of the

accounts, and assist with customer inquiries. The **Secondary Relationship Manager** will be available as a backup to the Primary Relationship Manager.

The **Relationship Specialist** handles the daily account processing, executes draws, GIC and other transactions, investment trades, and assures liquid funds are “swept” into an overnight investment sweep vehicle. By ensuring that the staff members are well trained to handle a variety of accounts and have experience executing all types of transactions, at least one of the individuals will always be available as necessary to review documents associated with your trustee.

Rob Schneider, who has been assigned as Primary Account Manager for the City of San Diego, has over 21 years of Corporate Trust experience. He joined Wells Fargo in 2000. Rob is familiar with essentially all types of municipal financings and has been charged with maintaining some of our biggest trust relationships. His customers include the City of Rancho Cucamonga, the City of Oxnard, and the City of Palm Desert.

Rob is assisted by Jane Thang (Account Representative) and backed-up by Kathryn Valdivia (Vice President – over 15 years of Corporate Trust experience). Together, Rob, Jane and Kathy form an outstanding Account Team capable of working on any type of bond issue – regardless of complexity.

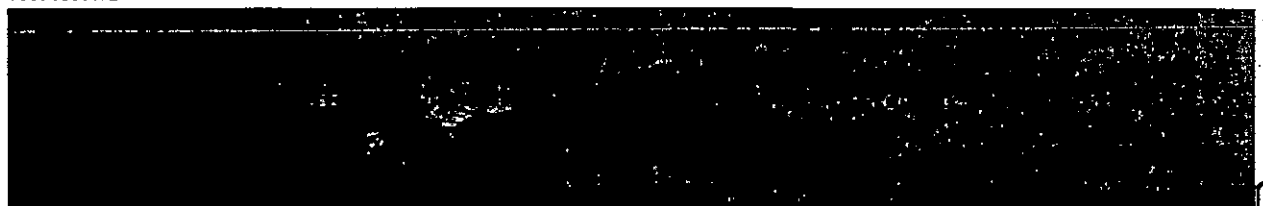
Primary Relationship Manager	Relationship Specialist	Secondary Relationship Manager
Rob Schneider 707 Wilshire Blvd, 17 th Floor Los Angeles, CA 90017 Phone: 213-614-3353 Fax: 213-614-3355 Robert.Schneider@wellsfargo.com	Jane Thang 707 Wilshire Blvd, 17 th Floor Los Angeles, CA 90017 Phone: 213-614-5464 Fax: 213-614-3355 Jane.T.Thang@wellsfargo.com	Kathryn Valdivia 707 Wilshire Blvd, 17 th Floor Los Angeles, CA 90017 Phone: 213-614-3350 Fax: 213-614-3355 Kathryne.M.Valdivia@wellsfargo.com

3. Does your institution offer any enhanced communication tools to provide trust account information electronically? Can the City download this information into Excel spreadsheets for use? Can the City elect to receive monthly statements solely in electronic format so that it does not receive any hard copies? Do you have the capacity to transmit Electronic Bank Statements (EBS) in MT940 format? Do you have any additional reporting features which may be available to assist the City in reporting of funds held with the Trustee?

The City currently has access to its Trust account information via the internet— Barry Gamboa has such access via Trust Portfolio Reporting as described below. We commit to being the most technologically advanced corporate trust provider in the industry. In Corporate Trust alone, we have a staff of over 100 systems and technology professionals. These professionals collaborate with relationship managers to create new tools for delivery of the best service to our clients.

Currently Available:

Trust Portfolio Reporting® (TPR) ®: Trust Portfolio Reporting provides you with the ability to access, via the internet, more than thirty-three standard reports which are available for viewing or exporting in standard HTML, PDF (Portable Data Format), Excel™, or comma separated formats. TPR also delivers real time cash balances and real time settled historical and pending transactions. Several reports contain



drill down features. Cash and asset reports may be created for the past 30 business days or up to 18 prior month-ends. History accumulation begins at the time Trust Portfolio Reporting is implemented. Transaction reports can be requested for up to 18 months of history. Pending transactions and cash projections are also among the standard reports.

Ad Hoc Reporting and Custom Data Extract Creation are also available. Client users are able to design and save report templates to meet their unique requirements and run them against any single account or account combination. All of the current and historical data available in our standard report offerings are also available to create new views or data extracts. After selecting the data sources and data fields needed, users can sort, subtotal, and filter to produce exactly the information required.

Clients are also able to view, customize, and download financial, investment performance, and reports directly to their desktops. Flexible valuation cycles allow for viewing information on a daily, weekly, or monthly basis. *Various flexible and customizable reporting options are available to export into Microsoft Excel™ for easy integration with our clients' in-house systems.* Specific features include:

- A comprehensive standard and customized suite of reports offering daily valuations and dynamic reporting periods.
- Asset reporting for any previous valuation cycle, on the account(s) selected. Asset reports include asset position lists, unrealized gains and losses, market values, and accrued and earned income per security.
- Setting account and date parameters to produce customized transaction reports. Reports are available by account or security, with the level of detail specified by the client.

We have provided a link to demo both online delivery options. Once into the demo, please select Trust Information Delivery and Trust Portfolio Reporting to view sample reports.

https://wellsoffice.wellsfargo.com/ceo_public/product_demos/demo_portal/index.jsp

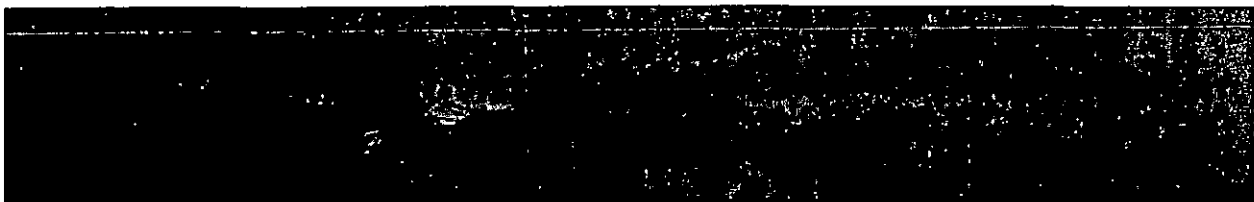
Also Available:

Trust Information Delivery (TID): This option provides you with instant web-based access to your financial and investment performance information. TID is an electronic image of your Wells Fargo Corporate Trust Statement converted to PDF and retained by Trust Information Delivery in a secure environment, where statements can be accessed and viewed by your authorized users. An email notification is sent as soon as new reports are available, generally no later than the second business day of each month. You can search for a report by account number, report type, or report or processing date. Currently, up to 3 months of history can be stored online. For longer retention, the entire report, or just a portion, can be easily downloaded and archived for use within other applications.

Available in the Future:

With regard to our ability to transmit Electronic Bank Statements (EBS) in an MT940 format, we have the future means to do this. By way of background, we entered into initial discussions with Mike Frattali and others in January in order to determine the City's systems requirements and how to meet them. Subsequently we determined that our System Programmers could develop and test a format and delivery system for the MT940 format. There would be time and expense to accomplish this and we stand ready to work closely with the City and their external SAP consultant. Any system/format created would also be

applicable to the City of San Diego Bonds already under our (Rob Schneider's) Administration. The expenses attached to this project are negotiable.



4. Provide a list (including contact persons and telephone numbers) of three (3) public agency client references for which you currently provide similar trustee services.

Per your request what follows are three (3) public agency references for Rob Schneider:

City of Rancho Cucamonga, San Bernardino County	City of Oxnard, San Buenaventura County	City of Palm Desert, Riverside County
Ms. Ingrid Bruce, GIS/Special District Supervisor 909.477.2700 x2567	Mike More, Financial Services Manager 805-385-7480	Thomas Jeffrey, Investment Manager 760-776-6383

5. Using the attached Trustee and Escrow Agent Bid Form, please provide a proposed fee schedule for all up-front and ongoing fees. Please include a schedule clearly stating what will be due and payable at the time of closing. In addition, please include a cap on counsel expenses and indicate the firm you intend to utilize as trustee counsel.

Please see attached Trustee Bid Forms for Wells Fargo Corporate Trust Services response.

6. Please provide a statement that if selected you will be able to comply with the expected time schedule outlined below:
May 30, 2008: Proposal due
June 13, 2008: Selection of Trustee and Escrow Agent
Dec. 30, 2008: Estimated closing of Bond Issue

Wells Fargo Corporate Trust Services affirms our ability to comply with the expected time schedule.

7. Please provide a certification by the institution that all information submitted as part of the proposal is true and correct and that the person signing the proposal has full authority to do so on behalf of the company. All proposals must remain firm through December 2008.

Wells Fargo Corporate Trust Services certifies that all information submitted as part of the proposal is true and correct and that John Deleray as signer of the proposal has full authority to do so on behalf of the company. This proposal remains firm through December 2008.



Public Facilities Financing Authority of the City of San Diego
[Subordinated] Water Revenue Bonds, Refunding Series 2009A
Trustee and Escrow Agent Bid Form

Firm Information	Legal Counsel
Firm Name and Address: Wells Fargo Bank, N.A. 707 Wilshire Blvd – 17th Floor Los Angeles, CA 90017	Firm Name and Address: Wells Fargo Bank, N.A. 90 S 7th Street, 17th Floor Minneapolis, MN 55402
Contact Person (Name and Title): John Deleray Vice President	Contact Person (Name and Title): Jim Loushin, Esq. Internal Counsel
Telephone Number: 213.614.3351	Telephone Number: 612.667.5256
Fax Number: 213.614.3355	Fax Number: 612.316.0805
E-Mail: John.deleray@wellsfargo.com	E-Mail: James.D.Loushin@wellsfargo.com

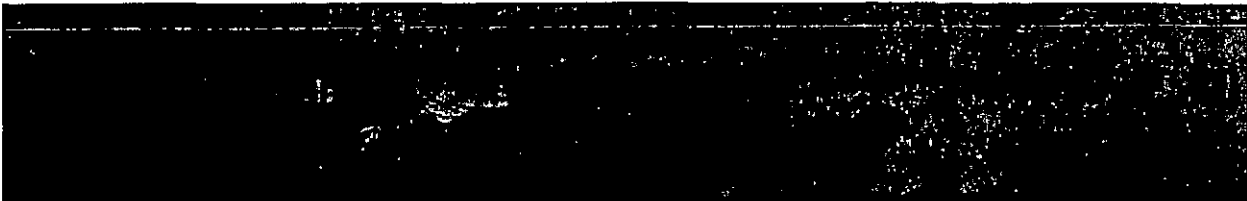
Upfront Fees	Annual Fees*
Acceptance Fee: \$1,200.00	Administrative Fee: \$1,800.00
Registration Fee: Not Applicable	Transaction Costs (please detail): Included
Annual Escrow Agent Fee: \$500.00	
Legal Counsel (not-to-exceed): \$300.00	Other Fees (if any): <u>INVESTMENT AGREEMENT</u> ***If applicable, there will be an Annual Fee of \$500.00 for the set-up, review and maintenance of any STANDARD investment agreement or similar instrument. The investment activities included in this fee assume there will be no more than one (1) draw on the instrument per month. Fees for NON-STANDARD agreements such as repurchase/swap/hedge agreements or for investment funds held outside the bank (such as CAMP or LAIF) charges will be negotiated separately. <u>FORWARD DELIVERY AGREEMENT</u> Should a Forward Delivery Agreement be used in connection with this financing, a minimum Annual charge of \$1,000 will be assessed
Out of Pocket Expenses (not-to-exceed): At cost and upon direction	Estimated Total Annual Fees: \$1,800.00
Estimated Total Up-Front Fees: \$3,000.00	<i>*Note: The City requires that all ongoing fees be set at a not-to-exceed price for the life of the issue.</i>

Date May 30, 2008
 (Revised 09.15.08)

Name John Deleray

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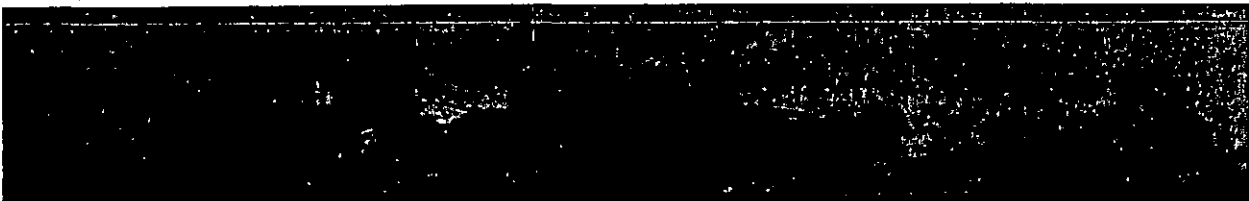


000213

Title Vice President

Signature

J. T. Kling



Public Facilities Financing Authority of the City of San Diego
[Subordinated] Water Revenue Bonds, [Refunding] Series 2009B
Trustee and Escrow Agent Bid Form

Firm Information	Legal Counsel
Firm Name and Address: Wells Fargo Bank, N.A. 707 Wilshire Blvd – 17th Floor Los Angeles, CA 90017	Firm Name and Address: Wells Fargo Bank, N.A. 90 S 7th Street, 17th Floor Minneapolis, MN 55402
Contact Person (Name and Title): John Deleray Vice President	Contact Person (Name and Title): Jim Loushin, Esq. Internal Counsel
Telephone Number: 213.614.3351	Telephone Number: 612.667.5256
Fax Number: 213.614.3355	Fax Number: 612.316.0805
E-Mail: John.deleray@wellsfargo.com	E-Mail: James.D.Loushin@wellsfargo.com

Upfront Fees	Annual Fees*
Acceptance Fee: \$500.00 per additional series	Administrative Fee: \$1,000.00 per additional series
Registration Fee: Not Applicable	Transaction Costs (please detail): Included
Annual Escrow Agent Fee: \$500.00	
Legal Counsel (not-to-exceed): \$300.00	Other Fees (if any): INVESTMENT AGREEMENT*** If applicable, there will be an Annual Fee of \$500.00 for the set-up, review and maintenance of any STANDARD investment agreement or similar instrument. The investment activities included in this fee assume there will be no more than one (1) draw on the instrument per month. Fees for NON-STANDARD agreements such as repurchase/swap/hedge agreements or for investment funds held outside the bank (such as CAMP or LAIF) charges will be negotiated separately. FORWARD DELIVERY AGREEMENT Should a Forward Delivery Agreement be used in connection with this financing, a minimum Annual charge of \$1,000 will be assessed
Out of Pocket Expenses (not-to-exceed): At cost and upon direction	Estimated Total Annual Fees: \$1,000.00
Estimated Total Up-Front Fees: \$1,500.00	<i>*Note: The City requires that all ongoing fees be set at a not-to-exceed price for the life of the issue.</i>

Date May 30, 2008

Name John Deleray

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C-10



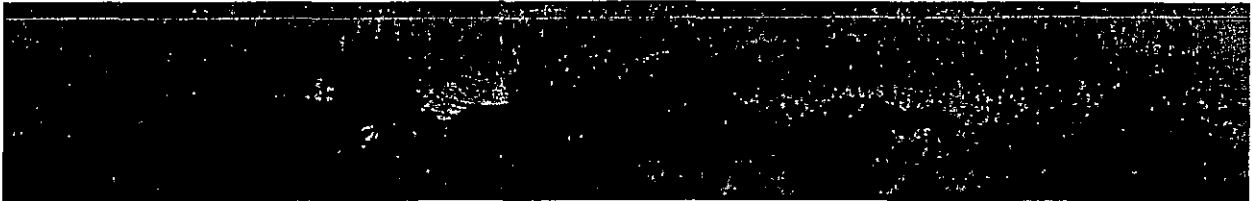
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(Revised 09.15.08)

Title Vice President

Signature

J. T. Kelly



**Public Facilities Financing Authority of the City of San Diego
 [Subordinated] Water Revenue Bonds, Refunding Series 2009A and
 [Subordinated] Water Revenue Bonds, Series 2009B
 (Payable Solely From [Subordinated] Installment Payments
 Secured by Net System Revenues of the Water Utility Fund)**

Log of Outstanding Items- 2009B First Supplemental Indenture of Trust

<i>Document</i>	<i>Page No.(s)</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability*</i>	<i>Completed</i>
2009B First Supplemental Indenture of Trust	Cover, throughout document	<ul style="list-style-type: none"> • Date of document; Par Amount • [Subordinated] versus [Parity] Obligations 	City and Underwriter	Prior to pricing the 2009B Bonds	
	1	<ul style="list-style-type: none"> • Date of document; Par amount and outstanding par amount (of the 1998 Parity Obligations); date the Parity Obligations were executed and delivered 	City and Underwriter to determine whether any 1998 Parity Obligations will be refunded	At or prior to pricing the 2009B Bonds	
	2	<ul style="list-style-type: none"> • Principal Amounts for 2009A and 2009B Bonds • Date of the 2009B Supplement to MIPA; 	City and Underwriter	TBD, at or prior to pricing the 2009B Bonds	
	3	<ul style="list-style-type: none"> • Date for the initial delivery of the 2009B Bonds; definition for the term Representative 	City and Underwriter	TBD, at or prior to pricing the 2009B Bonds	
	4	<ul style="list-style-type: none"> • Determination of Reserve Fund • Amount of the 2009B Reserve Requirement • Date of the 2009B Supplement • Definition of "Underwriters" 	City and Underwriter	TBD, at or prior to pricing the 2009B Bonds	

* Refers to pricing, preclosing, etc. of 2009A Bonds, except where otherwise noted.

2009B First Supplemental Indenture of Trust (cont'd)	5	<ul style="list-style-type: none"> • Principal Amount; Maturity Schedule for 2009B Bonds; Date Bonds will mature and date of optional redemption • Par Amount of 2009B Bonds 	City and Underwriter	TBD, at or prior to pricing the 2009B Bonds	
	6	<ul style="list-style-type: none"> • Date and Par Amount • Amounts of the Costs of Issuance, Reserve Account Deposit (2009B Reserve Requirement), Transfers for the Refunding of 1998 Parity Obligations, if applicable; Redemption Fund for 2008A Subordinate Notes and Prepayment Date, and the Acquisition Fund Deposit. 	Underwriter and the City	TBD, at or prior to pricing the 2009B Bonds	
	8	• Signatures of the Authority Chair or Vice-Chair; Trustee	Authority, Trustee	TBD, 2009B Preclosing	
	Exhibit A Form of the 2009B Bond	• Number and Amount of each Bond, Interest Rate, Maturity Date, Dated date, CUSIP number, Principal Amount, Date when Bond is authenticated, interest payment dates	City and Underwriter	TBD, 2009B Pricing/Preclosing	
	A-2	• Principal Amount of the bond, date of Indenture and Amended and Restated Master Installment Purchase Agreement Supplement	Underwriter	TBD, 2009B Pricing/Preclosing	
	A-3	• Optional Redemption Date	Underwriter	TBD, 2009B Pricing/Preclosing	
	A-5, A-6	• Signatures of the Authority Chair or Vice-Chair, Secretary; Trustee, date when Trustee signs.	Authority Chair or Vice-Chair, Authority Secretary and Trustee	TBD 2009B Preclosing	

FIRST SUPPLEMENTAL INDENTURE OF TRUST

dated as of
_____, 2009

Supplementing that certain

INDENTURE OF TRUST
dated as of January 1, 2009

by and between

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

and

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Trustee

respecting

\$ _____

Public Facilities Financing Authority of the City of San Diego
[Subordinated] Water Revenue Bonds, Series 2009B
(Payable Solely From [Subordinated] Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

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FIRST SUPPLEMENTAL INDENTURE OF TRUST

THIS FIRST SUPPLEMENTAL INDENTURE OF TRUST (the "First Supplement"), made and entered into as of _____, 2009, by and between the PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "Authority") and WELLS FARGO BANK, NATIONAL ASSOCIATION, a California banking corporation, as trustee (the "Trustee"), under that certain Indenture of Trust, dated as of January 1, 2009, by and between the same parties (the "Original Indenture" and as amended hereby, the "Indenture");

WITNESSETH:

WHEREAS, the Indenture provides that the Authority may issue Additional Bonds (as defined therein) in order to assist the City in the financing and refinancing of improvements to the Water System (as defined in the Indenture); and

WHEREAS, the City Council of the City has now requested the assistance of the Authority in the financing of additional components of the Water System (the "2009B Components"); and

[WHEREAS, the City previously authorized the execution and delivery of \$ _____ aggregate principal amount of San Diego Facilities and Equipment Leasing Corporation Certificates of Undivided Interest (In Installment Payments Payable from the Net System Revenues of the Water Utility Fund of the City of San Diego) Series 1998 (the "Parity Obligations), of which \$ _____ in aggregate principal amount are still outstanding (the "Parity Obligations"); and]

WHEREAS, the Authority has previously issued \$150,000,000 aggregate principal amount of its Subordinated Water Revenue Notes, Series 2008A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "2008A Subordinated Notes"), all of which are currently outstanding and eligible for prepayment [(collectively with the Parity Obligations to be refunded, the "Refunded Obligations")], the proceeds of which were used to finance improvements to the Water System; and

[WHEREAS, the Parity Obligations were executed and delivered under and pursuant to that certain Trust Agreement, dated as of August 1, 1998 (the "1998 Trust Agreement"), by and between the Authority and Wells Fargo Bank, National Association, as successor trustee thereunder (the "1998 Trustee"); and]

WHEREAS, the 2008A Subordinated Notes were issued under and pursuant to that certain Indenture of Trust, dated as of January 1, 2008 (the "2008 Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "2008 Trustee"); and

WHEREAS, the Authority and the City of San Diego (the "City") and the San Diego Facilities and Equipment Leasing Corporation, a nonprofit public benefit corporation (the "Corporation") have heretofore entered into a 2009A Supplement to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Existing Master

Installment Purchase Agreement”), Installment Payments under which were pledged to the payment of the principal of and interest on the Authority’s [Subordinated] Water Revenue Bonds, Refunding Series 2009A (Payable Solely From [Subordinated] Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2009A Bonds”), issued in the aggregate principal amount of \$ _____, under the Original Indenture; and

WHEREAS, the Authority has agreed to provide assistance to the City by the financing of the 2009B Components, [the refunding of a portion of the Parity Obligations] and the prepayment of the 2008A Subordinated Notes;

WHEREAS, in connection therewith, the City will enter into a 2009B Supplement to the Agreement with the Authority, dated as of _____, 2009 (the “2009B Supplement,” and, collectively with the Existing Master Installment Purchase Agreement, the “Agreement”); and

WHEREAS, the Authority has therefore determined to issue its [Subordinated] Water Revenue Bonds, Series 2009B (Payable Solely From [Subordinated] Installment Payments Secured by Net System Revenues of the Water Utility Fund) in the aggregate principal amount of \$ _____ (the “2009B Bonds”) for the above purposes; and

WHEREAS, in order to establish and declare the terms and conditions upon which the 2009B Bonds are to be issued and secured and to provide for the payment of the principal thereof and the premium (if any) and interest thereon, the Authority and the Trustee wish to enter into this First Supplement; and

NOW, THEREFORE, in consideration of the covenants and provisions herein set forth and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

Part 1. Definitions. Unless the context clearly otherwise requires, all capitalized terms used in this First Supplement shall have the meanings assigned to such terms in the Recitals hereof or in the Original Indenture.

(A) The definitions of the following terms in the Original Indenture shall be modified to read in their entirety as follows:

Bond or Bonds; 2009A Bonds; 2009B Bonds

The terms “Bond or Bonds” means any of the bonds issued and hereunder by the Authority, including any Additional Bonds; the term “2009A Bonds” means the Authority’s [Subordinated] Water Revenue Bonds, Refunding Series 2009A (Payable Solely From [Subordinated] Installment Payments Secured by Net System Revenues of the Water Utility Fund); issued in the original aggregate principal amount of \$ _____; and the term “2009B Bonds” shall mean the Authority’s [Subordinated] Water Revenue Bonds, Series 2009B (Payable Solely From [Subordinated] Installment Payments Secured by Net System Revenues of the Water Utility Fund).

Certificate of Completion

The term "Certificate of Completion" means a Certificate of the City filed with the Trustee, stating that the 2009B Components being financed with the proceeds of the 2009B Bonds have been acquired, constructed, installed and improved and that all Acquisition Costs have been paid or provided for.

Subordinated Installment Payments

The term "Subordinated Installment Payments" means Installment Payments that are Subordinated Obligations (as defined in the Agreement), scheduled to be paid by the City under and pursuant to any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Subordinated Bonds or Notes [, including the 2009A Supplement and the 2009B Supplement].

(B) In addition, the following terms shall have the following meanings, which are hereby added to Section 1.01 of the Original Indenture.

2009B Closing Date

The term "2009B Closing Date" means _____, 2009, the date of initial delivery of the 2009B Bonds.

2009B Components

The term "2009B Components" means the components of the Project for which the City makes [Subordinated] Installment payments under the 2009B Supplement.

2009B Payment Fund

The term "2009B Payment Fund" means the fund by that name established and maintained as a special trust fund by the Trustee, to be designated the "City of San Diego Water System Improvement Project Payment Fund - 2009B [Subordinated] Bonds." Within the 2009B Payment Fund, the Trustee shall establish and maintain an Interest Account (the "Interest Account"), a Principal Account (the "Principal Account"), and a Redemption Account (the "Redemption Account").

Representative

The term "Representative" means _____, as representative of the several Underwriters of the 2009B Bonds.

[2009B Reserve Account]

[The term "2009B Reserve Account" means the account established within the Reserve Fund in which the 2009B Reserve Requirement shall be held and invested.]

[2009B Reserve Requirement]

[The term "2009B Reserve Requirement" means, initially, \$ _____, which, as of any date of calculation, and shall not exceed the least of (i) ten percent (10%) of the proceeds (within the meaning of section 148 of the Code) of the 2009B Bonds; (ii) 125% of average annual debt service on the then-Outstanding 2009B Bonds; or (iii) the Maximum Annual Debt Service for that and any subsequent year upon early redemption of the 2009B Bonds, the Authority, at the request of the City, may request the Trustee to recalculate and reduce the 2009B Reserve Requirement, whereupon any excess in the 2009B Reserve Account over and above the 2009B Reserve Requirement shall be transferred to the Payment Fund.]

2009B Supplement

The term "2009B Supplement" means the 2009B Supplement to the Agreement, by and between the City and the Corporation, dated as of _____, 2009.

Underwriters

The term "Underwriters" means, collectively, _____, _____, _____ and _____.

Part 2. Supplemental Provisions. The following new Article is hereby added to the Original Indenture:

ARTICLE XIII

ISSUANCE AND DELIVERY OF 2009B BONDS

Section 13.1. 2009B Bonds Authorized. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the 2009B Bonds and has found, as result of such review, and hereby finds and determines that, as of the date of issuance of the 2009B Bonds, all things, conditions and acts required by law to exist, happen and be performed precedent to and in the issuance of the 2009B Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now authorized, pursuant to the Bond Law and each and every requirement of law, to issue the 2009B Bonds in the manner and form provided in the Indenture. Accordingly, the Authority hereby authorizes the issuance of the 2009B Bonds pursuant to the Bond Law, the Original Indenture and this First Supplement.

Section 13.2. Terms of 2009B Bonds. Unless specifically set forth below, the terms and provisions of the Original Indenture applicable to the 2009A Bonds shall apply equally to the 2009B Bonds.

(A) Designation of 2009B Bonds. The 2009B Bonds to be issued by the Authority under and subject to the Bond Law and the terms of this Indenture shall be designated the "Public Facilities Financing Authority of the City of San Diego [Subordinated] Water Revenue Bonds, Series 2009B (Payable Solely From [Subordinated] Installment Payments

Secured by Net System Revenues of the Water Utility Fund),” and shall be issued in the original aggregate principal amount of \$_____.

(B) Maturity Schedule for 2009B Bonds. The 2009B Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, provided that no 2009B Bond shall have more than one maturity date. The 2009B Bonds shall be dated their date of delivery, and shall mature on August 1 in each of the years and in the amounts and shall bear interest at the rates, as follows:

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>
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(C) Optional Redemption of 2009B Bonds. The 2009B Bonds maturing on or after August 1, 20___, shall be subject to redemption prior to their scheduled maturities, on or after August 1, 20___, at the option of the Authority, exercised at the request of the City, as a whole or in part on any date, from funds derived by the Authority from any source, at a redemption price of par, plus interest accrued thereon to the date fixed for redemption, without premium.

(D) Form of 2009B Bonds. The form of the 2009B Bonds shall be substantially as set forth in Exhibit A to this First Supplement.

Section 13.3. Execution and Delivery of 2009B Bonds. At any time after the execution and delivery of this First Supplement, the Authority may sell and the Trustee shall authenticate and deliver, upon the Written Request of the Authority, the 2009B Bonds in the aggregate principal amount of \$_____.

Section 13.4. Application of Proceeds of 2009B Bonds. The net proceeds received from the sale of the 2009B Bonds shall be deposited in trust with the Trustee, who shall forthwith set aside or transfer such proceeds as follows:

(a) The Trustee shall deposit into that certain Costs of Issuance Account for the 2009B Bonds the amount of \$ _____;

(b) [The Trustee shall deposit into the 2009B Reserve Account the amount of \$ _____, being the 2009B Reserve Requirement;]

(c) [The Trustee shall transfer the sum of \$ _____ to the 1998 Trustee for the current refunding of the Refunded Parity Obligations in accordance with their terms;]

(d) The Trustee shall transfer the sum of \$ _____ to the 2008A Trustee for deposit into the Redemption Fund established under the 2008 Indenture and payment of the 2008A Subordinated Notes in full on _____, 2009; and

(e) The Trustee shall transfer the remainder of the proceeds of sale of the 2009B Bonds, being the sum of \$ _____, to the Treasurer for deposit into the Acquisition Fund.

The Trustee may, in its discretion, establish a temporary fund or account to account for and facilitate the foregoing deposits and transfers.

Section 13.5. Establishment of 2009B Reserve Account within Reserve Fund. The Trustee is directed to establish the 2009B Reserve Account within the Reserve Fund and to maintain separate records as to investments and earnings within such Fund, in order to facilitate compliance by the City with the Tax Certificate and the Agreement. On the 2009B Closing Date, the Trustee shall deposit the 2009B Reserve Requirement into the 2009B Reserve Fund.]

Section 13.6. Acquisition of 2009B Components; Completion Date. The Authority hereby appoints the City as its agent for the acquisition and construction of the 2009B Components with moneys on deposit in the Acquisition Fund held by the Treasurer. Upon the determination by the City that such acquisition and construction is complete, the City will so indicate by filing the Certificate of Completion with the Trustee.

Section 13.7. Compliance with Tax Certificate. The Authority covenants and agrees to comply with the terms of that certain Tax Certificate delivered on the 2009B Closing Date with respect to the 2009B Bonds, it being acknowledged and agreed that Bond Counsel will rely upon the same in delivering its opinion respecting the tax status of the 2009B Bonds.

Part 3. Ratification of Original Indenture. Except insofar as herein otherwise expressly provided, all the definitions, provisions, terms and conditions of the Original Indenture shall be deemed to be incorporated in and made a part of this First Supplement; and the Original Indenture, as amended and supplemented including by this First Supplement, is in all respects ratified and confirmed, and the Original Indenture and this First Supplement shall hereafter be read, taken and considered as one and the same instrument; and the parties agree to conform to

and comply with all and singular the terms, provisions, covenants and conditions set forth therein and herein.

Part 4. Severability of Invalid Provisions. If any one or more of the provisions contained in this First Supplement or in the 2009B Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this First Supplement and such invalidity, illegality or unenforceability shall not affect any other provision of this First Supplement, and this First Supplement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the Trustee each hereby declares that it would have entered into this First Supplement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the execution and delivery of the 2009B Bonds pursuant hereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this First Supplement may be held illegal, invalid or unenforceable.

Part 5. Articles and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and the table of contents hereto, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this First Supplement. All references herein to "Articles" and "Sections" and other subdivisions are to the corresponding Articles, Sections or other subdivisions of the Original Indenture as further modified by this First Supplement as a whole.

Part 6. Execution in Several Counterparts. This First Supplement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Part 7. Governing Law. This First Supplement shall be governed by the laws of the State of California applicable to contracts made and performed in such State.

IN WITNESS WHEREOF, the Authority and the Trustee have caused this First Supplement to be executed by their duly authorized officers, all as of the date first above written.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By: _____
Chair or Vice-Chair

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF 2009B BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE OF TRUST) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. _____

\$_____

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
[SUBORDINATED] WATER REVENUE BOND, SERIES 2009B
(PAYABLE SOLELY FROM [SUBORDINATED] INSTALLMENT PAYMENTS
SECURED BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

INTEREST RATE:	MATURITY DATE:	DATED DATE:	CUSIP:
_____%	August 1, _____	_____, 2009	_____

REGISTERED OWNER: CEDE & Co.

PRINCIPAL AMOUNT:***

DOLLARS***

The Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority") for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner stated above, or registered assigns, on the Maturity Date stated above (subject to any right of prior redemption hereinafter mentioned), the Principal Amount stated above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from the Interest Payment Date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of a day during the period commencing after the fifteenth day of the month preceding an Interest Payment Date and ending on or before such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before _____ 15, 2009, in which event it shall bear interest from the Issue Date stated above) until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned, at the Interest Rate per annum stated above, payable semiannually on each August 1 and February 1, commencing _____ 1, 20__ (each, an "Interest Payment Date"). The principal (or

redemption price) hereof is payable at the principal office of Wells Fargo Bank, National Association in Los Angeles, California (together with any successor trustee under the Indenture referred to below, the "Trustee"). Interest hereon is payable by check of the Trustee mailed on each Interest Payment Date to the Registered Owner as of the fifteenth (15th) day of the month preceding each Interest Payment Date at the address shown on the registration books maintained by the Trustee; provided however, that payment of interest will be made by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee before the fifteenth day of the month preceding the applicable Interest Payment Date.

It is hereby certified and recited that any and all things, conditions and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Bond Law and by the laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Bond Law or by the Constitution and laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

This Bond is one of a duly authorized issue of bonds of the Authority designated as its "[Subordinated] Water Revenue Bonds, Series 2009B (Payable Solely From [Subordinated] Installment Payments Secured by Net System Revenues of the Water Utility Fund)" (the "Bonds"), in the aggregate principal amount of _____ Dollars (\$ _____), authorized pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the "Bond Law"), and issued pursuant to an Indenture of Trust, dated as of January 1, 2009, and supplemented as of _____, 2009 (collectively, the "Indenture"), by and between the Authority and the Trustee.

Reference is hereby made to the Indenture (a copy of which is on file at said Trust Office of the Trustee) and all indentures supplemental thereto and to the Bond Law for a description of the rights thereunder of the owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder. The Registered Owner of this Bond, by acceptance hereof, assents and agrees to all the provisions of the Indenture.

The Bonds have been issued by the Authority to aid in financing [and refinancing] of the acquisition, construction, installation and improvement of certain facilities (the "Project") relating to the Water System of the City of San Diego (the "City"), to be sold to the City by the Authority pursuant to an Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, and supplemented as of _____, 2009, by and between the San Diego Facilities and Equipment Leasing Corporation as seller and the City as purchaser (collectively, the "Installment Purchase Agreement").

The Bonds and the interest thereon are payable from Revenues (as such term is defined in the Indenture), consisting primarily of Installment Payments to be made by the City under the Installment Purchase Agreement as the purchase price for the Project and are secured by a pledge and assignment of said Revenues and of amounts held in the [Acquisition], the Payment Fund and the Reserve Fund established pursuant to the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Bonds are special obligations of the Authority and are not a lien or charge upon the funds or property of the Authority, except to the extent of the aforesaid pledge and assignment.

The 2009B Bonds maturing on or after August 1, 20__, shall be subject to redemption prior to their scheduled maturities; on or after August 1, 20__, at the option of the Authority, exercised at the request of the City, as a whole or in part on any date, from funds derived by the Authority from any source, at par, plus interest accrued thereon to the date fixed for redemption, without premium.

[The Bonds are subject to redemption prior to their stated maturities as a whole or in part on any date, to the extent of proceeds of disposition of the Water System [or the proceeds of hazard insurance received with respect to the Water System and not used to repair or replace the Water System,] at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.]

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to: (i) the respective Owners of any Bonds designated for redemption, at least thirty (30) but not more than sixty (60) days prior to the redemption date, at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to one or more Information Services (as such terms are defined in the Indenture), at least thirty (30) but not more than sixty (60) days prior to the redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Interest on the Bonds called for redemption will not accrue from and after the redemption date.

The Bonds are issuable as fully registered Bonds in denominations of \$5,000 and any integral multiple thereof. Subject to the limitations provided in the Indenture, Bonds may be exchanged, at said corporate trust office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity.

The Trustee has no obligation or liability to the Registered Owners to make payments of principal of or interest on the Bonds, except from amounts on deposit for such purposes with the Trustee. The Trustee's sole obligations are to administer for the benefit of the Registered Owners the various funds and accounts established under the Indenture of Trust and, to the extent provided in the Indenture of Trust, to enforce the rights of the Authority under the Installment Purchase Agreement.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at said corporate trust office of the Trustee, but only in the manner,

subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer, a new Bond or Bonds, of authorized denomination or denominations, of the same maturity and for the same aggregate principal amount, will be issued to the transferee in exchange herefor.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all outstanding Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

The Indenture and the rights and obligations of the Authority and of the owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes and the Authority and the Trustee shall not be affected by any notice to the contrary.

Neither the faith and credit nor the taxing power of the Authority, the City of San Diego (the "City"), the State of California nor any of its political subdivisions is pledged to the payment of the Bonds, which are special obligations of the Authority, payable solely from Revenues. Neither the payment of the principal of this Bond or any part hereof nor any interest hereon constitutes a debt, liability or obligation of the City, any officer of the Authority, or any person executing this Bond.

IN WITNESS WHEREOF, the Public Facilities Financing Authority of the City of San Diego has caused this Bond to be executed in its name and on its behalf by the manual signature of its Chair or Vice-Chair and attested to by the manual signature of its Secretary, all as of the Issue Date stated above.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By _____
Chair or Vice-Chair

Attest:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated: _____, 2009

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By _____
Authorized Officer

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto

(Name, Address and Tax Identification or Social Security Number)

the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____

_____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature(s) must be guaranteed by a qualified guarantor.

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

000236

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
[SUBORDINATED] WATER REVENUE BONDS, SERIES 2009B
(Payable Solely From [Subordinated] Installment Payments
Secured by Net System Revenues of the Water Utility Fund)**

Log of Outstanding Items as of October 3, 2008

**Continuing Disclosure Certificate
for the Series 2009B Bonds**

<i>Page</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Form of Continuing Disclosure Certificate/1	As of Dates of Bond Documents	City; FA; UW	To be completed at Pricing of Series 2009B Bonds; based on anticipated closing date for the Series 2009B Bonds.
Form of Continuing Disclosure Certificate/1	Principal Amount	City; FA; UW	To be completed at Pricing of Series 2009B Bonds.
Form of Continuing Disclosure Certificate/1	Date of Official Statement	City; FA; UW	Dated date of Pricing of Series 2009B Bonds.
Form of Continuing Disclosure Certificate/8	Name of signatories	City	To be determined prior to execution of bond documents.
Form of Continuing Disclosure Certificate/Exhibit A	Date of issuance of Series 2009B Bonds	City; FA; UW	Dated date of Pricing of Series 2009B Bonds.
Form of Continuing Disclosure Certificate/Exhibit A	Remainder of form of notice to repositories of failure to file annual report	Not Applicable	Form to be completed at the time of reporting of a failure to file, if any. Form will remain blank through posting.

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of _____ 1, 2009 (the "Disclosure Certificate") is executed and delivered by The City of San Diego (the "City") in connection with the issuance of \$[Par Amount] Public Facilities Financing Authority of the City of San Diego [Subordinated] Water Revenue Bonds, Series 2009B (Payable Solely From [Subordinated] Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the "Series 2009B Bonds"). The Series 2009B Bonds are being issued pursuant to that certain Indenture, dated as of January 1, 2009 (the "Original Indenture"), as supplemented by that certain First Supplemental Indenture, dated as of _____ 1, 2009 (together with the Original Indenture, the "Indenture"), by and between the Public Finance Authority of the City of San Diego (the "Authority") and Wells Fargo Bank, National Association, as trustee. The proceeds of the Series 2009B Bonds are being used to prepay a portion of the Outstanding Obligations (as defined in the Indenture), finance certain capital improvements to the Water System, [fund the reserve fund for the Series 2009B Bonds] and pay costs of issuance with respect to the Series 2009B Bonds. In connection therewith, the City, as an "obligated person" with respect to the Series 2009B Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Series 2009B Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are currently set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" means the Official Statement, dated _____, 2009, relating to the Series 2009B Bonds.

“Participating Underwriter” shall mean any of the original Underwriters of the Series 2009B Bonds required to comply with the Rule in connection with offering of the Series 2009B Bonds.

“Repository” shall mean each National Repository and each State Repository, if any.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which currently ends June 30th), commencing with the report for the 2007-08 Fiscal Year (each, a “Filing Date”), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate for so long as the Series 2009B Bonds remain outstanding. Not later than fifteen (15) Business Days prior to each Filing Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Filing Date for the filing of the Annual Report, if not available by such Filing Date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and any appropriate State Repository in substantially the form attached as Exhibit A..

(c) The Dissemination Agent shall:

(i) determine each year prior to the Filing Date the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the City, and such information is available to it, file a report with the City certifying that the Annual Report has

been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements for the most recently completed Fiscal Year prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial information and operating data with respect to the City, as such information and data relate to the City's Water Department and the Water Utility Fund, for the most recently completed fiscal year of the type included in the Official Statement, in the following categories (to the extent not included in the City's audited financial statements):

(i) An update of the information contained in Table 1 (entitled "Historical Number of Retail Connections to Water System") of the Official Statement for the most recently completed fiscal year;

(ii) An update of the information contained in Table 2 (entitled "Major Non-Governmental Retail Customers and Top Governmental Customers") of the Official Statement for the most recently completed fiscal year;

(iii) An update of the information contained in Table 6 (entitled "Summary of Projected CIP Projects") of the Official Statement as of the end of the most recently completed fiscal year;

(iv) An update of the information contained in Table 7 (entitled "Five-Year Water Service Charge History for Single Family Residential Units and Other Domestic, Commercial, Industrial and Irrigation/Temporary Construction") of the Official Statement for the most recently completed fiscal year;

(v) An update of the information contained in Table 10 (entitled "Recent Rate History for Capacity Charges") of the Official Statement for the most recently completed fiscal year;

(vi) An update of the information contained in Table 11 (entitled "Water Utility Fund Historical Capacity Charge Revenues") of the Official Statement for the most recently completed fiscal year;

(vii) An update of the information contained in Table 12 (entitled "Water Customer Accounts Receivable and Shut-Offs by Fiscal Year") of the Official Statement for the most recently completed fiscal year;

(viii) An update of the information contained in Table 13 (entitled "Historical Sources of Water Service Revenues") of the Official Statement for the most recently completed fiscal year;

(ix) Information contained in Table 14 (entitled "Revenues, Expenses, Changes in Fund Net Assets") of the Official Statement for the most recently completed fiscal year;

(x) Information contained in Table 15 (entitled "Calculation of Historic Debt Service Coverage") of the Official Statement for the most recently completed fiscal year;

(xi) Information contained in Table 16 (entitled "Water Utility Fund Reserves") of the Official Statement for the most recently completed fiscal year;

(xii) An update of the information contained in Table 21 (entitled "City of San Diego Pooled Investment Fund") of the Official Statement as of the most recently completed fiscal year;

(xiii) Information contained in Table 22 (entitled "City of San Diego Schedule of Funding Progress") of the Official Statement for the most recently completed fiscal year;

(xiv) Information contained in Table 23 (entitled "City of San Diego and Water Department Pension Contribution") of the Official Statement for the most recently completed fiscal year;

(xv) Information contained in Table 24 (entitled "Water Department Retiree Health Contribution") of the Official Statement for the most recently completed fiscal year; and

(xvi) An update of the information contained in the Official Statement under the heading "Water System Financial Operations – Labor Relations – General" for the most recently completed fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Repositories. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2009B Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) *Unscheduled draws on debt service reserves reflecting financial difficulties.*
- (iv) *Unscheduled draws on credit enhancements reflecting financial difficulties.*
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) *Adverse tax opinions or events affecting the tax-exempt status of the Series 2009B Bonds.*
- (vii) Modifications to rights of Bondholders.
- (viii) Contingent or unscheduled Bond calls.
- (ix) Defeasances.
- (x) *Release, substitution, or sale of property securing repayment of the Series 2009B Bonds.*
- (xi) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

(d) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Repositories with a copy to the City. Notwithstanding the foregoing notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2009B Bonds. If such termination occurs prior to the final

maturity of the Series 2009B Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent may resign as Dissemination Agent by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the dissemination agent or conduit has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the agent or conduit to transmit information to the National Repository and State Repository will be treated for purposes of the Rule as if such information were transmitted directly to the National Repository and State Repository.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived (provided no amendment that modifies or increases its duties or obligations of the Dissemination Agent shall be effective without the consent of the Dissemination Agent), provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Series 2009B Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Series 2009B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Series 2009B Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Series 2009B Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any holder or beneficial owner of the Series 2009B Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed for all expenses, legal fees and advances made or incurred by the

Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Authority, the Series 2009B Bondholders, or any other party. Other than in the case of negligence, gross negligence or willful misconduct of the Dissemination Agent, the Dissemination Agent shall not have any liability to the Series 2009B Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from any breach of any obligation of the Dissemination Agent. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2009B Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Series 2009B Bonds, and shall create no rights in any other person or entity.

THE CITY OF SAN DIEGO

By: _____
Authorized Signatory

Attest:

City Clerk

APPROVED AS TO FORM:
MICHAEL J. AGUIRRE, City Attorney

By: _____
Name: _____
Deputy City Attorney

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: The City of San Diego
Name of Issue: \$[Par Amount] Public Facilities Financing Authority of the City of San Diego [Subordinated] Water Revenue Bonds, Series 2009B (Payable Solely From [Subordinated] Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the "Bonds").
Date of Issuance: _____ 1, 2009

NOTICE IS HEREBY GIVEN that the City of San Diego has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated as of _____ 1, 2009 executed and delivered by the City. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____

THE CITY OF SAN DIEGO

By: _____
Title: _____

**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
[SUBORDINATED] WATER REVENUE BONDS, REFUNDING SERIES 2009A
(PAYABLE SOLELY FROM
[SUBORDINATED] INSTALLMENT PAYMENTS SECURED
BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

BOND PURCHASE AGREEMENT

Log of Blanks

<u>Document</u>	<u>Page</u>	<u>Outstanding Items</u>	<u>Responsible Party</u>	<u>Expected Availability</u>
Bond Purchase Agreement	1	Par amount of Bonds (top of page and last line)	Underwriter and City	Bond Pricing
	2	Par amount of Bonds	Underwriter and City	Bond Pricing
	2	Purchase price of Bonds	Underwriter and City	Bond Pricing
	2	Underwriter's Discount	Underwriter and City	Bond Pricing
	3	Par amount of 1998 Certificates refunded	Underwriter and City	Bond Pricing
	3	Date of Preliminary Official Statement	Disclosure Counsel	When Preliminary Official Statement is printed
	4	Closing Date	Underwriter and City	Bond Pricing
	4	Date of Public Facilities Financing Authority action	City	Date of Public Facilities Financing Authority action
	7	Adoption date of City Ordinance	City	Adoption date of City Ordinance
	7	Effective date of City Ordinance	City	Effective date of City Ordinance
	7	Adoption date of City Resolution	City	Adoption date of City Resolution
	17	Ratings of 3 Rating Agencies	Rating Agencies	When Preliminary Official Statement is printed
	S-1	All Signatories	Indicated Parties	Upon sale of Bonds
	Schedule I	Bond amounts, maturities, interest rate, price and yield	Underwriter	Upon sale of Bonds
	A-1	Title of PFFA Authorized Representative	PFFA	When Preliminary Official Statement is printed

BOND PURCHASE AGREEMENT

Log of Blanks (Continued)

<u>Document</u>	<u>Page</u>	<u>Outstanding Items</u>	<u>Responsible Party</u>	<u>Expected Availability</u>
Bond Purchase Agreement	A-1	Date of Preliminary Official Statement	Disclosure Counsel	When Preliminary Official Statement is printed
	A-1	Date of 15c2-12 Certificate	PFFA	When Preliminary Official Statement is printed
	A-1	Signature of PFFA	PFFA	When Preliminary Official Statement is printed
	B-1	Title of City Authorized Representative	City	When Preliminary Official Statement is printed
	B-1	Date of Preliminary Official Statement	Disclosure Counsel	When Preliminary Official Statement is printed
	B-1	Date of 15c2-12 Certificate	City	When Preliminary Official Statement is printed
	B-1	Signature of City	City	When Preliminary Official Statement is printed

§ _____
**PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
WATER REVENUE BONDS, REFUNDING SERIES 2009A
(PAYABLE SOLELY FROM INSTALLMENT PAYMENTS SECURED
BY NET SYSTEM REVENUES OF THE WATER UTILITY FUND)**

BOND PURCHASE AGREEMENT

January 14, 2009

Public Facilities Financing Authority of the City of San Diego
202 C Street
San Diego, California 92101

City of San Diego
202 C Street
San Diego, California 92101

Ladies and Gentlemen:

Morgan Stanley & Co. Incorporated, on behalf of itself and as representative (the "Representative") of J.P. Morgan Securities Inc., Ramirez & Co., Inc., Siebert Brandford Shank & Co., LLC and Estrada Hinojosa (collectively, with the Representative, the "Underwriters"), hereby offers to enter into this Bond Purchase Agreement (this "Bond Purchase Agreement") with the Public Facilities Financing Authority of the City of San Diego (the "Authority"), a joint exercise of powers authority duly organized and validly existing under and pursuant to the laws of the State of California, and the City of San Diego (the "City"), a municipal corporation organized and existing under its Charter and the Constitution and laws of the State of California (the "State"), which upon written acceptance of this offer will be binding upon the Authority, the City and the Underwriters. This offer is made subject to the Authority's and the City's written acceptance hereof on or before 5:00 p.m., California time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriters upon notice delivered to the Authority and the City at any time prior to the acceptance hereof by the Authority and the City.

Capitalized terms used and not defined herein shall have the same meanings as set forth in the Agreement (as defined below).

1. Purchase and Sale of the Bonds

Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriters hereby agree to purchase from the Authority, and the Authority hereby agrees to sell and deliver to the Underwriters, all (but not less than all) of the \$ _____ aggregate principal amount of Public Facilities Financing Authority of

the City of San Diego Water Revenue Bonds, Refunding Series 2009A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Bonds"). The Bonds will be issued on the Closing Date (as hereinafter defined), in the principal amount of \$_____. The Bonds will bear interest at the rates and will mature on the dates set forth on Schedule I attached hereto. The purchase price for the Bonds shall be \$_____, being the principal amount of the Bonds plus original issue premium, less original issue discount and less an Underwriters' discount of \$_____.

2. Description and Purpose of the Bonds

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable as provided in the Indenture dated as of January 1, 2009 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as Trustee (the "Trustee"). The Bonds are subject to redemption as provided in the Indenture.

The Bonds are limited obligations of the Authority payable from and secured by Revenues (as defined in the Indenture) comprised primarily of Installment Payments to be made by the City pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, between the San Diego Facilities and Equipment Leasing Corporation, a nonprofit charitable corporation duly organized and existing under and by virtue of the laws of the State (the "Corporation") and the City, as supplemented by the 2009A Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "2009A Supplement"), each by and between the Corporation and the City (the Amended and Restated Master Installment Purchase Agreement, together with all supplements thereto, including the 2009A Supplement, are collectively referred to as the "Agreement").

Certain rights of the Corporation under the Agreement with respect to the Bonds, including the right to receive the Installment Payments for the Bonds, will be assigned to the Authority under an Assignment Agreement, dated as of January 1, 2009 by and between the Corporation and the Authority (the "2009A Assignment Agreement").

The Bonds are to be payable from the Installment Payments that are Parity Obligations under the Agreement, and are payable from Net System Revenues (i) on a parity with any Installment Payments represented by the San Diego Facilities and Equipment Leasing Corporation Certificates of Undivided Interest (In Installment Payments Payable from the Net System Revenues of the Water Utility Fund of the City of San Diego) Series 1998 (the "1998 Certificates") that remain outstanding following application of the proceeds of the Bonds, (ii) senior to any payments for the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2002 (Payable Solely From Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Series 2002 Subordinated Bonds"), and (iii) senior to the State Revolving Fund Loan from the California Department of Water Resources executed on June 16, 2004 (the "2004 SRF Loan") and any other SRF Loans.

The proceeds of the sale of the Bonds will be used for the purpose of enabling the Authority to provide funds to (i) pay the maturing Public Facilities Financing Authority of the City of San Diego Non-Transferable Subordinated Water Revenue Notes, Series 2007A (Payable Solely From Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the "Series 2007A Notes") outstanding in the aggregate principal amount of \$57,000,000, (ii) [refund \$ _____ aggregate principal amount of the 1998 Certificates, and (iii)] pay certain costs of issuance associated with the Bonds.

3. Public Offering

The Underwriters agree to make a bona fide public offering of all the Bonds initially at the public offering prices (or yields) set forth on Schedule I attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriters reserve the right to change the public offering prices (or yields) as they deem necessary in connection with the marketing of the Bonds, provided that the Underwriters shall not change the interest rates set forth on Schedule I. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices.

4. Delivery of Official Statement; Continuing Disclosure

(a) Preliminary Official Statement. The Authority and the City have delivered or caused to be delivered to the Underwriters prior to the execution of this Bond Purchase Agreement, copies of the Preliminary Official Statement dated December [], 2008 relating to the Bonds (the "Preliminary Official Statement"). Such Preliminary Official Statement is the official statement deemed final by the Authority and the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") and approved for distribution by the Underwriters by resolution of the governing board of the Authority and the City. The Authority and the City hereby ratify and confirm their authorization of the use by the Underwriters prior to the date hereof of the Preliminary Official Statement. The Authority and the City shall have executed and delivered to the Underwriters certifications to such effect in the forms attached hereto as Appendices A and B.

(b) Final Official Statement. Within seven (7) business days from the date hereof, and in any event not later than two business days prior to the Closing Date, the Authority and the City shall deliver to the Underwriters a final Official Statement, executed on behalf of the Authority and the City by authorized representatives of such entities, which shall include information permitted to be omitted from the Preliminary Official Statement by paragraph (b)(1) of the Rule and with such other amendments or supplements as shall have been approved by the Authority, the City and the Representative (the "Final Official Statement") and such additional conformed copies thereof as the Underwriters may reasonably request in sufficient quantities to comply with the Rule and rules of the Municipal Securities Rulemaking Board (the "MSRB") and to meet potential customer requests for copies of the Official Statement. The City and the Authority hereby authorize the Underwriters to use the Official Statement and the information contained therein in connection with the offering and sale of the Bonds. The Preliminary Official Statement and the Final Official Statement, including the cover pages, the appendices thereto and all information incorporated therein by reference are hereinafter referred collectively to as the "Official Statement."

(c) Continuing Disclosure Certificate. In order to enable the Underwriters to comply with the Rule, the Authority will execute a Continuing Disclosure Certificate concurrently with issuance of the Bonds substantially in the form attached as Appendix G to the Official Statement (the "Continuing Disclosure Certificate").

5. Closing

At 8:30 a.m. California time on January [], 2009, or such other time as shall be agreed upon by the Representative and the Authority (the "Closing Date"), the Authority will deliver or cause to be delivered to the Underwriters at the offices of Fulbright & Jaworski L.L.P. ("Bond Counsel") in Los Angeles, California (or such other location as may be designated by the Representative and approved by the Authority) the closing documents hereinafter mentioned and, in New York City, New York through the facilities of The Depository Trust Company (or such other location as may be designated by the Representative and approved by the Authority), the Bonds in the form of registered book-entry bonds evidenced by one certificate for each maturity, interest rate and series of Bonds (which may be typewritten) in denominations of \$5,000 or any multiple thereof, duly executed by the Authority and authenticated by the Trustee, and subject to the terms and conditions hereof the Underwriters will accept delivery of the Bonds in book-entry form, and the Underwriters will pay the purchase price of the Bonds set forth in Section 1 by Federal Funds wire (such delivery and payment being herein referred to as "Closing").

6. Representations, Warranties and Agreements of the Authority

The Authority represents, warrants and covenants with the Underwriters that:

(a) the Authority is a joint exercise of powers authority duly organized and validly existing under and pursuant to the laws of the State of California, with full legal right, power and authority to issue, sell and deliver the Bonds to the Underwriters pursuant to the Indenture, and execute, deliver and perform its obligations, as the case may be, under this Bond Purchase Agreement, the Bonds, the 2009A Assignment Agreement and the Indenture (collectively, the "Legal Documents") and to carry out and consummate all transactions contemplated by each of the aforesaid documents and the Official Statement, and compliance with the provisions of the Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the Authority is a party or may be otherwise subject;

(b) the resolution adopted by the Authority on _____, 2008 approving and authorizing the execution and delivery by the Authority of the Legal Documents (the "Authority Resolution") was duly adopted at a meeting of the Authority called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed;

(c) when delivered by the Authority and paid for by the Underwriters in accordance with the provisions of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed and delivered and will constitute the valid and binding limited obligations of the Authority in conformity with, and entitled to the benefit and security of, the Indenture;

(d) the Authority will deliver the duly executed Indenture and the Agreement on the Closing Date, has duly authorized and approved the execution and delivery of the Legal Documents and when executed and delivered, the Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, will constitute the legally valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

(e) at the date hereof and as of the Closing Date, except as otherwise disclosed in the Official Statement, the Authority will be in compliance with the covenants and agreements contained in the Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would constitute an event of default thereunder shall have occurred and be continuing;

(f) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the due performance by the Authority of its obligations under the Legal Documents have been duly obtained or made, and are, and will be as of the Closing Date, in full force and effect;

(g) the Authority will comply with the requirements of the Tax Exemption Certificate executed by the Authority and the City in connection with the delivery of the Bonds;

(h) any certificate signed by any officer of the Authority and delivered to the Underwriters pursuant to the Legal Documents or any document contemplated hereby or thereby shall be deemed a representation and warranty by the Authority to the Underwriters as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(i) to the best knowledge of the Authority, there is no public vote or referendum pending or proposed, the results of which could materially adversely affect the transactions contemplated by the Legal Documents or the Official Statement or the validity or enforceability of the Bonds;

(j) the Indenture creates a valid pledge of and grant of a first priority security interest in the Net System Revenues purported to be pledged thereby, subject to no prior pledges or security interests other than the parity security interest in favor of the 1998 Certificates remaining outstanding following the Closing and the subordinated security interests in favor of the Series 2002 Subordinated Bonds, the 2004 SRF Loan, the Series 2007A Subordinated Notes, and the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Notes, Series 2008A (Payable Solely From Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the "Series 2008A Notes");

(k) the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Official Statement contains and up to and including the Closing will contain no misstatement of any material fact and does not, and up to and including the Closing will not, omit any

statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading;

(l) the Authority will advise the Representative promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Representative, which consent will not be unreasonably withheld. The Authority will advise the Representative promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds;

(m) as of the time of acceptance hereof and as of the time of the Closing, except as otherwise disclosed in the Official Statement, the Authority is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Authority is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach or default would materially adversely affect the security of the Bonds or the Authority's performance under the Legal Documents; and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the Legal Documents and the Bonds and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance agreement or other instrument to which the Authority (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Bonds and the Legal Documents;

(n) as of the time of acceptance hereof and the Closing, except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or to the best of the Authority's knowledge after reasonable investigation, threatened (i) in any way questioning the corporate existence of the Authority or the titles of the officers of the Authority to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds, the Legal Documents or the consummation of the transactions contemplated thereby or hereby, or contesting the exclusion of the interest on the Bonds from gross income for Federal income tax purposes or contesting the powers of the Authority or its authority to issue the Bonds; (iii) which may result in any material adverse change relating to the Authority; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained

any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence;

(o) for purposes of the Rule, the Authority has heretofore deemed final the Preliminary Official Statement prior to its use and distribution by the Underwriters, except for the information specifically permitted to be omitted by paragraph (b)(1) of the Rule; and

(p) except as otherwise disclosed in the Official Statement, the Authority has not previously failed to comply with any continuing disclosure obligation undertaken pursuant to the Rule.

All representations, warranties and agreements of the Authority shall remain operative and in full force and effect, regardless of any investigations made by or on the Underwriters' behalf, and shall survive the delivery of the Bonds.

7. Representations, Warranties, and Agreements of the City

The City represents, warrants and covenants with the Underwriters that:

(a) the City is a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California, with full legal right, power, and authority to execute, deliver and perform its obligations, as the case may be, under this Bond Purchase Agreement, the Continuing Disclosure Certificate and the Agreement (collectively, the "City's Legal Documents") and to carry out and consummate all transactions contemplated by each of the City's Legal Documents, and compliance with the provisions of the City's Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, charter provision, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the City is a party or may be otherwise subject;

(b) the ordinance of the City adopted on _____, 2008 and effective as of _____, 2008 approving and authorizing, among other things, the issuance of the Bonds and the entry into the Indenture by the Authority and the execution and delivery by the City of the Amended and Restated Master Installment Purchase Agreement, the 2009A Supplement and the Continuing Disclosure Certificate, and the resolution of the City adopted on _____, 2008 approving and authorizing the execution and delivery by the City of the Bond Purchase Agreement and approving the preparation and distribution of the Preliminary Official Statement and the Official Statement (collectively, the "City Action") were duly adopted at meetings of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and are in full force and effect and have not been amended or repealed;

(c) as of the time of acceptance hereof and the Closing, except as otherwise disclosed in the Official Statement, 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 reasonable investigation, threatened against or affecting the City (i) which in any way contests the existence, organization or powers of the City or the title of the officers of the City to their respective offices, or (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, or the payment or collection of revenues or assets of the City pledged or to be pledged to pay the obligations of the City under the Agreement, or the pledge thereof, or (iii) in any way contesting or affecting the validity or enforceability of the City's Legal Documents, or (iv) contesting the power of the City or its authority with respect to the Bonds or the City's Legal Documents, (v) contesting the exclusion of interest on the Bonds from gross income for Federal income tax purposes or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; nor, to the best knowledge of the City, is there any basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (v) of this sentence;

(d) the execution and delivery of the City's Legal Documents, the adoption of the City Action and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(e) the City has duly authorized the preparation and distribution of the Preliminary Official Statement and the Official Statement and the execution and delivery of the City's Legal Documents and when executed and delivered, the City's Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, will constitute the legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

(f) except as otherwise disclosed in the Official Statement, the City is not in violation or breach of or default under any applicable law or administrative regulation of the State of California or the United States of America, or any agency or instrumentality of either of them, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a violation or a breach of or a default under any such instrument; and, except as disclosed in the Official Statement, the authorization, execution and delivery of the City's Legal Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor

will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City's Legal Documents;

(g) as of the date hereof, the City is, and as of the Closing Date will be, except as otherwise disclosed in the Official Statement, in compliance with the covenants and agreements contained in the City's Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would constitute an event of default thereunder shall have occurred and be continuing;

(h) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the preparation and distribution of the Official Statement or the due performance by the City of its obligations under the City's Legal Documents have been duly obtained or made and are in full force and effect;

(i) the City will comply with the requirements of the Tax Exemption Certificate executed by the Authority and the City in connection with the delivery of the Bonds;

(j) any certificate signed by any officer of the City and delivered to the Underwriters pursuant to the City's Legal Documents or any document contemplated thereby shall be deemed a representation and warranty by the City to the Underwriters as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(k) to the best knowledge of the City, there is no public vote or referendum pending or proposed, the results of which could adversely affect the transactions contemplated by the Official Statement, the City's Legal Documents or the Bonds, or the Revenues securing the Bonds, or the validity or enforceability of the Bonds;

(l) the City has full legal right, power and authority to pledge the Net System Revenues, and the pledge of the Net System Revenues pursuant to the Agreement and the pledge of Revenues pursuant to the Indenture each constitutes a valid first priority lien and pledge on the Net System Revenues and the Revenues, respectively, purported to be pledged thereby, subject to no prior pledges or security interests other than those granted pursuant to the Agreement and the subordinate pledge of the 2004 SRF Loan;

(m) the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing Date will be, true and correct in all material respects, and the Official Statement contains, and up to and including the Closing Date will contain, no misstatement of any material fact and does not, and up to and including the Closing Date will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading;

(n) the City will advise the Representative promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Representative, which consent will not be unreasonably withheld. The City will advise the Representative promptly of the institution of any proceedings

known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds;

(o) for purposes of the Rule, the City has heretofore deemed final the Preliminary Official Statement prior to its use and distribution by the Underwriters, except for the information specifically permitted to be omitted by paragraph (b)(1) of the Rule; and

(p) the financial statements of the City contained in the Official Statement fairly present the financial position of the Water Utility Fund and results of operations thereof as of the dates and for the periods therein set forth, and the City has no reason to believe that such financial statements have not been prepared in accordance with generally accepted accounting principles consistently applied.

All representations, warranties and agreements of the City shall remain operative and in full force and effect, regardless of any investigations made by or on the Underwriters' behalf, and shall survive the delivery of the Bonds.

8. Conditions to the Obligations of the Underwriters

The Underwriters hereby enter into this Bond Purchase Agreement in reliance upon the representations and warranties of the Authority and the City contained herein and the ~~representations and warranties to be contained in the documents and instruments to be delivered~~ on the Closing Date and upon the performance by the Authority, the City, the Corporation, and the Trustee of their respective obligations both on and as of the date hereof. Accordingly, the Underwriters' obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriters, to the accuracy in all material respects of the representations and warranties of the Authority and the City contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the Authority, the City and the Trustee made in any certificate or document furnished pursuant to the provisions hereof, to the performance by the Authority, the City, the Corporation, and the Trustee of their respective obligations to be performed hereunder and under the Legal Documents, the Corporation Legal Documents (as hereinafter defined) and the City's Legal Documents at or prior to the date hereof and at or prior to the Closing Date, and also shall be subject to the following additional conditions:

(a) On the Closing Date, the Legal Documents and the City's Legal Documents shall have been duly authorized, executed and delivered by the Authority and by the City where each is a party, all in substantially the forms heretofore submitted to the Representative, with only such changes as shall have been agreed to in writing by the Representative, and shall be in full force and effect; and there shall be in full force and effect such resolutions and ordinances of the Board of Commissioners of the Authority and the City Council as, in the opinion of Fulbright & Jaworski L.L.P. ("Bond Counsel"), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(b) On the Closing Date, all necessary action of the Authority and the City relating to the issuance and sale of the Bonds will have been taken and will be in full force and effect and will not have been amended, modified or supplemented;

(c) On or prior to the Closing Date, the Underwriters shall have received the following documents, in each case satisfactory in form and substance to the Underwriters:

(i) one copy of the Bond Purchase Agreement, Legal Documents, the City's Legal Documents and the Corporation Legal Documents, each duly executed and delivered by the respective parties thereto;

(ii) the approving opinion, dated the date hereof and addressed to the Authority, of Bond Counsel in substantially the form of Appendix F to the Official Statement, and a letter of such counsel, dated the Closing Date, and addressed to the Underwriters to the effect that such opinion may be relied upon by the Underwriters to the same extent as if such opinion were addressed to them;

(iii) a supplemental opinion or opinions of Bond Counsel addressed to the Underwriters, in form and substance acceptable to the Representative, and dated the date of the Closing substantially to the following effect:

(A) the City and the Authority have duly and validly executed the Bond Purchase Agreement, and the Bond Purchase Agreement constitutes the legal, valid and binding agreement of the City and the Authority, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases;

(B) the statements contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "DESCRIPTION OF THE SERIES 2009 BONDS (other than information relating to DTC and its book-entry only system, as to which no opinion need be expressed)," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS," "TAX EXEMPTION," and in Appendices E and F thereto; insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture, the Agreement and Bond Counsel's final approving opinion relating to the Bonds, are accurate in all material respects; and

(C) the Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(iv) a letter of Hawkins, Delafield & Wood LLP ("Disclosure Counsel"), dated the date of the Closing, addressed to the Authority, the City and the Underwriters substantially to the following effect: On the basis of the information made available to

such firm in the course of its participation in the preparation of the Official Statement (but without having undertaken to determine or verify independently, or assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in such firm directly involved in rendering legal advice and assistance to the Authority and the City as Disclosure Counsel, including in connection with the preparation of the Official Statement, which cause such firm to believe that the Official Statement as of its date and the Closing Date (excluding therefrom financial, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; information relating to the Depository Trust Company and the book-entry only system; as to all of which such firm expresses no view) contains any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(v) an opinion of Nixon Peabody LLP, counsel to the Underwriters, dated the Closing Date, and addressed to the Underwriters, substantially to the effect that:

- (A) during the course of serving as counsel to the Underwriters in connection with the issuance of the Bonds and without having undertaken to determine or verify independently, or assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement, no facts have come to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the Bonds that would cause such firm to believe that the Official Statement (excluding therefrom the financial engineering and statistical data, forecasts, charts, numbers, estimates, projections, assumptions and expressions of opinion included in the Official Statement, information regarding DTC and its book-entry system, and the appendices to the Official Statement as to all of which no opinion need be expressed), as of the date thereof or the Closing Date, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;
- (B) the Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended; and
- (C) the undertaking by the City pursuant to the Continuing Disclosure Certificate satisfies the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission;

(vi) the opinion of the General Counsel to the Authority dated the Closing Date and addressed to the Underwriters, to the effect that: (A) the Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the

State of California; (B) the resolution of the Authority approving and authorizing the execution and delivery by the Authority of the Legal Documents and the preparation and distribution of the Preliminary Official Statement and the Official Statement (the "Authority Resolution") was duly adopted at a meeting of the Authority that was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed; (C) other than as otherwise disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel after reasonable investigation, threatened against or affecting the Authority, to restrain or enjoin the execution, delivery or sale of the Bonds or the collection or payment of Revenues that are the source of security for the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds or the Legal Documents, or in any way contesting or affecting the existence of the Authority or the title of any official of the Authority to such person's office, or contesting the power of the Authority or its authority with respect to the Bonds or the Legal Documents or contesting the exclusion of interest on the Bonds from gross income for Federal income tax purposes or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (D) the execution and delivery of the Legal Documents, the adoption of the Authority Resolution, and compliance by the Authority with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party (and of which such counsel is aware after reasonable investigation) or by which it is bound or by any existing law, regulation, court order or consent decree to which the Authority is subject; (E) the Legal Documents to which the Authority is a party have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Authority enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the limitations on legal remedies against public agencies in the State of California and the application of equitable principles if equitable remedies are sought; and (F) no authorization, approval, consent, or other order of the United States of America, the State of California, or any other governmental authority or agency within the State of California having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Legal Documents or for the adoption of the Authority Resolution which has not been obtained;

(vii) the opinion of Fulbright & Jaworski L.L.P., as special counsel to the Corporation, dated the Closing Date and addressed to the Underwriters, to the effect that: (A) the Corporation is a nonprofit charitable corporation organized and existing under and by virtue of the laws of the State of California; (B) the resolution (the "Corporation

Resolution”) of the Corporation approving and authorizing the execution and delivery by the Corporation of the Amended and Restated Master Installment Purchase Agreement, the 2009A Supplement and the 2009A Assignment Agreement (the “Corporation Legal Documents”) was duly adopted at a meeting of the Corporation that was called and held pursuant to law and with all public notice required by law and at which a quorum present and acting throughout, and is in full force and effect and has not been amended or repealed; (C) other than as otherwise disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel after reasonable investigation, threatened against or affecting the Corporation, to restrain or enjoin the collection or payment of Revenues that are the source of security for the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds or the Corporation Legal Documents, or in any way contesting or affecting the existence of the Corporation or the title of any official of the Corporation to such person’s office, or contesting the power of the Corporation or its authority with respect to the Corporation Legal Documents; (D) the Corporation Legal Documents have been duly authorized, executed and delivered by the Corporation and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Corporation enforceable in accordance with the respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors’ rights generally and the limitations on legal remedies against public agencies in the State of California and the application of equitable principles if equitable remedies are sought; and (F) no authorization, approval, consent, or other order of the United States of America, the State of California, or any other governmental authority or agency within the State of California having jurisdiction over the Corporation is required for the valid authorization, execution, delivery and performance by the Corporation of the Corporation Legal Documents or for the adoption of the Corporation Resolution which has not been obtained;

(viii) the opinion of the City Attorney, dated the Closing Date and addressed to the Authority and the Underwriters, to the effect that: (A) the City is duly organized and existing under its charter and the laws of the State of California; (B) the City Action was duly adopted at meetings of the City Council that were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed; (C) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel after reasonable investigation, threatened against or affecting the City, to restrain or enjoin the execution, delivery or sale of the Bonds or the collection or payment of revenues or assets of the City pledged or to be pledged to pay the obligations of the City under the Agreement, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds or the City’s Legal Documents, or in any way contesting or affecting the existence of the City or the title of any official of the City to such person’s office, or contesting the power of the City or its authority with respect to the Bonds or the City’s Legal Documents, or contesting the exclusion of interest on the Bonds from gross income for Federal income tax purposes or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or

amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (D) the execution and delivery of the City's Legal Documents, the adoption of the City Action and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party (and of which such counsel is aware after reasonable investigation) or by which it is bound (and of which such counsel is aware after reasonable investigation) or any existing law, regulation, court order or consent decree to which the City is subject; (E) the City's Legal Documents have been duly authorized, executed and delivered by the City, and assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the limitations on legal remedies against public agencies in the State of California and the application of equitable principles if equitable remedies are sought; and (F) no authorization, approval, consent or other order of the United States of America, the State of California or any other governmental authority or agency within the State of California having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the City's Legal Documents or for the adoption of the City Action which has not been obtained;

(ix) a certificate of a duly authorized official of the Authority, dated the Closing Date, in form and substance satisfactory to the Representative, to the effect that (A) the Authority's representations and warranties contained in the Legal Documents and the Bond Purchase Agreement are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date; and (B) no event has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement, as then supplemented or amended or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect;

(x) a certificate of a duly authorized official of the City, dated the Closing Date, in form and substance satisfactory to the Representative, to the effect that (A) the City's representations and warranties contained in the City's Legal Documents and the Bond Purchase Agreement are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date; and (B) no event has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement, as then supplemented or amended or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect;

(xi) a certificate of a duly authorized official of the Trustee, dated the Closing Date, to the effect that: (A) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States, having the full power and being qualified to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to the Underwriters; (B) the Trustee is duly authorized to enter into the Indenture and to authenticate and deliver the Bonds to the Underwriters pursuant to the Indenture; (C) when delivered to and paid for by the Underwriters at the Closing, the Bonds will have been duly authenticated and delivered by the Trustee; (D) the execution and delivery of the Indenture and compliance with the provisions on the Trustee's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), which conflict, breach or default would materially impair the ability of the Trustee to perform its obligations under the Indenture, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Trustee pursuant to the lien created by the Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Indenture; and (E) to the best of the knowledge of the Trustee, it has not been served with any action, suit, proceeding, inquiry or investigation in law or in equity, before or by any court, governmental agency, public board or body, nor is any such action or other proceeding threatened against the Trustee, affecting the existence of the Trustee, or the titles of its officers to their respective offices or seeking to prohibit, restrain, or enjoining the execution and delivery of the Bonds or the collection of revenues to be applied to pay the principal, premium, if any, and interest with respect to the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or funding would materially adversely affect the validity or enforceability of the Indenture or the power and authority of the Trustee to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to or upon the order of the Underwriters;

(xii) the opinion, dated the Closing Date and addressed to the Underwriters, the Authority and the City, of Counsel to the Trustee, to the effect that: (A) the Trustee has been duly incorporated as a national banking association under the laws of the United States and is in good standing under the laws of the State of California, duly qualified to do business and to exercise trust powers therein, having full power and authority to enter into and to perform its duties as Trustee under the Indenture; (B) the Trustee has duly authorized, executed and delivered the Indenture, and by all proper corporate action has authorized the acceptance of the trusts of the Indenture; (C) the Indenture constitutes the legally valid and binding agreement of the Trustee, enforceable against the Trustee in accordance with its terms, and (D) the Bonds have been validly authenticated and delivered by the Trustee;

- (xiii) one certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture;
- (xiv) one certified copy of each of the Authority Resolution and the Corporation Resolution;
- (xv) one certified copy of the City Action;
- (xvi) the certification required under Section 5.03 of the Agreement;
- (xvii) a Tax Exemption Certificate of the Authority and the City in form and substance acceptable to Bond Counsel;
- (xviii) evidence that the federal tax information form 8038-G has been prepared for filing;
- (xix) a copy of the Notice of Proposed Sale and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855(g) of the California Government Code;
- (xx) evidence that the Bonds have been rated “___” by Standard & Poor’s Ratings Service, “___” by Moody’s Investors Service and “___” by Fitch, Inc.;
- (xxi) a Certificate of Good Standing from the California Franchise Tax Board with respect to the Corporation;
- (xxii) a Certificate of Status of Domestic Corporation for the California Secretary of State with respect to the Corporation;
- (xxiii) letters from the City’s auditors addressed to the City, dated the date of the Preliminary Official Statement and the date of the Official Statement consenting to the inclusion of their audit reports for fiscal years 2005-06 and 2006-07 in the Preliminary Official Statement and the Official Statement;
- (xxiv) an executed copy of the Engineer’s Feasibility Study;
- (xxv) a certificate of a duly authorized representative of the Feasibility Consultant dated the Closing Date to the effect that: (A) the assumptions, projections and conclusions set forth in the Feasibility Report are reasonable; (B) the Feasibility Report has been summarized in and appended to the Preliminary Official Statement and the Official Statement with their permission; (C) the Feasibility Report does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; and (D) nothing has come to the attention of the Feasibility Consultant since the date of the Feasibility Report that would materially adversely affect the assumptions, projections or conclusions set forth in the Feasibility Report or call into question the reasonableness of such assumptions, projections or conclusions;

(xxvi) a certified copy of the joint exercise of powers agreement pursuant to which the Authority was created;

(xxvii) Notice of Joint Exercise of Powers Agreement from the Secretary of State certifying that the joint exercise of powers agreement pursuant to which the Authority was created was duly filed;

(xxviii) a true and correct copy of the legal documents pertaining to the 2004 SRF Loan; and

(xxix) such additional legal opinions, certificates, instruments or evidences thereof and other documents as the Counsel to the Underwriters or Bond Counsel may reasonably request to evidence the due authorization, execution and delivery of the Bonds and the conformity of the Bonds and the Legal Documents with the terms of the Bonds and the descriptions thereof in the Official Statement.

(d) the Underwriters shall have the right to terminate this Bond Purchase Agreement, without liability therefor, by notification to the Authority and the City if at any time at or prior to the Closing:

(i) any event shall occur or facts are discovered which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Representative, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Bond Purchase Agreement in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City or the Authority, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Representative, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) there shall have occurred any outbreak or escalation of hostilities or terrorist activities or other local, national or international calamity or crisis, or a default with respect to the debt obligations of, or the institution of proceedings under the federal bankruptcy laws by or against, any state of the United States or agency thereof, or any city in the United States having a population of over one million; the effect of which on the financial markets of the United States will be such as in the Representative's reasonable judgment, makes it impracticable for the Underwriters to market the Bonds or enforce contracts for the sale of the Bonds; or

(vi) any rating of the Bonds shall have been downgraded, suspended or withdrawn by a national rating service, which, in the Representative's reasonable opinion, materially adversely affects the marketability or market price of the Bonds; or

(vii) the commencement of any action, suit or proceeding described in Paragraphs 6(n) or 7(c) hereof which, in the judgment of the Representative, materially adversely affects the market price of the Bonds; or

(viii) the declaration of a general banking moratorium by federal, New York or California authorities, the general suspension of trading on any national securities exchange or a material disruption in securities settlement, payment or clearance services, which event, in the reasonable judgment of the Representative, would materially adversely affect the market price of the Bonds; or

(ix) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to net capital requirements of, the

Underwriters, which, in the reasonable judgment of the Representative, would materially adversely affect the market price of the Bonds; or

(x) there shall have been any materially adverse change in the affairs of the Authority or the City which in the Representative's reasonable judgment materially adversely affects the ability of the Underwriters to market the Bonds.

If the City or the Authority shall be unable to satisfy the conditions contained in this Bond Purchase Agreement, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriters, the City nor the Authority shall be under further obligation hereunder, except as further set forth in Section 9 and Section 10 hereof.

9. Expenses

The Underwriters shall be under no obligation to pay, and the Authority and the City shall pay or cause to be paid the expenses incident to the performance of the obligations of the Authority and the City hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Legal Documents, the City's Legal Documents and the Corporation Legal Documents and the cost of preparing, printing, issuing and delivering the definitive Bonds, (b) the fees and disbursements of any counsel, financial advisors, accountants, verification agents or other experts or consultants retained by the Authority or the City, (c) the fees and disbursements of Bond Counsel, (d) the fees and disbursements of Disclosure Counsel, (e) the fees and disbursements of the Trustee, (f) the cost of preparation and printing of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement and any supplements and amendments thereto, including the requisite number of copies thereof for distribution by the Underwriters, and (g) charges of rating agencies for the rating of the Bonds. The Authority, the City and the Underwriters intend that the Authority and the City will pay all expenses of the Authority and City's employees that are incidental to implementing this Bond Purchase Agreement, including, but not limited to, meals, transportation, and lodging, of those employees, and the Authority and the City shall reimburse the Underwriters if the Underwriters pay for any of such expenses on behalf of the Authority or City.

All out-of-pocket expenses of the Underwriters, including the California Debt and Investment Advisory Commission fee, fees of Underwriters' counsel, and other expenses (except as provided above), shall be paid by the Underwriters from the Underwriters' discount set forth in Section 1.

10. Covenants of Authority and City

The Authority and the City covenant with the Underwriters that:

(a) If between the date hereof and the date which is not less than 25 days after the End of the Underwriting Period for the Bonds (as defined below), an event occurs, or facts or conditions become known of which the Authority or the City has knowledge which in the reasonable opinion of counsel to the Underwriters or counsel to the Authority or the City, might or would cause the information contained in the Official Statement, as then supplemented or

amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was made, not misleading, the Authority or the City, as applicable, will notify the Representative, and, if in the opinion of the Representative, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority and the City will forthwith prepare and furnish to the Underwriters (at the expense of the City) a reasonable number of copies of an amendment of or supplement to the Official Statement (in the form and substance satisfactory to the Representative) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to prospective purchasers, not misleading. If such notification shall be subsequent to the Closing, the Authority and the City shall forthwith provide to the Underwriters such certificates as the Underwriters may reasonably deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, the City will furnish such information with respect to itself and the Authority as the Underwriters may from time to time reasonably request;

(b) If the information contained in the Official Statement is amended or supplemented pursuant to subparagraph (a) of this Section 10, at the time of such supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein), excluding statements and information under the caption "UNDERWRITING," contained in APPENDIX H - "Information Regarding the Book-Entry Only System," and information as to bond prices on the inside front cover of the Official Statement, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was made, not misleading;

(c) As used herein and for the purposes of the foregoing, the term "End of Underwriting Period" for the Bonds shall mean the earlier of (i) the Closing Date unless the Authority and the City shall have been notified in writing to the contrary by the Representative on or prior to the Closing Date or (ii) the date on which the End of the Underwriting Period for the Bonds has occurred under the Rule, provided, however, that the Authority and the City may treat as the End of the Underwriting Period for the Bonds the date specified as such in a notice from the Representative stating the date which is the End of the Underwriting Period;

(d) To the extent permitted by law, the City and the Authority agree to indemnify and hold harmless the Underwriters and each person, if any, who controls (within the meaning of Section 15 of the Securities Act of 1933, as amended or Section 20 of the Securities Exchange Act of 1934, as amended), the Underwriters, and the officers, directors, agents and employees of the Underwriters, against any and all losses, claims, damages, liabilities and expenses (i) arising out of any statement or information in the Preliminary Official Statement or in the Official Statement, excluding statements and information under the caption "UNDERWRITING,"

contained in APPENDIX H - "Information Regarding the Book-Entry Only System," and information as to bond prices on the inside front cover of the Official Statement, that is untrue or incorrect in any material respect or the omission or alleged omission therefrom of any statement or information that should be stated therein or that is necessary to make the statements therein not misleading in any material respect, and (ii) to the extent of the aggregate amount paid in settlement of any litigation commenced or threatened arising from a claim based on any such untrue statement or omission, if such settlement is effected with the consent of the City and the Authority. In case any claim shall be made or action brought against the Underwriters or any controlling person based upon the Preliminary Official Statement or the Official Statement for which indemnity may be sought against the City and the Authority, as provided above, the Underwriters shall promptly notify the City and the Authority in writing setting forth the particulars of such claim or action and the City and the Authority shall assume the defense thereof, including at their option the retaining of counsel acceptable to the Underwriters and including the payment of all reasonable expenses. The Underwriters or any such controlling person shall have the right to retain separate counsel in any such action and to participate in the defense thereof but shall bear the fees and expenses of such counsel unless the City and the Authority shall have specifically authorized the retaining of such counsel. If the parties to such suit include the Underwriters or such controlling person or persons and the City and the Authority, and the Underwriters or controlling person or persons have been advised by counsel that one or more legal defenses may be available to them which may not be available to the City or the Authority, the City and the Authority shall not be entitled to assume the defense of the suit;

(e) To advise the Representative immediately of receipt by the Authority or the City of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose;

(f) The Authority and the City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate; provided, however, that the Authority and the City shall not be required to register as a dealer or broker or foreign corporation in any such state or jurisdiction or consent to service of process therein; and

(g) The Authority and the City will perform all actions as may be requested by the Underwriters (including delivery of an appropriate certificate with respect to the Preliminary Official Statement) in order for the Underwriters to comply with the applicable provisions of the Rule.

11. Obligations of the Underwriters

The Underwriters agree to indemnify and hold harmless the City and the Authority against any and all losses, claims, damages, liabilities and expenses (i) arising out of any statement or information provided by the Underwriters for inclusion in the Preliminary Official Statement or in the Official Statement under the caption "UNDERWRITING" and information as to bond prices on the inside front cover page of the Official Statement, that is untrue or

incorrect in any material respect or the omission or alleged omission therefrom of any statement or information that should be stated therein or that is necessary to make the statements related to such information, not misleading in any material respect, and (ii) to the extent of the aggregate amount paid in settlement of any litigation commenced or threatened arising from a claim based on any such untrue statement or omission if such settlement is effected with the consent of the Underwriters. In case any claim shall be made or action brought against the City or the Authority or any controlling person based upon the Official Statement for which indemnity may be sought against the Underwriters, as provided above, the Authority or the City, as applicable, shall promptly notify the Underwriters in writing setting forth the particulars of such claim or action and the Underwriters shall assume the defense thereof, including at their option the retaining of counsel acceptable to the City and the Authority, and including the payment of all reasonable expenses. The City, the Authority or any such controlling person shall have the right to retain separate counsel in any such action and to participate in the defense thereof but shall bear the fees and expenses of such counsel unless the Underwriters shall have specifically authorized the retaining of such counsel. If the parties to such suit include the City and the Authority or such controlling person or persons and the Underwriters, and the City and the Authority or such controlling person or persons have been advised by such counsel that one or more legal defenses may be available to it or them which may not be available to the Underwriters, the Underwriters shall not be entitled to assume the defense of the suit.

12. Notices

Any notice or other communication to be given to the Authority or the City under this Bond Purchase Agreement may be given by delivering the same in writing at the Authority's and the City's addresses, respectively, set forth above and any such notice or other communication to be given to the Underwriters shall be delivered to the following address:

Morgan Stanley & Co. Incorporated
535 California Street, Suite 2200
San Francisco, CA 94104
Attn: John Sheldon

13. Parties in Interest

This Bond Purchase Agreement is made solely for the benefit of the Authority, the City and the Underwriters and no other person shall acquire or have any right hereunder or by virtue hereof. All the representations and warranties of the parties hereto contained in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriters, the City or the Authority until the earlier of (a) delivery of and payment for the Bonds hereunder, and (b) any termination of this Bond Purchase Agreement.

14. Counterparts

This Bond Purchase Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

15. Effectiveness

This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the duly authorized officers of the Authority and the City and shall be valid and enforceable as of the time of such acceptance.

16. Choice of Law

The validity, interpretation and performance of this Bond Purchase Agreement shall be governed by the laws of the State of California, without regard to conflicts of law.

17. Severability

In the event any provision of this Bond Purchase Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

18. Entire Agreement

The Bond Purchase Agreement, when accepted by the Authority and the City in writing as heretofore specified, shall constitute the entire agreement among the Authority, the City and the Underwriters.

19. Headings

The headings of the sections of this Bond Purchase Agreement are inserted for convenience only and shall not be deemed to be part hereof.

20. No Assignment

The rights and obligations created by this Bond Purchase Agreement shall not be subject to assignment by the Underwriters, the City or the Authority without the prior written consent of the other parties hereto.

[The remainder of this page intentionally left blank.]

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.

MORGAN STANLEY & CO.
INCORPORATED, for itself and as
Representative of

J.P. MORGAN SECURITIES INC.
RAMIREZ & CO., INC.
SIEBERT BRANDFORD SHANK & CO., LLC
ESTRADA HINOJOSA

By: _____
Managing Director

Accepted as of the date hereof:

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF
SAN DIEGO

By: _____
Name:
Title: Chair

CITY OF SAN DIEGO

By: _____
Name:
Title: Chief Financial Officer

APPROVED AS TO FORM:
Michael J. Aguirre, City Attorney

By: _____
Deputy City Attorney

SCHEDULE I

\$ _____ REFUNDING SERIES 2009A BONDS

<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>
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APPENDIX A

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

RULE 15c2-12 CERTIFICATE

The undersigned hereby certifies to Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Ramirez & Co., Inc., Siebert Brandford Shank & Co., LLC and Estrada Hinojosa (collectively, the "Underwriters") that I am the duly appointed and acting _____ of the Public Facilities Financing Authority of the City of San Diego (the "Authority"), and as such, I am authorized to execute and deliver this Certificate and further hereby certify and reconfirm on behalf of the Authority to the Underwriters as follows:

(1) This Certificate is delivered to enable the Underwriters to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the Authority's Water Revenue Bonds, Refunding Series 2009A (the "Bonds").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement dated December __, 2008, setting forth information concerning the Bonds, the City of San Diego and the Authority (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" means the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters and the identity of the underwriters(s), all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule and has been, and the information therein is, accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, the undersigned has executed this certificate as of this _____ day of December, 2008.

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

By: _____
Authorized Representative

APPENDIX B

CITY OF SAN DIEGO

RULE 15c2-12 CERTIFICATE

The undersigned hereby certifies to Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Ramirez & Co., Inc., Siebert Brandford Shank & Co., LLC and Estrada Hinojosa (collectively, the "Underwriters") that I am the duly appointed and acting _____ of the City of San Diego (the "City"), and as such, I am authorized to execute and deliver this Certificate and further hereby certify and reconfirm on behalf of the City to the Underwriters as follows:

(1) This Certificate is delivered to enable the Underwriters to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Refunding Series 2009A (the "Bonds").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement dated December __, 2008, setting forth information concerning the Bonds, the City and the Public Facilities Financing Authority of the City of San Diego (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" means the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters and the identity of the underwriters(s), all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule and has been, and the information therein is, accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, the undersigned has executed this certificate as of this _____ day of December, 2008.

CITY OF SAN DIEGO

By: _____
Authorized Representative

**PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
WATER REVENUE BONDS, REFUNDING SERIES 2009A
(Payable Solely From Installment Payments
Secured by Net System Revenues of the Water Utility Fund)**

Log of Outstanding Items as of October 3, 2008

Preliminary Official Statement

<i>Section/Page</i>	<i>Outstanding Item</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Cover Page	Date of Preliminary Official Statement	City; FA; UW	Dated date of posting of the Preliminary Official Statement.
Cover Page	Ratings	FA; UW; Rating Agencies	Will be received prior to posting of the Preliminary Official Statement.
Cover Page	Principal Amount	UW	To be determined at Pricing.
Cover Page	Delivery date	City; FA; UW	Will be completed either before Posting POS or at Pricing.
Cover Page	Date of Official Statement	City; FA; UW	Dated date of Pricing.
Inside Cover Page	Principal Amount	UW	To be determined at Pricing.
Inside Cover Page	Maturity Schedule	UW	To be determined at Pricing.
Participants' Page	City Officials	City	Will be completed after the November 2008 elections are held.
Introduction/1	Principal Amount	UW	To be determined at Pricing.
Introduction/5	Date of Macias unqualified audit opinion for the City's Fiscal Year 2006-07 financial statements	City	Will be completed on the date such unqualified audit opinion is delivered, prior to the posting of the Preliminary Official Statement.
Introduction/5	Date the Macias unqualified audit opinion for the City's Fiscal Year 2006-07 financial statements is received by the City Council	City	Will be completed on the date of such receipt, prior to the posting of the Preliminary Official Statement.

Introduction/5	Confirmation that each required annual report and audited financial statement has been filed in compliance with the City's continuing disclosure obligations.	City	Will be completed on the date such reports and statements are filed with the relevant repositories, which will be prior to the posting of the Preliminary Official Statement.
Introduction/5	The dates pertaining to Macias's unqualified audit opinion on the City's 2007 financial statements..	City	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Continuing Disclosure/6	Verification regarding the filing of the annual report and audited financial statement.	City	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Plan of Finance/6	Maturity date(s) of Series 1998 Certificates to be prepaid	City; FA; UW	To be determined at Pricing.
Plan of Finance/6	Principal amount(s) of Series _ 1998 Certificates to be prepaid	City; FA; UW	To be determined at Pricing.
Plan of Finance/6	CUSIP Numbers	City; FA; UW	To be determined at Pricing.
Estimated Sources and Uses of Funds/7	Application of Bond Proceeds	City; FA; UW	To be determined at Pricing.
Description of the Series 2009A Bonds/8	Optional redemption dates	City; FA; UW	To be determined at Pricing.
Description of the Series 2009A Bonds/8	Mandatory sinking fund redemption dates	City; FA; UW	To be determined at Pricing.
Description of the Series 2009A Bonds/13	Statement of 2009 Reserve Requirement	City; FA; UW	To be determined prior to posting of the Preliminary Official Statement, depending on market conditions.
Description of the Series 2009A Bonds/13	Statement of amount of the 2009A Reserve Requirement	City; FA; UW	To be determined at Pricing.
Description of the Series 2009A Bonds/17	2009A Installment Payments	City; FA; UW	To be determined at Pricing.
Water System Service Area and Facilities/26	Confirmation of number of different pressure zones.	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Current Water Supply/27	Update of the goals attained by the City for Fiscal Year 2006-07 and Fiscal Year 2007-08.	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.

Future Water Supply for the Water System/30	Update of amount of Point Loma treatment of wastewater discharge	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Future Water Supply for the Water System/30	Update of estimate of daily flows at SBWRP.	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Water System Capital Improvement Program/34	Update on dollar amount of projects completed without access to public markets	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Water System Capital Improvement Plan/36	Update on amount of on-hand funds available to the Water Department, and the date through which the funds will be available	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Water System Capital Improvement Program/37	Update on CIP projects which require an EIR	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Water System Capital Improvement/39	Update on any pending contract disputes	Water Department	Will be completed prior to the posting of the Preliminary Official Statement, upon confirmation of no further litigation developments.
Water System Financial Operations/40	Update on the City Council's determination with respect to CWA "pass-through" costs	Water Department	Will be completed prior to the posting of the Preliminary Official Statement, upon action by the City Council.
Water System Financial Operations/40	Update on the City Council's determination with respect temporarily increasing commodity charge in connection with pilot program	Water Department	Will be completed prior to the posting of the Preliminary Official Statement, upon action by the City Council.
Water System Financial Operations/45	Table 11 – Historical Capacity Charge Revenues – Fiscal Year 2006-07 audited amounts	Water Department	Current unaudited amounts to be updated with audited amounts upon completion and release of the City's comprehensive audited financial statements for Fiscal Year 2006-07.

Water System Financial Operations/48	Table 13 – Historical Sources of Water Service Revenues – Fiscal Year 2006-07 audited amounts	Water Department	Current unaudited amounts to be updated with audited amounts upon completion and release of the City’s comprehensive audited financial statements for Fiscal Year 2006-07.
Water System Financial Operations/50	Table 14 – Revenues, Expenses, Changes in Fund Net Assets – Fiscal Year 2006-07 audited amounts	Water Department	Current unaudited amounts to be updated with audited amounts upon completion and release of the City’s comprehensive audited financial statements for Fiscal Year 2006-07.
Water System Financial Operations/51	Table 15 – Calculation of Historic Debt Service Coverage – Fiscal Year 2006-07 audited amounts	Water Department	Current unaudited amounts to be updated with audited amounts upon completion and release of the City’s comprehensive audited financial statements for Fiscal Year 2006-07.
Water System Financial Operations/60	Table 20 – Liability Claims Accrued Estimated Liabilities and Expenditures – Fiscal Year 2006-07 audited amounts	Water Department	Current unaudited amounts to be updated with audited amounts upon completion and release of the City’s comprehensive audited financial statements for Fiscal Year 2006-07.
Water System Financial Operations/61	Pool liquidity information as of November 2008	City	Will be updated prior to the posting of the Preliminary Official Statement.
Water System Financial Operations/62	Pool investment results as of November 2008	City	Will be updated prior to the posting of the Preliminary Official Statement.
Continuing Disclosure/79	Statement regarding filing of all required reports and statements in connection with continuing disclosure obligations of assessment districts.	City	Will be completed on the date such reports and statements are filed with the relevant repositories, which will be prior to the posting of the Preliminary Official Statement.
Continuing Disclosure/79	Statement regarding filing of all required reports and statements in connection with continuing disclosure obligations of the City.	City	Will be completed on the date such reports and statements are filed with the relevant repositories, which will be prior to the posting of the Preliminary Official Statement.

Litigation/79	Date of summary of material litigation	City	Will be completed prior to the posting of the Preliminary Official Statement, upon confirmation of no further litigation developments.
Ratings/80	Ratings	FA; UW; Rating Agencies	Will be received prior to posting of the Preliminary Official Statement.
Underwriting/80	Net original issue premium and the underwriters' compensation.	UW	To be determined at Pricing.
Underwriting/80	Purchase price information	UW	Will be completed at Pricing.
Miscellaneous/82	Name of signatory of the Preliminary Official Statement	City	To be determined prior to posting of the Preliminary Official Statement.
Certain Information regarding the City of San Diego and Area/A-6	Table A-6 – City of San Diego Transient Occupancy Tax – Fiscal Year 2006-07 audited amounts	City	Current unaudited amounts to be updated with audited amounts upon completion and release of the City's comprehensive audited financial statements for Fiscal Year 2006-07.
San Diego County Water Authority/C-5	Update on status of the City-owned reservoirs.	Water Department	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Information Concerning the San Diego County Water Authority and Metropolitan Water District of Southern California/C-7	Update on status of construction of regional brine line at Marine Corps Base Camp Pendleton	DC	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Information Concerning the San Diego County Water Authority and Metropolitan Water District of Southern California/C-20	Status of State bills relative to the Salton Sea Restoration Implementation	DC	To be updated with most current information prior to the posting of the Preliminary Official Statement.
Summary of Principal Legal Documents/E-2	Closing Date	UW	At pricing.
Summary of Principal Legal Documents/E-9	Principal Payment Date	UW	At pricing.
Summary of Principal Legal Documents/E-10	Reserve Fund determination	UW; City	At or prior to pricing.

Summary of Principal Legal Documents/E-11	Reserve Requirement	UW; City	At pricing.
Summary of Principal Legal Documents/E-14 through E-16	Reserve Fund determination and Reserve Requirement	UW; City	At or prior to pricing.
Form of Bond Counsel Opinion/F-1	Date of opinion	BC	To be completed at Pricing.
Form of Bond Counsel Opinion/F-1	Principal Amount	City; FA; UW	To be completed at Pricing.
Form of Bond Counsel Opinion/F-1	Number of Board of Commissioners resolution approving bond issuance	City	To be completed prior to posting of the Preliminary Official Statement.
Form of Bond Counsel Opinion/F-1	Date of Board of Commissioners resolution approving bond issuance	City	To be completed prior to posting of the Preliminary Official Statement.
Form of Continuing Disclosure Certificate/G-1	Principal Amount	City; FA; UW	To be completed at Pricing.
Form of Continuing Disclosure Certificate/G-1	Date of Official Statement	City; FA; UW	Dated date of Pricing.
Form of Continuing Disclosure Certificate/G-7	Name of signatories	City	To be determined prior to execution of bond documents.
Form of Continuing Disclosure Certificate/G-8	Date of issuance of Series 2009A Bonds	City; FA; UW	Dated date of Pricing.
Form of Continuing Disclosure Certificate/G-8	Remainder of form of notice to repositories of failure to file annual report	Not Applicable	Form to be completed at the time of reporting of a failure to file, if any. Form will remain blank through posting.

NEW ISSUE BOOK-ENTRY ONLY

RATINGS:

Moody's: "____"
 Fitch: "____"
 S&P: "____"

(See "Ratings" herein.)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the Series 2009A Bonds is exempt from personal income taxes of the State of California, and, assuming continuing compliance after the date of initial delivery of the Series 2009A Bonds with certain covenants contained in the Indenture authorizing the Series 2009A Bonds and subject to the matters set forth under "TAX EXEMPTION" herein, interest on the Series 2009A Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, to the date of initial delivery of the Series 2009A Bonds, and will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations. See "TAX EXEMPTION" herein.

§[Series A Par Amount]*
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
WATER REVENUE BONDS, REFUNDING SERIES 2009A
(Payable Solely From Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

Dated: Date of Delivery

Due: August 1, as shown on the inside cover

The §[Series A Par Amount]* Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Refunding Series 2009A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Series 2009A Bonds") are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the "State") and an Indenture, dated as of January 1, 2009 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as Trustee (the "Trustee"). The proceeds of the Series 2009A Bonds will be used to pay or prepay a portion of the Outstanding Obligations (herein defined), fund the Reserve Fund (as described herein) to satisfy all or a portion of the 2009A Reserve Requirement (as described herein) and pay costs of issuance with respect to the Series 2009A Bonds.

THE SERIES 2009A BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY AND SHALL BE PAYABLE SOLELY FROM THE REVENUES AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (OTHER THAN AMOUNTS ON DEPOSIT IN THE REBATE FUND). THE SERIES 2009A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR OF THE STATE AND NEITHER THE FAITH AND CREDIT OF THE AUTHORITY, THE CITY NOR OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009A BONDS. THE AUTHORITY HAS NO TAXING POWER.

The pledge and assignment of and lien on the Revenues and amounts on deposit in the funds and accounts established under the Indenture pursuant to the Indenture and the 2009A Supplement (as described herein) to secure the 2009A Installment Payments (as described herein) are, in all respects, on parity with the pledge and assignment of and lien on the Revenues granted securing the other Parity Obligations (as described herein) executed and delivered in accordance with the Installment Purchase Agreement (as described herein). The principal of and interest on the Series 2009A Bonds and any premiums upon the redemption of any thereof are not a debt of the City or the Authority nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues except the Revenues and amounts on deposit in the funds and accounts established under the Indenture.

The Series 2009A Bonds will accrue interest from their date of delivery and interest thereon will be payable on February 1 and August 1 of each year, commencing on August 1, 2009. The Series 2009A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. See "The Series 2009A Bonds – General" herein and Appendix E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

The Series 2009A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2009A Bonds. Ownership interests in the Series 2009A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2009A Bonds, principal, redemption premium, if any, and interest on the Series 2009A Bonds will be made as described in Appendix H – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Series 2009A Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. See "Redemption of the Series 2009A Bonds" herein.

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2009A Bonds are offered when, as and if issued, subject to the legal opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the San Diego Facilities and Equipment Leasing Corporation by Fulbright & Jaworski L.L.P., for the Authority by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and by Michael Aguirre, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the Series 2009A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about January __, 2009.

Morgan Stanley

J.P. Morgan

Estrada Hinojosa

Ramirez & Co., Inc.

Siebert Brandford Shank & Co. LLC

Dated: _____, 2009

Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

\$[Series A Par Amount]*
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
WATER REVENUE BONDS, REFUNDING SERIES 2009A
 (Payable Solely From Installment Payments
 Secured by Net System Revenues of the Water Utility Fund)

MATURITY SCHEDULE

\$[SERIES A PAR AMOUNT]* REFUNDING SERIES 2009A BONDS

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP†
	\$	%		

\$ _____ % Term Bonds due August 1, 20__ – Priced to Yield: ____% – CUSIP†: _____
 \$ _____ % Term Bonds due August 1, 20__ – Priced to Yield: ____% – CUSIP†: _____

* Preliminary, subject to change.

† Copyright, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc., and is set forth herein for convenience of reference only. The City, the Authority, the Corporation and the Underwriters do not assume responsibility for the accuracy of such data.

No dealer, broker, salesperson or other person has been authorized by the City, the Authority or the Corporation to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Authority or the Corporation. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2009A Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not a contract with the purchasers of the Series 2009A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the City and by other sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement: the Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the Authority, the Corporation or any other parties described herein since the date hereof. All summaries of the Series 2009A Bonds, the Indenture, the 2009A Supplement, the Assignment Agreement (each as described herein) and other documents summarized herein, are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the execution and delivery of the Series 2009A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The City maintains a website at <http://www.sandiego.gov>. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2009A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2009A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

CITY OF SAN DIEGO*

Mayor

Jerry Sanders

City Council

Scott Peters, Council President (District 1)	Brian Maienschein (District 5)
Kevin Faulconer (District 2)	Donna Frye (District 6)
Toni Atkins (District 3)	Jim Madaffer (District 7)
Tony Young (District 4)	Ben Hueso (District 8)

City Attorney

Michael J. Aguirre

City Officials

Jay M. Goldstone, *Chief Operating Officer*
Mary Lewis, *Chief Financial Officer*
Gail R. Granewich, *City Treasurer*
Eduardo Luna, *Internal Auditor*
Greg Levin, *City Comptroller*
Andrea Tevlin, *Independent Budget Analyst*
Elizabeth Maland, *City Clerk*

Water Department

Jim Barrett, Director of Public Utilities
Alex Ruiz, Assistant Director
Rod Greek, Deputy Director, Business and Support Services
Mike Bresnahan, Deputy Director, Customer Support Division
Marsi Steirer, Deputy Director, Water Policy and Strategic Planning Division
Jim Fisher, Deputy Director, Water Operations Division

Special Services

BOND COUNSEL Fulbright & Jaworski, L.L.P. Los Angeles, California	DISCLOSURE COUNSEL Hawkins Delafield & Wood LLP Los Angeles, California
FINANCIAL ADVISOR Montague DeRose and Associates LLC Walnut Creek, California	TRUSTEE Wells Fargo Bank, National Association Los Angeles, California.
FEASIBILITY ENGINEER Camp Dresser & McKee Inc. Cambridge, Massachusetts	

To be revised to reflect the results of the general municipal election to be held in November 2008.

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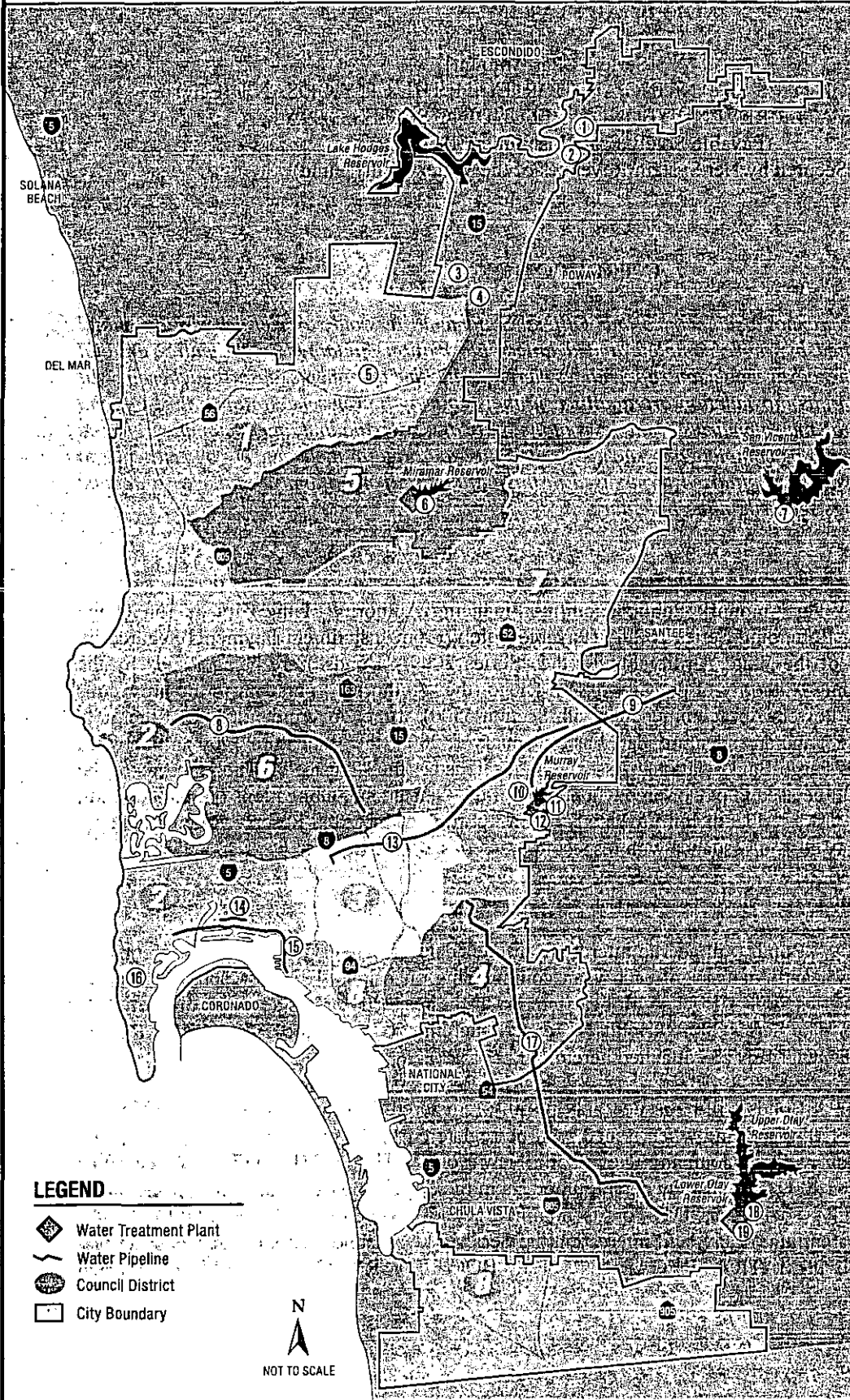
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THE CITY OF SAN DIEGO

Water Department WATER CIP PROJECTS



CITY WIDE PROJECTS

- Cast iron water main replacements
- Water Department security upgrades
- Seismic retrofits of large pipelines

Water Project Locations

- San Pasqual Groundwater Desalination
- San Pasqual Brackish Groundwater Desalination Demo
- Rancho Bernardo Reservoir Rehabilitation
- Pomerado Park Reservoir Upgrade
- Rancho Peñasquitos Pump Station
- Miramar Water Treatment Plant
- San Vicente Reservoir Water Quality Improvements
- Kearny Mesa Pipeline Upgrade
- El Monte Pipeline No. 2
- San Carlos Reservoir Interior Enhancement
- Alvarado Water Treatment Plant
- Alvarado WTP SDFCF-12
- El Capitan Pipeline No. 2
- Lindbergh Field 16 inch Cast Iron Main Replacement
- Harbor Dr. Pipeline (Cast Iron)
- Catalina Standpipe Renovation
- Otay 2nd Pipeline Improvements
- Lower Otay Reservoir Emergency Outlet Improvement
- Otay Water Treatment Plant
- El Capitan Reservoir Road Improvement (Not Shown)

(List not in order of priority)

LEGEND

- Water Treatment Plant
- Water Pipeline
- Council District
- City Boundary



OFFICIAL STATEMENT

\$[Series A Par Amount]*
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
WATER REVENUE BONDS, REFUNDING SERIES 2009A
(Payable Solely From Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of the laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture.

General

The \$[Series A Par Amount]* Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, Refunding Series 2009A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Series 2009A Bonds") are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to the provisions of the Joint Exercise of Powers Act (commencing with Section 6500) of the Government Code of the State of California (the "State") and an Indenture, dated as of January 1, 2009 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as Trustee (the "Trustee"). The proceeds of the Series 2009A Bonds will be used to pay or prepay a portion of the Outstanding Obligations (herein defined), fund the Reserve Fund (as described herein) to satisfy all or a portion of the 2009 Reserve Requirement (as described herein) and pay costs of issuance with respect to the Series 2009A Bonds.

The Series 2009A Bonds

The Series 2009A Bonds will accrue interest from their date of delivery and interest thereon will be payable on February 1 and August 1 of each year, commencing on August 1, 2009 (each, an "Interest Payment Date"). The Series 2009A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. See "The Series 2009A Bonds – General" herein and Appendix E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

The Series 2009A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2009A Bonds. Ownership interests in the Series 2009A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2009A Bonds, principal, redemption premium, if any, and interest on the Series 2009A Bonds will be made as described in Appendix H – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" attached hereto.

Preliminary, subject to change.

Security and Sources of Payment for the Series 2009A Bonds

The City owns the Water System and operates such system through its Water Department. The City has expanded the Water System from time to time to satisfy its mission statement, which is to provide safe, reliable water in an efficient, cost-effective and environmentally responsible manner. See "ORGANIZATION AND MANAGEMENT" and "WATER SYSTEM SERVICE AREA AND FACILITIES" herein.

The Series 2009A Bonds are primarily secured by Revenues (herein defined) of the Authority consisting primarily of 2009A Installment Payments (herein defined) to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation"), under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Master Installment Purchase Agreement"), as supplemented by the 2009A Supplement to Master Installment Purchase Agreement, dated as of January 1, 2009 (the "2009 Supplement" and, together with the Master Installment Purchase Agreement and any other supplements and amendments thereto, the "Installment Purchase Agreement"), each by and between the City and the Corporation, which 2009A Installment Payments have been assigned by the Corporation to the Authority pursuant to the Assignment Agreement, dated as of January 1, 2009 (the "Assignment Agreement"), by and between the Corporation and the Authority. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS" herein.

THE SERIES 2009A BONDS SHALL BE LIMITED OBLIGATIONS OF THE AUTHORITY AND SHALL BE PAYABLE SOLELY FROM THE REVENUES AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (OTHER THAN AMOUNTS ON DEPOSIT IN THE REBATE FUND). THE SERIES 2009A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE CITY OR OF THE STATE AND NEITHER THE FAITH AND CREDIT OF THE AUTHORITY, THE CITY NOR OF THE STATE ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009A BONDS. THE AUTHORITY HAS NO TAXING POWER.

Recent Events Regarding the City

There have been various investigations regarding the City and certain of its financial statements. Such investigations have led to the restatement of certain of the City's financial statements, including financial statements relating to the water utility component of the City's enterprise fund. However, the investigations into the City have not, to the knowledge of the City, specifically involved the Water Department (the "Water Department") and do not relate to the security for or sources of payment of any of the City's water revenue bonds.

Investigations regarding Pension Underfunding

In early 2004, the City filed three voluntary disclosure filings with the Nationally Recognized Municipal Securities Information Repositories. The first two filings, on January 27, 2004, described the unfunded accrued actuarial liability of the San Diego City Employees' Retirement System ("SDCERS"), which is a public employee retirement system that acts as a common investment and administrative agent for the City, the San Diego County Regional Airport Authority (the "Airport Authority"), and the San Diego Unified Port District (the "District") (see "SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM" herein), and certain errors discovered in the comprehensive audited financial report (the "CAFR") of the City as of June 30, 2002 and the financial statements of the Metropolitan Wastewater Utility as of June 30, 2002 and 2001. The filing included projections anticipating the growth of this liability, an estimate of the accrued post-retirement healthcare benefits for City workers and a description of the mechanism by which the City funded SDCERS. The City previously disclosed that its UAAL (defined herein; see "SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM - UAAL and its

Calculation”) as of June 30, 2003 was expected to be approximately \$950 million but revised such amount to \$1.157 billion pursuant to the January 27 filing. A subsequent filing, on March 12, 2004, described numerous errors in the notes of the City’s audited annual financial reports for Fiscal Year 2001-02 (the City’s fiscal year, beginning on July 1 and ending on June 30 of the following year, is referred to herein as “Fiscal Year”). The March 12 filing stated that, in the opinion of the original auditor of the City’s CAFR for Fiscal Year 2001-02, such errors were not, individually or in the aggregate, material and that the City would retain the accounting firm of KPMG LLP (“KPMG”) to perform a full scope audit of the City’s Fiscal Year 2002-03 financial reports.

As a result of the January 27 filings, on February 13, 2004, the Securities and Exchange Commission (the “Commission”) began an investigation into the City’s disclosure practices relating to the funding of SDCERS. At the same time, the United States Attorney’s office for the Southern District of California began its own investigation into the same matters.

The law firm of Vinson & Elkins L.L.P. (“V&E”) was retained by the City on February 11, 2004 to review the City’s disclosure practices from 1996 to 2004 and determine whether the City had met its disclosure obligations concerning the funding of SDCERS. V&E released its initial report on September 16, 2004. KPMG determined that the V&E report did not provide KPMG with a basis to determine whether there was any intentional misconduct or other conduct that had violated any laws or regulations with the force of law. The San Diego City Attorney’s office also published several reports on issues related to the funding of SDCERS, including possible abuse, fraud, or illegal acts by the City or its officials.

At the suggestion of KPMG, Kroll, Inc. (“Kroll”) was retained by the City in February 2005 to evaluate the investigative reports of V&E and the City Attorney and to make appropriate recommendations to the City Council. Kroll retained the law firm of Willkie, Farr & Gallagher LLP (“Willkie”) as independent counsel and Kroll and Willkie constituted themselves as the Audit Committee of the City of San Diego (“Kroll Audit Committee”).

On August 8, 2006, the Kroll Audit Committee released its report on its investigation into, among other things, abuses and illegal conduct in the City’s funding of SDCERS (“Kroll Report”). The Kroll Report concluded that the City government, including its officials, contributed to the City’s failure to conform to the requirements of law and to adhere to principles of sound governance and financial reporting.

On November 14, 2006, the City entered into a cease-and-desist order (the “Order”) with the Commission relating to violations of the antifraud provisions of the Securities Act of 1933 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 concerning its pension and retiree health care liabilities.

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,” because “City officials acted recklessly in failing to disclose material information regarding [pension and retiree health care] liabilities.”

The Order also imposed certain remedial sanctions, including the retention of an independent consultant to review and assess the City’s 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 its initial report (the "Initial Report") and on March 25, 2008, the Independent Consultant issued its First Annual Report (the "First Annual Report"). The Initial Report, as supplemented by the First Annual Report, included 36 recommendations with respect to, among other things, finalizing the City's internal audit function and hiring a qualified internal auditor, completing the organization of the City's Audit Committee and selecting citizen advisors and professional consultants to advise members of such committee, upgrading to a new financial accounting system, reevaluating the roles and accountability of the City's Chief Financial Officer and the City's Auditor and Comptroller and evaluating the disclosure process and considering moving to a shelf-like disclosure system. The Mayor and the City Council have begun to implement a number of the recommendations and continue to work towards establishing best practices in the City's financial reporting and disclosure.

Pursuant to recommendations made by V&E, the City established in 2004 its Disclosure Practice Working Group ("DPWG"), a collaborative, consensus-based group formed to address the City's disclosure requirements. The purpose of DPWG is to ensure the compliance by the City (including the City Council, City officers, and staff) with federal and State securities laws and to promote the highest standards of accuracy in disclosures provided by the City relating to securities issued by the City or by its related entities. Among other things, DPWG reviews and certifies, if appropriate, securities offering documents prior to their consideration by the City Council. Such certification specifies that, to the best knowledge of the signatory, such offering documents do not make any untrue statement of material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. DPWG consists of five voting members (the Chief Operating Officer, the Chief Financial Officer, the City Director of Debt Management, the City Attorney and the Deputy City Attorney for Finance and Disclosure) and two non-voting members (the City's outside Disclosure Counsel and the City Internal Auditor). The City's Independent Budget Analyst or, from time to time, that official's designee, is an ex officio participant of DPWG.

The City understands that other investigations by the Commission or other government agencies are still ongoing as to entities or individuals other than the City. On December 11, 2007, the Commission filed a settled civil fraud action against the City's Independent Auditor, Thomas J. Saiz and his firm Calderon, Jaham & Osborn, in connection with the City's false and misleading financial statements in five bond offerings in years 2002 and 2003. On April 7, 2008, the Commission filed securities fraud charges against five former City officials, including the former City Manager, former Auditor and Comptroller, former Assistant Auditor and Comptroller, former Deputy City Manager and former City Treasurer for allegedly giving false and misleading statements regarding City bond offerings in 2002 and 2003.

Audited Financial Reports

As a result of the investigations into the City, the completion and release of the City's audited financial reports have been substantially delayed. KPMG, the City's outside auditor for the Fiscal Year 2002-03 financial reports, issued an unqualified opinion on the Fiscal Year 2002-03 financial statements on March 16, 2007 and the City Council received and filed the City's CAFR for Fiscal Year 2002-03 on June 5, 2007. On May 11, 2007, Macias, Gini & O'Connell ("Macias"), the City's outside auditor for the Fiscal Years 2003-04 through 2006-07 financial statements, issued an unqualified opinion on the City's Fiscal Year 2003-04 financial statements and the City Council received and filed the City's CAFR for Fiscal Year 2003-04 on July 24, 2007.

On October 26, 2007, Macias issued an unqualified opinion on the City's Fiscal Year 2004-05 financial statements. On December 12, 2007, the City voluntarily re-opened the 2004-05 financial reports for the limited purpose of revising certain disclosures related to the City's Preservation of Benefits Plan.

In the opinion of the City and Macias, these revisions were not material and on February 28, 2008, Macias issued a further unqualified opinion on the revised 2004-05 financial reports that also incorporated the October 26 opinion. The City's CAFR for Fiscal Year 2004-05 was received and filed by the City Council on March 25, 2008.

On March 21, 2008, Macias issued an unqualified opinion on the City's Fiscal Year 2005-06 financial statements and the City Council received and filed the City's CAFR for Fiscal Year 2005-06 (the "2006 CAFR") on April 22, 2008. [On ____, 2008, Macias issued an unqualified audit opinion on the City's Fiscal Year 2006-07 financial statements, which were received and filed by the City Council on ____, 2008.]

City Ratings

A further consequence of the City's voluntary disclosures and the ensuing investigations was a series of actions taken by the rating agencies. In 2004, Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch") downgraded the credit ratings on the City's obligations and changed the outlook on those ratings to negative. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), put the City's credit rating on negative outlook and subsequently suspended its credit ratings on all City obligations. In connection with the release of the 2006 CAFR, the City received and currently maintains ratings from all three rating agencies. See "RATINGS" herein for a discussion of the ratings assigned to the Series 2009A Bonds.

The Authority and the Corporation

The Authority is a California joint exercise of powers authority established pursuant to a Joint Exercise of Powers Agreement by and between the City and the Redevelopment Agency of the City of San Diego. The Authority was organized, in part, to finance, acquire, construct, maintain, repair, operate and control certain capital facilities improvements for the City. The Corporation is a nonprofit charitable corporation duly organized and existing under and by virtue of the laws of the State. The Corporation was organized to acquire, lease and/or sell to the City real and personal property to be used in the municipal operations of the City.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "projected" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. None of the City, the Authority or the Corporation is obligated to issue any updates or revisions to the forward-looking statements if or when expectations, or events, conditions or circumstances on which such statements are based do or do not occur.

Continuing Disclosure

The City has agreed to provide, or cause to be provided, in accordance with Rule 15c2-12(b)(5), promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"), certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying

with the Rule. Since March 2004, the City failed to comply with various filing deadlines for a number of undertakings due to the unavailability of audited financial statements for the City. [Each required annual report and audited financial statement was subsequently filed.] See "CONTINUING DISCLOSURE" herein.

Miscellaneous

Copies of the Indenture, the Installment Purchase Agreement, the 2009A Supplement, the Assignment Agreement, other financing documents and additional information may be obtained upon request from the Trustee at Wells Fargo Bank, National Association, 707 Wilshire Boulevard, 17th Floor, Los Angeles, CA 90017.

PLAN OF FINANCE

A portion of the proceeds of the Series 2009A Bonds will be used to pay or prepay the Outstanding Obligations identified in the table below (the Outstanding Obligations to be paid or prepaid with proceeds of the Series 2009A Bonds are referred to herein as the "Refunded Obligations").

REFUNDED OBLIGATIONS*

Series	Maturity Date(s)	Principal Amount	Prepayment Price	Prepayment/ Payment Date	CUSIP† (Base 79730C)
Series 1998 Certificates	TBD ⁽¹⁾	TBD ⁽¹⁾	Various	January 30, 2009	Various
Series 2007A Notes	January 30, 2009	\$ 57,000,000	100%	January 30, 2009	BU7

* Preliminary, subject to change.

† Copyright, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc., and is set forth herein for convenience of reference only. The City, the Authority, the Corporation and the Underwriters do not assume responsibility for the accuracy of such data.

⁽¹⁾ To be determined at the time of pricing.

A portion of the proceeds of the Series 2009A Bonds will be also be used to fund the Reserve Fund to satisfy all or a portion of the 2009 Reserve Requirement and pay costs of issuance with respect to the Series 2009A Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2009A Bonds and other available funds are expected to be applied as set forth below:

SOURCES:

Principal Amount of the Series 2009A Bonds	\$ _____
Net Original Issue Premium	_____
Total Sources	\$ _____

USES:

Payment of Series 2007A Notes	\$ _____
Prepayment of Series 1998 Certificates	_____
Deposit into Reserve Fund	_____
Costs of Issuance ⁽¹⁾	_____
Total Uses	\$ _____

⁽¹⁾ Includes Underwriters' discount, trustee fees, financial advisor fees, rating agency fees, escrow agent fees, bond counsel fees and expenses, disclosure counsel fees and expenses, verification agent fees, printing costs and other miscellaneous expenses.

DESCRIPTION OF THE SERIES 2009A BONDS

General

The Series 2009A Bonds will be issued as fully-registered bonds in denominations of \$5,000 and any integral multiple thereof and when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2009A Bonds. Ownership interests in the Series 2009A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2009A Bonds, principal of redemption premium, if any, and interest on the Series 2009A Bonds will be made as described in Appendix H - "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Series 2009A Bonds will accrue interest from their date of delivery and interest thereon will be payable on February 1 and August 1 of each year, commencing on August 1, 2009. The Series 2009A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. See Appendix E - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

Interest on the Series 2009A Bonds shall be calculated on the basis of a 360-day year, comprised of twelve thirty-day months. Interest coming due on a date which is not a Business Day shall be payable on the immediately following Business Day. Each Series 2009A Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is during the period commencing after a Record Date through and including the next succeeding Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless such date of authentication is on or before the first Record Date, in which event it shall bear interest from its dated date; provided, however, that if on the date of authentication of any Series 2009A Bonds, interest is then in default on the Outstanding Series 2009A Bonds, such Series 2009A Bonds shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2009A Bonds. Payment of interest on the Series 2009A Bonds due on or before the maturity or prior redemption thereof shall be made to the Owner or Owners of record as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee, such

interest to be paid by check mailed by first class mail on such Interest Payment Date to such Owner at his address as it appears on such books; provided, that in the event the ownership of such Series 2009A Bonds is no longer maintained in book-entry form by the Depository, such payment shall be made by wire transfer to any Owner of at least \$1,000,000 in aggregate principal amount of Series 2009A Bonds, in immediately available funds to an account in the continental United States designated in writing by such Owner to the Trustee prior to the applicable Record Date.

Other Parity Obligations

The 2009A Installment Payments shall be Parity Obligations under the Installment Purchase Agreement and the payment of the 2009A Installment Payments shall be on parity with the right of payment of other Parity Obligations under the Installment Purchase Agreement, including the Installment Payments securing the Series 1998 Certificates currently outstanding in the aggregate principal amount of \$245,010,000. See "PLAN OF FINANCE - Refunding" herein.

Redemption

Optional Redemption. The Series 2009A Bonds shall be subject to redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on or after August 1, 20____, at any time, from and to the extent of prepaid 2009A Installment Payments paid pursuant to of the 2009A Supplement, at a redemption price equal to the principal amount of the Series 2009A Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2009A Bonds which are Term Bonds shall be subject to mandatory redemption, on each date which a sinking account payment for such Term Bonds is payable from sinking account payments set forth below, by lot, in an amount equal to such sinking account payments, plus accrued interest to the redemption date and without premium. At the option of the Authority, it may credit against any sinking account payment requirement Term Bonds or portions thereof which are of the same maturity as the Term Bonds subject to redemption and which, prior to said date, have been purchased, with funds other than moneys in a Sinking Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement.

The Series 2009A Bonds which mature on August 1, 20____, are subject to mandatory sinking fund redemption, with sinking account payments payable on August 1 in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

Series 2009 Term Bonds Maturing August 1, 20____

Sinking Fund Payment Dates	<u>Sinking Account Payments</u>
<u>(August 1)</u>	\$

*

* Maturity.

Notice of Redemption. Pursuant to the Indenture, notice of redemption shall be mailed to the Owners not more than 60 days nor less than 30 days prior to the redemption date and shall state the date of such notice, the redemption price (including the name and appropriate address of the Trustee), and, in the case of Series 2009A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Series 2009A Bonds thereof and in the case of a Series 2009A Bond to be

redeemed in part only, the specified portion of the principal amount thereof to be redeemed, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such Series 2009A Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of one or more events and may be revoked prior to the redemption date.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the Series 2009A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the Series 2009A Bonds shall become due and payable, and from and after the date so designated, interest on the Series 2009A Bonds so called for redemption shall cease to accrue, and the Owners of such Series 2009A Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS

Source of Payment; Priority of Pledge of Net System Revenues

The Series 2009A Bonds shall be limited obligations of the Authority payable solely from the Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund). "Revenues" means all 2009A Installment Payments to be paid pursuant to the 2009A Supplement and the interest or profits from the investment of money in any account or fund (other than the Rebate Fund). The 2009A Installment Payments are secured by and payable solely from Net System Revenues and are required to be paid by the City to the Authority, as assignee of the Corporation under the Assignment Agreement, in an amount equal to the principal of and interest due on the Series 2009A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Net System Revenues" herein for a description of Net System Revenues.

The pledge and right of payment from Net System Revenues securing the 2009A Installment Payments (which, in turn, secure the Series 2009A Bonds) is on parity with the pledge and right of payment from Net System Revenues securing the Installment Payments represented by the San Diego Facilities and Equipment Leasing Corporation Certificates of Undivided Interest (In Installment Payments Payable from the Net System Revenues of the Water Utility Fund of the City of San Diego) Series 1998 (the "Series 1998 Certificates") outstanding in the aggregate principal amount of \$245,010,000, prior to the refunding described in this Official Statement, and any other Parity Obligations that may be issued from time to time in accordance with the Installment Purchase Agreement. See "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Parity Obligations" herein. All Parity Obligations, including Installment Payments represented by the Series 1998 Certificates, shall be secured by a first priority lien on and pledge of Net System Revenues. All Parity Obligations shall be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations.

The pledge and right of payment from Net System Revenues securing the 2009A Installment Payments (which, in turn, secure the Series 2009A Bonds) is senior to the pledge and right of payment from Net System Revenues securing the Subordinated Installment Payments with respect to the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2002 (Payable Solely From Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the "Series 2002 Subordinated Bonds") outstanding in the aggregate principal amount of \$272,845,000, the Public Facilities Financing Authority of the City of San Diego Non-Transferable Subordinated Water Revenue Notes, Series 2007A (Payable Solely From Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the "Series 2007A Notes")

outstanding in the aggregate principal amount of \$57,000,000, all of which will be paid with proceeds of the Series 2009A Bonds as described herein, and the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Notes, Series 2008A (Payable Solely From Subordinated Installment Payments Secured By Net System Revenues of the Water Utility Fund) (the "Series 2008A Notes" and, together with the Series 2002 Subordinated Bonds and the Series 2007A Notes, the "Outstanding Subordinated Obligations") outstanding in the aggregate principal amount of \$150,000,000. See "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS – Subordinated Obligations" herein. All Subordinated Obligations, including the Subordinated Installment Payments with respect to the Outstanding Subordinated Obligations, shall be secured by a second priority lien on and pledge of Net System Revenues that are junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations except that Subordinated Obligations not issued under the Indenture would not have access to any Reserve Fund created thereunder for Subordinated Obligations. The Installment Purchase Agreement provides that nothing therein shall limit the ability of the City to grant liens on and pledges of Net System Revenues that are subordinate to the liens on and pledges of Net System Revenues for the benefit of Priority Obligations and Subordinated Obligations contained in the Installment Purchase Agreement. See Appendix E – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

The Water Department also has outstanding one State of California Department of Health Services Safe Drinking Water State Revolving Fund ("SRF") loan in the principal amount of approximately \$18.9 million, which is payable on an annual basis and matures in 2025. Such SRF loan constitutes a Subordinated Obligation payable on a parity with the outstanding Subordinated Obligations. The Water Department has applied for an additional SRF loan in the approximate amount of \$30 million. The California Department of Water Resources ("DWR") has acknowledged receipt of the Water Department's loan application and is currently reviewing it for approval. DWR is expected to fund certain selected applications by June 2009. By such time, the Water Department will have received notification of whether its application was selected for funding. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Financing Plans for the CIP" herein. No other SRF loans are currently being contemplated and no additional SRF loans will be applied for by the time this issuance goes to market.

The Water Utility Fund

The City accounts for its water operations through an enterprise fund known as the "Water Utility Fund." The Water Utility Fund was established by amendment to the City Charter effective February 11, 1963 and is accounted for separately from other funds of the City. Pursuant to the Installment Purchase Agreement, all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Installment Payment Obligations or payments due by the City under any Qualified Swap Agreement related thereto remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely as provided herein. There are no Qualified Swap Agreements relating to the Water Utility Fund as of the date of this Official Statement. Pursuant to the Installment Purchase Agreement, the City shall pay from the Water Utility Fund: (i) directly or as otherwise required all Maintenance and Operation Costs of the Water System; (ii) to the Trustee, for deposit in the Payment Fund for Parity Obligations, including Reserve Fund Obligations that are Parity Obligations, the amounts specified in any Issuing Instrument, as payments due on account of Parity Obligations (including any Credit Provider Reimbursement Obligations that are Parity Obligations), other than payments due as Parity Obligations by the City under a Qualified Swap Agreement; and (iii) to the counterparty specified in any Qualified Swap Agreement, the amounts or payments due under such Qualified Swap Agreement as Parity Obligations. In the event there are insufficient Net System Revenues to make all of the payments

contemplated by clauses (ii) and (iii) of the immediately preceding sentence, then said payments should be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of said Parity Obligations: The Installment Purchase Agreement also provides that after the payments described above have been made, and in any event not less frequently than January 15 and July 15 of each year, any remaining Net System Revenues shall be used to make up any deficiency in the Reserve Funds for Parity Obligations. Notwithstanding the use of a Reserve Fund Credit Facility in lieu of depositing funds in the related Reserve Fund for Parity Obligations, in the event of any draw on the related Reserve Fund Credit Facility, there shall be deemed a deficiency in such Reserve Fund for Parity Obligations until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount. In the event there are insufficient Net System Revenues to make up all deficiencies in all Reserve Funds for Parity Obligations, such payments into the Reserve Funds shall be made as nearly as practicable pro rata based on the respective unpaid principal amount of all Parity Obligations. Any amounts thereafter remaining in the Water Utility Fund may from time to time be used to pay the amounts specified in any Issuing Instrument as payments due on account of Subordinated Obligations (including any Reserve Fund Obligations for Subordinated Obligations, any Credit Provider Reimbursement Obligations that are Subordinated Obligations and any Subordinated Credit Provider Reimbursement Obligations), provided the following conditions are met: (a) all Maintenance and Operation Costs of the Water System are being and have been paid and are then current; and (b) all deposits and payments contemplated by clauses (ii) and (iii) above shall have been made in full and no deficiency in any Reserve Fund for Parity Obligations shall exist, and there shall have been paid, or segregated within the Water Utility Fund, the amounts payable during the current month pursuant to clauses (ii) and (iii) above. The Installment Purchase Agreement further provides that after the deposits described in this paragraph have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System.

Net System Revenues

Pursuant to the Installment Purchase Agreement, "Net System Revenues" means, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year. "System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing: (a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations; (b) standby charges and Capacity Charges derived from the services and facilities sold or supplied through the Water System; (c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System; (d) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Water System; (e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System; and (f) grants for maintenance and operations received from the United States of America or from the State of California; provided, however, that System Revenues shall not include: (1) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as permitted by the Installment Purchase Agreement, and any amounts transferred from current System Revenues to the Secondary Purchase Fund as permitted by the Installment Purchase Agreement, and there shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System. See "Rate Stabilization Fund and Secondary Purchase Fund" below.

"Maintenance and Operation Costs of the Water System" is defined in the Installment Purchase Agreement as (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including, without limitation, the costs of the purchase, delivery or storage of water, the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees' retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond heretofore or hereafter issued for Water System purposes, (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on a parity with or subordinate to the Installment Payments, and (6) all payments made pursuant to any Qualified Swap Agreement. "Qualified Take or Pay Obligation" means the obligation of the City to make use of any facility, property or services, or some portion of the capacity thereof, or to pay therefor from System Revenues, or both, whether or not such facilities, properties or services are ever made available to the City for use, and there is provided to the City a certificate of the City or of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the rate covenant contained in the Installment Purchase Agreement. As of the date of issuance of the Series 2009A Bonds, there will be no outstanding Take or Pay Obligations.

Obligation of the City Under Installment Purchase Agreement

Pursuant to the Installment Purchase Agreement, the City commits, absolutely and unconditionally, to make Installment Payments solely (including the 2009A Installment Payments) from Net System Revenues until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof has been made pursuant to the Installment Purchase Agreement). The City will not discontinue or suspend any Installment Payments (including the 2009A Installment Payments) whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such Installment Payments (including the 2009A Installment Payments) shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Water System which will be at least sufficient to yield the greater of (1) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (2) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Installment Purchase Agreement. "Adjusted Net System Revenues" is

defined in the Installment Purchase Agreement to mean, for any Fiscal Year, Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Parity Obligations for such Fiscal Year. "Adjusted Debt Service" is defined in the Installment Purchase Agreement to mean, for any Fiscal Year, Debt Service on Parity Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund for Parity Obligations for such Fiscal Year. Net System Revenues (and thus Adjusted Net System Revenues) may be increased or reduced by transfers in to or out of the Rate Stabilization Fund or the Secondary Purchase Fund. See "Net System Revenues" above. For information on the possible limitation on the City's ability to comply with the rate covenant as a consequence of Proposition 218, see "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Articles XIII C and XIII D" herein. For a description of the two reserve funds established by the City within the Water Utility Fund, see "WATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund and Other Funds" herein.

Pledge Under the Indenture

Pursuant to the Indenture, the Authority has irrevocably pledged all Revenues (generally consisting of the 2009A Installment Payments and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund)) to the payment of principal of and interest on the Series 2009A Bonds. In addition, in order to secure the pledge of the Revenues under the Indenture, the Authority has irrevocably pledged and transferred to the Trustee, for the benefit of the Owners all of the Authority's rights, title and interest in the right to receive the 2009A Installment Payments from the City under the 2009A Supplement.

Reserve Fund

A portion of the proceeds of the Series 2009A Bonds will be deposited in the Reserve Fund in an amount equal to the 2009 Reserve Requirement, which is, as of any date of calculation, the least of [(i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and any successor laws or regulations (the "Tax Code")) of the Series 2009A Bonds; (ii) 125% of average annual debt service on the then-Outstanding Series 2009A Bonds; or (iii) the Maximum Annual Debt Service for that and any subsequent year.] The term "2009A Reserve Requirement" means, initially, the sum of \$_____. Upon early redemption of any of the Series 2009A Bonds, the Authority, at the request of the City, may request the Trustee to recalculate and reduce any Reserve Requirement established under the Indenture, whereupon any excess in the Reserve Fund over and above such Reserve Requirement shall be transferred to the Payment Fund. The Authority may replace all or a portion of the Reserve Requirement, if originally funded with cash, with one or more Surety Bonds.

The Series 1998 Certificates and the Series 2002 Subordinated Bonds are each secured by a reserve fund separate and apart from the Reserve Fund securing the Series 2009A Bonds. The holders of the Series 1998 Certificates and the Series 2002 Subordinated Bonds have no claim on the Reserve Fund for the Series 2009A Bonds, and the holders of the Series 2009A Bonds have no claim on the reserve fund for the Series 1998 Certificates or the Series 2002 Subordinated Bonds.

Parity Obligations

The pledge and right of payment from Net System Revenues securing the 2009A Installment Payments (which, in turn, secure the Series 2009A Bonds) is on parity with the pledge and right of payment from Net System Revenues securing the Installment Payments represented by the Series 1998 Certificates outstanding in the aggregate principal amount of \$245,010,000, prior to the refunding described in this Official Statement, and any other Parity Obligations that may be issued from time to time in accordance with the Installment Purchase Agreement. See "PLAN OF FINANCE" herein.

Subordinated Obligations

The pledge and right of payment from Net System Revenues securing the 2009A Installment Payments (which, in turn, secure the Series 2009A Bonds) is senior to the pledge and right of payment from Net System Revenues securing the outstanding Subordinated Obligations, consisting of the Series 2002 Subordinated Bonds, of which \$272,845,000 are currently outstanding, the City's \$57,000,000 aggregate principal amount of Series 2007A Notes, all of which will be prepaid with proceeds of the Series 2009A Bonds, and the City's \$150,000,000 aggregate principal amount of Series 2008A Notes.

Issuance of Additional Obligations

Parity Obligations under the Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, the City may at any time and from time to time issue or create additional Parity Obligations secured by and payable solely from Net System Revenues, provided that: (1) there shall not have occurred and be continuing (A) an Event of Default under the terms of the Installment Purchase Agreement, any Issuing Instrument or any Credit Support Instrument, or (B) an event of default or termination event (as defined in any Qualified Swap Agreement) under any Qualified Swap Agreement; and (2) the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that: (A) the Net System Revenues as shown by the books of the City for any 12 consecutive month period within the 18 consecutive months ending immediately prior to the incurring of such additional Parity Obligations shall have amounted to or exceeded the greater of (i) at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations or (ii) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations; or (B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Parity Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Parity Obligations are issued, or (ii) the date on which substantially all new Components to be financed with such Parity Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which will be Outstanding immediately after the issuance of the proposed Parity Obligations.

For purposes of preparing the certificate or certificates in clause (2)(A) in the preceding paragraph, the City or its Consultant may rely upon financial statements prepared by the City, which have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available. The determination of Net System Revenues pursuant to clause (2)(B) in the preceding paragraph (1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council, and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (2)(B) in the preceding paragraph, be effective during a Fiscal Year ending within the five-Fiscal-Year period for which such estimate is being made; and (2) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness or with the proceeds of Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal-Year period contemplated by clause (2)(B) above, all as shown by such certificate of the City or its Consultant, as applicable; and (3) for the period contemplated by clause (2)(B) in the preceding paragraph, Maintenance and Operation Costs of the Water System shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Parity Obligations for the first Fiscal Year of the five-Fiscal-Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or such Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any

Fiscal Year ending within the period contemplated by clause (2)(B) in the preceding paragraph. See Appendix E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The certificate or certificates described under this caption “– Parity Obligations under the Installment Purchase Agreement” is not required if the Parity Obligations being issued are for the purpose of refunding (A) any then Outstanding Parity Obligations if at the time of the issuance of such Parity Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Parity Obligations will not exceed the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Parity Obligations; or (B) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness. See Appendix E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

Subordinated Obligations under the Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, the City may at any time and from time to time issue or create additional Subordinated Obligations secured by and payable solely from Net System Revenues, provided that: (i) no Event of Default has occurred and is continuing and (ii) no event of default or termination event attributable to an act of or failure to act by the City under any Qualified Swap Agreement or Credit Support Instrument has occurred and is continuing, the City may issue or incur Subordinated Obligations, and such Subordinated Obligations shall be paid in accordance with the provisions of Installment Purchase Agreement, provided that the City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that: (A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or (B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

For purposes of preparing the certificate or certificates described in clause (A) in the preceding paragraph, the City and its Consultant(s) may rely upon audited financial statements and, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant. For purposes of the computations to be made as described in clause (B) in the preceding paragraph, the determination of Net System Revenues: (A) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (B) in the preceding paragraph, be effective during any Fiscal Year ending within the five-Fiscal-Year period for which such estimate is made; and (B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal-Year-period contemplated by clause (B) in the preceding paragraph, all as shown by such certificate of the City or its Consultant, as applicable;

and (C) for the period contemplated by clause (B) in the preceding paragraph, shall initially include Maintenance and Operation Costs of the Water System in an amount equal to such costs for any 12-consecutive month period within the 24 consecutive months ending immediately prior to incurring such Subordinated Obligations for the first Fiscal Year of the five-Fiscal-Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by clause (B) in the preceding paragraph. See Appendix E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

The certificate or certificates described under this caption “– Subordinated Obligations under the Installment Purchase Agreement” is not required if the Subordinated Obligations being issued are for the purpose of refunding (i) then-Outstanding Parity Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009A BONDS” herein and Appendix E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

Additional Bonds under the Indenture. Pursuant to the Indenture, the Trustee will, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of Bonds (the “Additional Bonds”) secured by the pledge made under the Indenture equally and ratably with any Bonds previously issued and delivered, including the Series 2009A Bonds (together with the Additional Bonds, the “Bonds”), in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions hereof and any additional requirements set forth in the applicable Supplemental Indenture, which are conditions precedent to the execution and delivery of Additional Bonds: (a) no Event of Default shall have occurred and be then continuing; (b) the Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall specify the purposes for which such Additional Bonds are then proposed to be delivered, which shall be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions of the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Water System. Such Supplemental Indenture may, but shall not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds; (c) the Authority shall deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement for all Bonds and Additional Bonds to be then Outstanding; (d) the Additional Bonds shall be payable as to principal on August 1 and as to interest on February 1 and August 1 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months; (e) fixed serial maturities or mandatory sinking account payments, or any combination thereof,

shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates; (f) the aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture; and (g) the Trustee shall be the Trustee for the Additional Bonds. Nothing in the Indenture shall limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

2009A Installment Payments*

Pursuant to the 2009A Supplement, the City agrees to pay as 2009A Installment Payments, solely from Net System Revenues as provided in the Installment Purchase Agreement, the following:

Installment Payment Date	Principal Portion of Installment	Interest Portion of Installment	Combined Installment Payment
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WATER SYSTEM ORGANIZATION AND MANAGEMENT

History

The City has managed and operated the Water System since 1901, when it purchased the privately-owned San Diego Water and Telephone Company, and has expanded the Water System from time to time to satisfy its mission statement, which is to provide safe, reliable water in an efficient, cost-effective and environmentally responsible manner. In furtherance of its mission, the City and other local retail water distributors formed the San Diego County Water Authority ("CWA") in 1944 for the purpose of purchasing Colorado River water from the Metropolitan Water District of Southern California ("MWD") and conveying such water to local distributors within San Diego County.

The 1.3 million people living in the City used an average of 198.3 million gallons per day ("MGD"; one MGD is equal to 1,120 acre feet per year ("AFY")) of potable water in Fiscal Year 2007-08. The City's population is projected to increase 26% in the next 25 years, and the City projects this growth will increase demand for potable water by approximately 21%. The City currently provides water to its customers by purchasing up to 90% of its water from CWA, a wholesale water agency that provided approximately 660,455 acre-feet ("AF") of imported water to its member agencies in San Diego County in Fiscal Year 2006-07. CWA, in turn, currently purchases the majority of its imported water from MWD, which is comprised of 26 public water agencies. MWD obtains its water from the Colorado River through

Preliminary, subject to change.

the Federal Bureau of Reclamation and from northern California, via the State Water Project ("SWP") through DWR. In year 2007, MWD delivered almost 2.3 million AF of imported water to its customers. Both CWA and MWD are developing storage and additional supplies, such as water transfers, to augment their imported water. See "WATER SUPPLY."

Governance and Management

General. The Water System is owned by the City and operated by the City through the Water Department. The Water Department ultimately reports to the Mayor, who has the authority to supervise the Water Department and appoint managers and directors who are charged with the operations of the department. The City's Chief Operating Officer oversees all departments within the Mayor's purview, which excludes the office of the City Attorney. A Director of Public Utilities, who reports to the Chief Operating Officer, oversees the Water Department and the Metropolitan Wastewater Department. The day-to-day operational responsibility for the Water Department rests with the Water Department Assistant Director, who reports to the Director of Public Utilities. The Water Department management team is further comprised of the Water Department Deputy Directors who head each of the four major divisions of the Water Department plus a small number of Program Managers who report to the division heads. The Director of Public Utilities, Water Department Assistant Director, Deputy Directors, and Program Managers make up the Water Executive Team that provides management of the Water Department. The Water Department and the Metropolitan Wastewater Department are examining whether combining certain common services through reorganization of the respective departments would create opportunities for savings and enhance services to both internal personnel and external customers.

The Water Department has managed the Water System since July 1, 1996, after assuming the duties from the City's Water Utilities Department as a part of a general reorganization of certain City's departments. The Water Department had approximately 779 full-time employees as of July 1, 2008. The City Council retains the authority to approve the Water Department's budget, to set rates and charges of the Water System, and to approve execution of certain contracts. For information on how the City sets the rates and charges of the Water System see "WATER SYSTEM FINANCIAL OPERATIONS – Establishment and Collection of Water Service Charges," " - Historical Rates and Charges," " - Current Rates and Charges" herein. In accordance with the provisions of the City Municipal Code, these funds are administered in an enterprise account separate from the City of San Diego's General Fund.

Officers. The current officers of the Water Department and their respective biographies are as follows:

Mr. Jim Barrett currently serves as the City's Director of Public Utilities. Mr. Barrett is a licensed Professional Civil Engineer in the State of California and has been with the City for approximately two years. Mr. Barrett is an appointed member on the Board of Directors for both the San Diego County Water Authority and the Metropolitan Water District of Southern California. He also serves as a member of the Association of California Water Agencies Federal Affairs Committee. Prior to joining the City, Mr. Barrett served as Vice President of Federal Programs with Earth Tech, Incorporated, and retired from the U.S. Navy with extensive experience in infrastructure, contract and utilities management after more than twenty years of service.

Mr. Alex Ruiz currently serves as the City's Assistant Director of the Water Department. Mr. Ruiz has been with the City of San Diego for 21 years. He is currently the Assistant Water Department Director responsible for the day-to-day operations of all departmental activities. Over the past 12 years, he has served in various management capacities within the City's Water Department, including Deputy Director of both the Customer Support Division and the Water Operations Division. Previous responsibilities have included assignments to the office of the City Manager for special project activities,

including assignment as the City's Labor Relations Manager. Mr. Ruiz received his Bachelor's Degree from the University of California at San Diego.

Ms. Marsi A. Steirer currently serves as the City's Deputy Director for the Water Resources and Planning Division. Ms. Steirer has been a City employee for 23 years and has worked for the Water Department for 20 years. Ms. Steirer was responsible for formulating several of the Water Department's strategic initiatives including the conservation program, a 30-year water resources plan, and strategic business plan. Ms. Steirer is a member of the American Water Works Association, and serves as the chairperson of the Management Division.

Mr. Jim Fisher, a licensed Professional Civil Engineer with 18 years experience, currently serves as the Water Department's Deputy Director of the Water Operations Division. Mr. Fisher holds a Grade 5 Water Treatment Plant Operator and Grade 4 Distribution Operator certification with the State of California.

Mr. Rod Greek, a Certified Public Accountant with 18 years experience, currently serves as the Water Department's Deputy Director of Business and Support Services. Mr. Greek is an active member of the California/Nevada American Water Works Association. Mr. Greek was appointed as the Financial Management Committee's Vice Chair in November 2006.

Mr. Mike Bresnahan currently serves as the Water Department's Deputy Director of Customer Support. Mr. Bresnahan has worked for the City of San Diego for 33 years. He is a member of AWWA.

Divisions.

Business and Support Services. This division provides administrative support for the Department including: Human Resources, Information Systems, Budget Development and Monitoring, Rate Setting and Finance, Contract and Grant Administration, Internal Compliance Oversight, Records Management, and Public Information.

Customer Support. This division provides Customer Information Services, Billing and Collection, Meter Services (including meter reading and servicing), Water Conservation Programs, and Public Information.

Water Operations. This division provides Water Purchases, Raw Water Storage and Distribution, Water Treatment, Water Laboratory Services, Treated Water Distribution, System Engineering, Construction and Maintenance, Maps and Records, Safety, and Public Information.

Water Resources and Planning. This division provides Long-Range Planning, Water Legislation and Policy Analysis, Water Resources Development, Facilities Master Planning, CIP Prioritization and Program Controls, Development Review, Reclaimed water Program Management, Asset Management, and Watershed and Resources Protection.

Oversight. The Independent Rates Oversight Committee ("IROC") was established in 2007 to assume and expand upon the oversight previously undertaken by the Public Utilities Advisory Commission. The members of IROC are appointed by the Mayor and IROC serves as an official advisory body to the Mayor and City Council on issues relating to the operations of the Water Department and the Metropolitan Wastewater Department that might impact rates, including, but not limited to, resource management, planned expenditures, service delivery methods, public awareness and outreach efforts, quality and affordability of services. IROC also tracks and reviews the use of rate proceeds to advance the capital improvements related to utility rate and work programs adopted by the City Council and reviews a performance report prepared by the Water Department and the Metropolitan Wastewater Department on

an annual basis to ensure commitments made in the utility rate cases are delivered. IROC meets monthly to review activities and issues for the Water Department and the Metropolitan Wastewater Department. The members of IROC consist of representatives of each rate class, and professional experts in fields such as finance, engineering, construction, and the environment. It is the vision of the IROC that a high level of public confidence in the City of San Diego's utility services is maintained with services provided in the most cost-effective way.

WATER SYSTEM SERVICE AREA AND FACILITIES

Service Area

The Water System serves the City and certain surrounding areas, including retail, wholesale, and reclaimed water customers. The Water System's service area covers 403 square miles, including 342 square miles in the City, and approximately 1.3 million retail customers. See Appendix A – "CERTAIN INFORMATION REGARDING THE CITY OF SAN DIEGO AND AREA." The map which follows the Table of Contents of this Official Statement shows the boundaries of the service area of the Water System.

Retail Customer Base. The City has six types of retail customer groups, consisting of Single Family Residential ("SFR"), Multi-Family, Commercial, Industrial, Temporary Construction and Irrigation. For Fiscal Year 2007-08, retail customers accounted for approximately 92% of total water deliveries and such sales represented approximately 95% of the revenues from total sales of water. Of the Water System's more than 270,000 retail service connections, approximately 91% are single family residential accounts and multi-family residential accounts, with the balance for commercial, industrial and other users. On June 30, 2008, single family and multi-family residential accounts comprised approximately 61% of total water sales revenue, with the balance for commercial, industrial and other users. Some of the Single Family, Multi-Family, Commercial, and Industrial accounts have been classified as Irrigation, as discussed below.

The City's residential users are classified into SFR and Multi-Family classes. As described in the 2007 Rate Case, these residential classes are assumed to be homogenous in water usage and therefore are assigned the same peaking factors. It is noted however that usage and peaking will vary among the individual customers.

Single Family Residential. SFR refers to individual dwelling units served by a separate meter, and accounted for approximately 42% of total water sales revenues in Fiscal Year 2007-08.

Multi-Family. Multi-Family encompasses multi-family dwellings such as apartment or condominium complexes, in which two or more dwelling units share the same meter, and accounted for approximately 19% of total water sales revenues in Fiscal Year 2007-08.

Commercial/Industrial. Commercial and Industrial user classes are comprised of a diverse group of customers and accounted for 20% of total water sales revenues in Fiscal Year 2007-08. These customers are treated equivalently in cost calculations and are assigned the same peaking factors. These customers also typically have lower peaking factors than residential customers.

Irrigation. Prior to July 2007, the City did not recognize "Irrigation" as a separate customer class. As there is sufficient data to separate these users into such a class, such a class was created by separating the SFR, Multi-Family, Commercial, and Industrial accounts that are used solely for irrigation into a new class. This diverse group of customers accounted for 13% of total water sales revenue for Fiscal Year 2007-08.

Temporary Construction. Temporary construction refers to meters that are placed on fire hydrants during construction in order to provide water to the construction site until the installation of a permanent meter. Costs for these customers are usually higher than the average customer because of additional administrative costs associated with transient meters. This group of customers generated less than 0.5% of total water sales revenue for Fiscal Year 2007-08.

Irrigation and Temporary Construction customers typically have high peak demands characterized by relatively large amounts of water used in short periods of time when compared to average usage. As described in the 2007 Rate Case, peak usage is more costly to deliver than constant usage because it requires more pumping.

Table 1 sets forth the historical number of connections to the Water System for each year from Fiscal Year 2003-04 through 2007-08.

TABLE 1
HISTORICAL NUMBER OF RETAIL CONNECTIONS TO WATER SYSTEM
Fiscal Year 2003-04 through Fiscal Year 2007-08

Customer Type	2003-04	2004-05	2005-06	2006-07	2007-08
Single Family	217,009	217,933	219,079	219,984	220,519
Multi-Family ⁽¹⁾	29,088	29,234	29,276	29,239	29,208
Commercial ⁽¹⁾	15,609	15,542	15,558	15,604	15,603
Industrial ⁽¹⁾	294	269	253	231	215
Irrigation ⁽¹⁾	7,278	7,467	7,431	7,463	7,462
Temporary Construction ⁽¹⁾	462	422	391	374	345
Outside City ⁽²⁾	52	50	48	45	46
TOTAL	269,792	270,917	272,036	272,940	273,398
Percent Growth	0.83%	0.42%	0.41%	0.33%	0.17%

Source: City of San Diego Water Department.

⁽¹⁾ Established as separate customer classification in Fiscal Year 2007-08; prior year figures developed from historical reports.

⁽²⁾ Comprised of predominantly single family domestic customers outside of the City's limits to whom the City has agreed to provide water.

Table 2 sets forth the 10 largest non-governmental retail customers and the top 10 governmental customers of the Water System for Fiscal Year 2007-08, which provided approximately 1.63% and 10.67%, respectively, of the total sales revenues for such fiscal year.

TABLE 2
MAJOR NON-GOVERNMENTAL RETAIL CUSTOMERS
AND TOP GOVERNMENTAL CUSTOMERS
Fiscal Year 2007-08
(Unaudited)

Customers	Millions of Cubic Feet	Billings	% of Total Sales Revenues
MAJOR NON-GOVERNMENTAL RETAIL CUSTOMERS			
CP Kelco	41.22	\$ 1,006,594	0.35%
Marine Park Corp	35.62	856,728	0.30%
San Diego Zoo	27.73	675,092	0.23%
Marriott Full Service	17.10	428,031	0.15%
Coca Cola Bottling Co	13.95	334,889	0.12%
Costa Verde Dev LLC	11.56	319,700	0.11%
Sharp Memorial Hospital	10.87	286,379	0.10%
Qualcomm Inc	10.71	274,522	0.10%
The Irvine Holding Co	9.52	267,079	0.09%
Kaiser Permanente	9.36	253,517	0.09%
TOTAL TOP 10 NON- GOVERNMENTAL RETAIL CUSTOMERS	187.64	\$4,702,531	1.63%
TOP GOVERNMENTAL CUSTOMERS			
City of San Diego	423.13	\$11,543,256	4.00%
U.S. Navy	290.55	7,975,320	2.76%
University of California at San Diego	104.10	2,632,737	0.91%
California Dept of Transportation	85.43	2,380,308	0.82%
San Diego Unified School District	56.57	1,896,418	0.66%
All Federal Agencies	65.45	1,678,160	0.58%
San Diego Port District	32.85	929,739	0.32%
San Diego State University	31.29	812,063	0.28%
County of San Diego	20.35	575,140	0.20%
Poway Unified School District	13.90	382,291	0.13%
TOTAL TOP 10 GOVERNMENTAL CUSTOMERS	1,123.62	\$30,805,432	10.67%

Source: City of San Diego Water Department.

Wholesale Customer Base. For Fiscal Year 2007-08, wholesale customers accounted for approximately 6% of total water deliveries and such sales represented approximately 5% of the revenues from total sales and/or treatment of water. The City currently sells and delivers or treats and delivers water on a wholesale basis to five wholesale customers: (1) the California-American Water Company ("Cal-American"), (2) the City of Del Mar ("Del Mar"), (3) the Santa Fe Irrigation District, (4) the San Dieguito Irrigation District (together with the Santa Fe Irrigation Districts, the "Irrigation Districts"), and (5) Otay Water District ("OWD").

Cal-American. Since 1912, the City has been selling and delivering treated water to Cal-American, which in turn provides water to the cities of Coronado and Imperial Beach, as well as a portion of the City. The City's obligation to sell and deliver water to Cal-American and its customers was assumed by the City upon its original acquisition of the Water System. The City's agreement with Cal-American has been subsequently amended to establish minimum and maximum amounts of treated water that may be purchased by Cal-American from the City, an average system delivery and a supply price methodology, which incorporates all of the City's integrated system-wide costs (*i.e.*, the costs associated with treatment, storage and pumping of the treated water supplied to Cal-American), including 60% of the water purchase replacement costs, 17% of the transmission and distribution costs associated with usage of mains that are 16 inches and larger, and a proportionate share of debt service for capital costs of the Water System. For Fiscal Year 2007-08, the City made approximately 6% of its total water deliveries to Cal-American and such sales represented approximately 4% of the revenues from total sales of water. The City's agreement with Cal-American is renewed on an annual basis and permits mid-year rate adjustments to account for any purchased water cost increases from CWA.

Del Mar. Pursuant to an existing contract between the City and Del Mar, the City treats raw water which Del Mar purchases from CWA. The treatment price paid by Del Mar is primarily based on the Del Mar's pro-rata share of the Operation and Maintenance expenditures (herein described) attendant to the City's provision and treatment services. For Fiscal Year 2007-08, deliveries from the treatment of Del Mar water represented less than 0.1% of total deliveries and less than 0.1% of revenues from total sales of water. The City's agreement with Del Mar is renewed on an annual basis.

Irrigation Districts. Pursuant to existing contracts between the City and each of the Irrigation Districts, which expire in September 2009, the City delivers raw water from the Lake Hodges Reservoir. Each contract sets the terms and rates pursuant to which the applicable Irrigation District may purchase water from the City and provides each Irrigation District with the right to purchase a specified amount of water. The purchase price charged each Irrigation District is based on portion of Operation and Maintenance expenditures and capital improvement costs related to the City's provision of water to such Irrigation District. For Fiscal Year 2007-08, these water sales represented less than 0.1% of total deliveries and such sales represented less than 0.5% of the revenues from total sales of water. The City's contracts with the Irrigation Districts are renewed every two years.

OWD. The City's Otay Water Treatment Plant ("OWTP") is capable of producing treated water in excess of the amounts needed by the Water System customer base traditionally serviced by the OWTP. In 1999, the City entered into an agreement with the OWD to deliver up to 10 MGD of surplus treated water, which deliveries began in November 2005. The amounts paid by the OWD for such treated water are determined in part by allocating to the City and the OWD, based on the amount of treated water produced for each, the projected cost and expenses of all operations, maintenance and overhead, capital improvements, repairs and replacements under \$100,000 to be incurred for or at the OWTP. This cost per acre foot, as determined pursuant to the preceding sentence, is added to the raw water rate, to determine the projected actual cost to OWD for the next succeeding fiscal year. Pursuant to the agreement, the OWD may elect to pay its proportional share of costs to expand the treatment plant to meet its future treated water demands, estimated to be from 10 to 20 MGD. Any expansion would be subject to the City's discretion and the execution of a separate agreement.

Reclaimed Water Customer Base. Reclaimed water (also referred to as recycled water) is produced from wastewater processed at water reclamation plants owned and operated by the City as part of the City's Wastewater System. Since 1997, the reclaimed water produced by the City has been carefully monitored by City and State health officials and water quality-control agencies to ensure that it meets all federal, State and local water quality standards, including the safety standards applicable to water coming into human contact set forth under Title 22 of the California Code of Regulations, and is suitable for irrigation, industrial and other non-potable uses. The City began billing the OWD and the Olivenhain

Municipal Water District for reclaimed water in Fiscal Year 2006-07. The City also provides reclaimed water to the City of Poway under the terms of an agreement entered into in 1998. Pursuant to the Water Department's calculations, approximately \$1 million is due each year from the City of Poway. However, the City of Poway and the City disagree about the cost per acre-foot of water delivered pursuant to this agreement, though the resolution of this disagreement is not expected to have a material adverse impact on the Net System Revenues available to pay debt service on the Series 2009A Bonds. In calendar year 2007, reclaimed water represented 3% of the City's water supply portfolio. For Fiscal Year 2007-08, reclaimed water customers and processing accounted for approximately 2% of total water deliveries and accounted for approximately 1% the revenues from total sales of water.

Existing Water System Facilities

The Water System consists of nine raw water storage facilities, three water treatment plants, 29 treated water storage facilities and over 3,460 miles of water transmission and distribution lines. Water is transported through 50 water-pumping stations and nearly 274,000 metered service connections.

Raw Water Reservoirs. The City has nine reservoirs with a total capacity of 408,593 AF, of which 226,770 AF was in storage as of June 30, 2008. Eight of the raw water storage facilities are directly connected to water treatment plants. One of the nine raw water storage facilities, Lake Hodges Reservoir (30,251 AF total capacity), is currently being connected to the Olivenhain Reservoir (completion projected for 2010) and will be used pursuant to an agreement between the City and CWA as part of the Emergency Storage Project, which was developed through CWA to provide approximately 90,100 AF of reservoir storage and supporting distribution facilities to supplement existing emergency water supplies in San Diego County in case of a prolonged interruption of imported water supplies. Approximately 18% of the storage capacity at the Lake Hodges Reservoir is sold annually to neighboring water agencies. The Lower Otay Reservoir, Barrett Reservoir and Morena Reservoir (135,348 AF total capacity) service the OWTP in south San Diego; the El Capitan Reservoir, San Vicente Reservoir, Sutherland Reservoir and Lake Murray Reservoir (236,311 AF total capacity) service the Alvarado Water Treatment Plant ("AWTP") in central San Diego; and the Miramar Reservoir (6,682 AF total capacity) services the Miramar Water Treatment Plant ("MWTP") in north San Diego. According to City Council policy, the City shall have approximately 7.2 months of the annual requirement of the City's demand available in primary water storage facilities. This water is to be used during emergencies, in the event of substantial disruption or interruption of imported water service. This required amount is currently maintained by the City's Water System. In 2006, a number of the City's raw water storage reservoirs were listed as "impaired" water bodies pursuant to Section 303(d) of the federal Clean Water Act as a result of an initiative to apply federal wastewater standards to drinking water reservoirs. The City currently has a proactive watershed protection and improvement plan for its reservoirs. The application of federal wastewater standards to drinking water reservoirs is being challenged through the courts in Florida. If the challenge is unsuccessful and the determination with respect to the City's raw water storage reservoirs remains unchanged, the City will implement a plan to identify, manage and control the contaminant run-off that contributes to the determinations under Section 303(d) of the federal Clean Water Act.

Table 3 sets forth the City's raw water reservoirs and their respective storage capacities and storage levels:

**TABLE 3
RAW WATER RESERVOIRS
(As of August 4, 2008)**

Reservoir	Storage Capacity (AF)	Storage (AF)	Percent Full
Lake Hodges	30,251	20,074	66%
Lower Otay	49,849	36,880	74
Barrett	34,806	26,337	76
Morena	50,694	7,508	15
El Capitan	112,807	52,061	46
San Vincente	89,312	60,644 ⁽¹⁾	68
Sutherland	29,508	6,948	24
Lake Murray	4,684	4,106	88
Miramar	6,682	5,289	79
	408,593	219,845	54%

Source: City of San Diego Water Department.

⁽¹⁾ Approximately 32% of the raw water stored at the San Vincente Reservoir will be drawn down in Fiscal Years 2007-08 and 2008-09 in connection with improvements thereto.

Water Treatment Plants. The Water Department maintains and operates three water treatment plants with a combined rated capacity of 324.2 MGD through which potable water is supplied. Supplemental treated supplies from CWA are used to help operate the distribution system reliably and efficiently. On-going upgrades to all three plants are expected to increase future rated capacity to 455 MGD, thereby further reducing the need to purchase treated water and providing capacity for customer growth. Treated water accounted for approximately 10% of the approximately 219,250 AF of water purchased by the City from CWA during Fiscal Year 2007-08.

Alvarado Water Treatment Plant. The AWTP was originally constructed in 1951 with an original rated capacity of 66 MGD. Several hydraulic improvements constructed in the mid-1970's and additional upgrades completed recently have increased the plant to its current rated capacity of 150 MGD. The AWTP is located next to Murray Reservoir near Interstate 8 and serves the general area from National City to the San Diego River. The CIP includes further upgrades to increase the AWTP's rated capacity to 200 MGD by Fiscal Year 2010-11.

Miramar Water Treatment Plant. The MWTP was originally constructed in 1962 and has a current rated capacity of 140 MGD. MWTP is located next to Miramar Reservoir off Interstate 15. The MWTP provides drinking water to an estimated 500,000 customers in the general area north of the San Diego River. The CIP includes various upgrades to the plant, which are expected to increase MWTP's rated capacity of 215 MGD by 2011.

Otay Water Treatment Plant. The current OWTP was constructed in 1989 and has a current rated capacity of 34.2 MGD. The OWTP serves the general area along the Mexico border and the southeastern portions of central San Diego. The CIP includes an upgrade to the plant that will increase its rated capacity to 40 MGD by Fiscal Year 2010-11. Table 4 sets forth the original design capacity, current rated capacity and future rated capacity for each of the City's water treatment plants and the current average demand and current peak demand supported by such plants.

TABLE 4
CAPACITY AND DEMAND OF WATER SYSTEM WATER TREATMENT PLANTS
(In MGD)
As of June 30, 2008

Water Treatment Plant	Original Design Capacity	Current Rated Capacity	Future Rated Capacity ⁽¹⁾	Current Average Demand	Current Peak/Max Demand
Alvarado	66	150	200	89.5	116.8
Miramar	100	140	215	88.1	135.3
Otay	40	34.2	40	20.7	30.5
Total	206	324.2	455	198.3	282.6⁽²⁾

Source: City of San Diego Water Department.

⁽¹⁾ Future Rated Capacity is based upon the completion of projects described above relative to the AWTP, MWTP and OWTP in the CIP by Fiscal Year 2010-11.

⁽²⁾ Total is not intended to reflect the aggregate peak/maximum demand supported by all water treatment plants because such plants do not all reach the peak/maximum demand simultaneously.

Treated Water Storage Facilities. The Water Department maintains and operates 29 treated water storage facilities, including steel tanks, standpipes, concrete tanks and rectangular concrete reservoirs. These facilities have capacities varying from less than 1 million gallons to 35 million gallons and in the aggregate hold a daily total of approximately 200 million gallons.

Delivery System. The Water System consists of approximately 3,460 miles of transmission and distribution pipelines, including transmission lines up to 84 inches in diameter and distribution lines as small as four inches in diameter. Transmission lines are pipelines with larger diameters that convey raw water to the water treatment plants and convey treated water from the water treatment plants to the treated water storage facilities. Distribution lines are pipelines with smaller diameters that directly service the retail users connected to a meter. The Water Department also maintains and operates 49 water pump stations that deliver treated water from the water treatment plants to nearly 274,000 metered service connections in over [114] different pressure zones. [Please confirm 114 count vs 90 count of different pressure zones.] In addition, the Water Department maintains several emergency connections to and from neighboring water agencies, including the Santa Fe Irrigation District through the MWTP, the Poway Municipal Water District through the MWTP, Cal-American through the AWTP and the OWTP, the Sweetwater Authority through the OWTP, and the OWD through the OWTP.

Insurance for the Water System

The City, through the statewide joint power authority risk pool, the California State Association of Counties-Excess Insurance Authority ("CSAC-EIA"), maintains an "All Risk" policy which includes Flood and Earthquake coverage for scheduled locations for amounts up to \$25,000,000 per occurrence with a \$25,000 deductible. The City also maintains an excess liability insurance policy in collaboration with a statewide joint powers authority risk pool, the CSAC-EIA for amounts up to \$50,000,000; the City's self-insured retention is \$5,000,000.

Utility Costs

The Water System is supplied with electricity and gas by an investor owned utility. The gas and electric services accounts for approximately 2% of the Water System's annual operating budget. To date, the Water System has not experienced any significant power shortages and there has not been any disruption in service to the Water System. Further, the Water System has sufficient self-generating

resources to provide water services to domestic customers in the event of the occurrence of more significant power shortages. The Water Department recently completed installation of a 1 megawatt photovoltaic solar panel "farm" at the AWTP which supplies approximately 40% of the local electrical demand.

WATER SUPPLY

Current Water Supply

The Water System currently receives its water supply from two sources: (1) local runoff and (2) water imported by CWA. Historically, approximately 10% to 15% of the water supply for the Water System comes from local rain runoff. This runoff is seasonal and variable in nature. The balance of the Water System water supply is imported from Northern California and the Colorado River and is supplied to the City by CWA, of which the City is a member agency. CWA, in turn, purchases the majority of its water from the MWD, which is comprised of 26 public water agencies. CWA also has rights to purchase water supplies from the Imperial Irrigation District ("IID") in the amount of 60,000 AF in calendar year 2008, which volume will increase by 10,000 AFY until calendar year 2020, when the transfer amount reaches 200,000 AFY. In addition, CWA has rights to 77,700 AFY of water supplies dedicated to CWA as a result of water-conserving canal lining projects on the All-American and Coachella Canals. Although the water supplied from the canal lining projects will reduce CWA and, hence, the City's reliance upon MWD for imported water, the canal lining projects convey water from the Colorado River basin which has experienced significant drought events over the last several years resulting in diminished reservoir storage levels along the river.

For Fiscal Year 2007-08, the City's average daily water use, including Del Mar and Cal-American deliveries, was approximately 217.8 MGD, with peak day demands as high as 298.5 MGD. The City's three Water Treatment Plants provided 198.3 MGD or 91.04% of average demand and 273.8 MGD or 91.7% of peak demand. Due to current operational limitations with respect to the distribution system, City average and peak daily water demands are met with a combination of City-treated water and treated water supplied by CWA primarily through four metered treated water connections. See Appendix B - "REPORT ON THE ENGINEERING AND FINANCIAL FEASIBILITY STUDY" and Appendix C - "INFORMATION CONCERNING THE SAN DIEGO COUNTY WATER AUTHORITY AND METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA" attached hereto for a discussion of CWA's water supplies.

The City is the largest purchaser of water from CWA. During Fiscal Year 2007-08, the Water Department purchased approximately 219,500 AF of water from CWA at a cost of \$113.4 million. Currently, the City pays CWA \$515 per AF for untreated water and \$679 per AF for treated water.

The Strategic Plan for Water Supply, which was adopted by the City Council in August 1997 (the "Strategic Plan"), called for the doubling of water savings from conservation programs, from 13,000 AFY to 26,000 AFY by 2005. The City achieved its 2005 goal, and estimated a total of 30,350 AF savings by the end of Fiscal Year 2005-06. [UPDATE WITH FISCAL YEAR 2006-07 AND FISCAL YEAR 2007-08 NUMBERS.] These efforts, along with proposed projects for cutting edge technologies such as brackish water desalination, are intended to provide the City with a reliable water supply that is less dependent on imports. See Appendix C - "INFORMATION CONCERNING THE SAN DIEGO COUNTY WATER AUTHORITY AND METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA" attached hereto.

The City has taken into account the effect of the current state-wide drought by assuming in its operating budget for each of Fiscal Year 2008-09 and Fiscal Year 2009-10 a 15% reduction in water sales

and deliveries, which is expected to result in reduced revenues which are offset by reductions in both its operating budget and its capital improvement budget. See "RISK FACTORS – Drought Risks" herein. To address such conditions, the City is developing a plan to expand its development of ground water desalination and its utilization of reclaimed water. As part of the development, the City will consider, among other things, an independent energy and economic analysis of all water supply augmentation methods in the Long Range Water Resource Plan and a one-year indirect potable reuse demonstration project. See "WATER SYSTEM FINANCIAL OPERATIONS - Establishment of Water Service Charges" herein for a discussion of the commodity charge increase approved by the City Council and the Mayor to fund this pilot program.

In July 2008, the City declared a Stage 1 Voluntary Compliance Water Watch and called for voluntary conservation measures. Pursuant to Division 38 of Article 7 of the San Diego Municipal Code, a Stage 1 Voluntary Compliance Water Watch applies during periods when the possibility exists that the Water Department will not be able to meet all of the water demands of its customers. The Stage 1 Voluntary Compliance Water Watch, along with the drought response plan set forth in the Municipal Code was reviewed and modified in 2008 as part of a region-wide effort coordinated by the CWA to achieve a greater county-wide consistency in drought response planning. This is also consistent with the Mayor's endorsement of CWA's "20 Gallon Challenge" in June 2007. The City has been actively monitoring the management of water supplies at both MWD and CWA. While a degree of uncertainty does exist, depending on trends in the State's water levels, the City may consider mandatory cutbacks of water use.

Future Water Supply for the Water System

1997 Strategic Plan for Water Supply. The City's projected water demands and recommended future supplies were developed through the Strategic Plan, which was completed in 1998. The Strategic Plan estimated water demand through 2015, identified infrastructure requirements necessary to ensure that facilities were in place to store, treat and distribute required supplies in an efficient and effective manner and approved a water rate increase to help fund the initial years of the CIP.

2002 Long-Range Water Resources Plan. In 2001, the City, with the assistance of a stakeholder group (a 12-member citizen's advisory committee), initiated an update of the Strategic Plan, known as the Long-Range Water Resources Plan (the "Long-Range Water Resources Plan"), which was adopted by the City Council on December 9, 2002.

The objectives of the Long-Range Water Resources Plan were to extend water demand projections through 2030 and also develop a decision-making framework for evaluating water supply options. The Long-Range Water Resources Plan identified various options to meet this medium to long-term demand. These options include water conservation, water reclamation, groundwater desalination, groundwater storage, ocean desalination, marine transport, Central Valley Water Transfers, and imported supply from CWA and MWD. Various alternative portfolios of water supply options were evaluated against a set of planning objectives to determine the appropriate strategic direction for development of water resources.

The Long-Range Water Resources Plan concluded that no single supply source will be sufficient to meet the City's future water demand. The priority supply portfolio options identified for implementation by 2010 are: *conservation, reclamation, groundwater and transfers of surplus waters from the water agencies in the Central Valley under long-term contracts or as spot commodity purchases.*

The Long-Range Water Resources Plan recommended, among other things, that the common resource elements from the three top-scoring portfolios be implemented by 2010 (Phase 1). Resource elements that are different among these portfolios should then be examined to determine under what conditions they would become most feasible for the City to implement. Based on such factors as the success or failure of CALFED, emergence of a strong water transfer market, technology improvements in

membrane treatment, and the outcome of the City's field investigations of local groundwater, three distinct paths or strategies could be taken and possibly implemented by 2020 (Phase 2 of the Plan). Once a particular strategy is chosen by the City, then Phase 3 of the Long-Range Water Resources Plan would implement a variety of resource options by 2030, depending on the continued success of prior resource implementation and/or achievement of planning objectives.

With the implementation of the common resource elements by 2010, the City's reliance on imported water during a critically dry period could be approximately 74%, based on projected water demands of 252,000 AF in calendar year 2010 as compared to the 75% to 90% of the water demands in calendar year 2000 of 244,000 AF. By 2030, the City's reliance on imported water could be as low as 57%, based on projected water demands of 297,000 AF in calendar year 2030, if most of the alternative resources options available to the City were implemented. Since adoption of the Long-Range Water Resources Plan, the City has been pursuing projects to meet its 2010 conservation, reclamation and groundwater goals.

2005 Urban Water Management Plan. The City completed its Urban Water Management Plan (the "UWMP"), which builds upon the previously approved Long-Range Water Resources Plan and the Strategic Plan. Together, the UWMP, the Long-Range Water Resources Plan and the Strategic Plan set water savings goals of 32,000 AFY by 2010, 36,000 AFY by 2020 and 46,000 AFY by 2030. The UWMP reports the activities the City is embarking upon to secure a safe, reliable water supply for the City, including establishment of the City's Water Conservation Program (the "Water Conservation Program"), improvements to the City's water treatment plants, identification and securing of additional sources of water and improve most of water supply reliability in the region through groundwater investigation, alternative storage projects and participation in emergency storage projects.

The City is currently in the early stages of preparing its next update to the UWMP (the "2010 UWMP"), which will relate to general long-range water resources and is scheduled to be completed in 2010. The 2010 UWMP will also focus on global warming, compliance with AB 32, The Global Warming Solutions Act of 2006, energy efficiency, regional water supply issues and recent legislation aimed at increasing water-use efficiency and improvements in water resources planning.

Conservation. The Water Department's Water Conservation Program was established by the City Council in 1985 and promotes permanent water savings. The Water Conservation Program accounts for over 32,000 AFY of potable water savings in Fiscal Year 2007-08. These savings have been achieved by creating a water conservation ethic, adopting programs, policies and ordinances designed to promote water conservation practices, and implementing comprehensive public information and education campaigns.

The City utilizes a broad range of conservation methods, including: incentive programs for low-flush toilets and water conserving washing machines, survey programs, regulations, efficient landscaping and irrigation management programs, park and recreation partnerships, and public education and outreach.

The Water Department works closely with the City's Planning and Development Services Departments to incorporate water conservation requirements into the City's planning and permitting processes to ensure new communities and properties will have water-efficient landscapes. Changes in water conservation technologies may require periodic reassessment of long-range plans and water conservation programs to ensure that savings are realized. The Water Department continues to work with its proven water conservation programs while implementing new irrigation management programs to maximize water savings.

In February 2008, an administrative County Grand Jury issued a report entitled "Water Conservation: Sober Up San Diego, The Water Party Is Over" (the "Grand Jury Report") examining water uses and how to reduce water usage. The Grand Jury Report recommended, among other things,

structuring water rates for multiple-family residences and for commercial, industrial and agricultural users, into tiered block structures to make charges proportionate to use, more careful consideration of the City's growth policy as it relates to San Diego's long-term water prospects and the beginning of more rigorously enforcing the requirement that any large project proposal be able to ensure a 20-year supply of water, basing the cost of new water meters on the current and projected water conditions, formalizing concrete triggers for water alerts to make them automatic, making some or all of the voluntary usage restrictions in Stage 1 Voluntary Compliance Water Watch permanently mandatory in San Diego, raising the cost of reclaimed water to at least 80% of that of potable water and using this income to finance expansion of the reclaimed water distribution system, approving the use of reclaimed water for reservoir augmentation, and implementing the use of reclaimed water in all appropriate City facilities. The City Council and the Mayor responded to the Grand Jury Report and indicated that several of the recommendations have already been implemented. Among the recommendations that have been implemented are a review of the City's growth policy, enforcement of a 20-year water supply assessment in connection with approval for large-scale development projects (in accordance with which a water source or water offset must be identified prior to project approval) and use of reclaimed water in all appropriate City facilities. The responses to the Grand Jury Report also indicated that the other recommendations may be implemented in the future, if implementation would be appropriate and allowable under applicable law. See "RISK FACTORS – Drought Risks" herein.

Groundwater. The City has several relatively small groundwater basins within its jurisdiction, from San Pasqual in the north, to the San Diego River in the center of the City, to the Tijuana River Valley in the south. The largest basin, the San Diego Formation, lies along the coast from the Mexican border to Point Loma.

The City is presently pursuing groundwater feasibility projects in San Pasqual, Mission Valley, and the San Diego Formation and exploring new technologies such as brackish groundwater that can provide affordable water supply sources. This supply source is a possible alternative and is part of the City's planning efforts. Local water supply projects, particularly groundwater exploration, are locally controlled and can offer enhanced drought protection.

Reclaimed Water. See "Water System Service Area and Facilities – Reclaimed Water Customer Base" herein for a description of reclaimed water produced by the City. The majority of expenses relative to the production of reclaimed water accrue to the City's Wastewater System while revenues from the sale of reclaimed water accrue to the Water System primarily because of a \$70 million investment that the Water System made in expanding the non-potable reclaimed water distribution system (purple pipe) in the late 1990's. The City has made significant capital investments in the reclaimed water program. To date, over \$460 million has been spent on two water reclamation plants (consisting of the North City Water Reclamation Plant (the "NCWRP") and the South Bay Water Reclamation Plant (the "SBWRP")), distribution systems and related facilities. Approximately 25% of those costs were covered by State and Federal grants. Located in the Miramar area, the NCWRP has been operational for the past 11 years and has a wastewater treatment capacity of 30 MGD. During the summer of 2007, the NCWRP's reclaimed water production peaked at 9 MGD, [with the remainder of the wastewater being treated to secondary levels and sent to Point Loma for discharge to the Pacific Ocean]. [Please verify the statement regarding the remainder of the wastewater.] The secondary effluent helps reduce the concentration of suspended solids in the wastewater being discharged.

The SBWRP is located on Dairy Mart Road, near the international border with Mexico. The SBWRP, which commenced delivery of reclaimed water to customers in the summer of 2006, has a wastewater treatment capacity of 15 MGD. Flows to the plant are about 8-9 MGD and during the summer of 2007 beneficial reuse peaked at 7 MGD. [Please confirm estimate of daily flows at SBWRP.] The majority of the reclaimed water is sold to the Otay Water District, a local water agency with more than

600 meter connections. The SBWRP also sells water to the U.S. International Boundary & Water Commission treatment plant, located just to the east of the water reclamation facility.

As of July 2008, the two reclamation plants meet a peak demand of 16 MGD primarily used by customers for irrigation. Citywide beneficial reuse projections are estimated to be 12,000 AF for calendar year 2008 increasing to nearly 15,000 AF per year by 2013. Reclaimed water usage is seasonal. During high demand months, June through October, peak demands for calendar year 2008 are anticipated to be approximately 17 MGD. Conversely, during cooler months, demands range from four to six MGD. Reclaimed water production continues to increase each year due to the City's marketing efforts to reach "in-fill" customers, who, as identified by the City's Reclaimed water Master Plan 2005, are located near existing reclaimed water distribution lines.

Reclaimed water rates were lowered from \$1.34 to \$0.80 per hundred cubic feet ("HCF") on July 1, 2001, following the completion of a detailed rate study. As of July 1, 2008, the reclaimed water rate was approximately 28% of the equivalent potable water rate charged to irrigation customers. The Water Department is currently conducting a reclaimed water pricing study to determine the cost of producing and distributing reclaimed water. The scope of the study includes development of recommendations for reclaimed water commodity rates, base fees, capacity charges, alternative rate structures and a reclaimed water rate model. Factors included in the pricing study include cost of operation and maintenance for production and distribution facilities as well as capital costs for the most feasible expansion projects. It is anticipated that the reclaimed water pricing study will be completed in Fiscal Year 2008-09.

Table 5 below sets forth the City's planned water supply sources from Fiscal Year 2009-10 to Fiscal Year 2029-2030.

TABLE 5
PROJECTED WATER SUPPLY SOURCES
Fiscal Years 2009-10 to 2029-30
(AFY)

<u>Water Supply Sources</u>	<u>2010</u>	<u>%</u>	<u>2015</u>	<u>%</u>	<u>2020</u>	<u>%</u>	<u>2025</u>	<u>%</u>	<u>2030</u>	<u>%</u>
CWA	201,901	84%	205,178	83%	212,260	83%	222,238	83%	231,725	84%
Local Surface Water	29,000	12	29,000	12	29,000	11	29,000	11	29,000	11
Reclaimed Water	<u>8,525</u>	<u>4</u>	<u>12,200</u>	<u>5</u>	<u>15,200</u>	<u>6</u>	<u>15,200</u>	<u>6</u>	<u>15,200</u>	<u>5</u>
Total	<u>239,426</u>	<u>100%</u>	<u>246,378</u>	<u>100%</u>	<u>256,460</u>	<u>100%</u>	<u>266,438</u>	<u>100%</u>	<u>275,925</u>	<u>100%</u>

Source: Urban Water Management Plan, as supplemented.

WATER SYSTEM REGULATORY REQUIREMENTS

Federal Requirements

The City's Water System operations are subject to the provisions of the federal Safe Drinking Water Act (as amended, the "Safe Drinking Water Act"), which sets forth requirements relating to the protection of drinking water and its sources, including rivers, lakes, reservoirs, springs and ground water wells, against both naturally-occurring and man-made contaminants that may be found in drinking water. The Safe Drinking Water Act is administered by the EPA (with direct oversight by the California Department of Public Health) and includes, among other things, standards for 90 chemical, microbiological, radiological, and physical contaminants in drinking water and requirements for the

preparation of consumer confidence reports, water system operator certifications and drinking water source assessments. The Safe Drinking Water Act also requires that every five years the EPA establish a list of contaminants which are known or anticipated to occur in public water systems and may require future regulation under the Safe Drinking Water Act. From this contaminant candidate list, the EPA identifies contaminants which are priorities for additional research and data gathering, which information is then used to determine whether or not a regulation is appropriate. This process is repeated for each list every five years. The EPA is currently evaluating the risks from several specific health concerns, including: microbial contaminants (*e.g.*, *Cryptosporidium*); the byproducts of drinking water disinfection; radon; and water systems that do not currently disinfect their water but get it from a potentially vulnerable ground water source. The Water Department currently complies with all applicable standards and regulations of the Safe Drinking Water Act.

The EPA also establishes Secondary Drinking Water Regulations, which are non-enforceable guidelines for contaminants that may cause negative cosmetic (such as tooth discoloration) or aesthetic effects (such as taste or odor). Water systems are not required to adopt these secondary standards, but states may choose to adopt and enforce them. The City currently meets such standards. See Appendix B – “REPORT ON THE ENGINEERING AND FINANCIAL FEASIBILITY STUDY” for a further description of federal requirements applicable to the Water System.

State Regulations

As an operator of a large municipal water system, the City is responsible for complying with various state requirements, including the State of California Environmental Quality Act, operational requirements, design and construction standards for dams and reservoirs, distribution systems and pipelines, requirements for control of *cryptosporidium* and other water safety issues and training and other requirements for certificate of water treatment and distribution operators. Failure to meet these standards may subject the City to civil or criminal sanctions. The Water Department is currently in compliance with all applicable state regulations. See “– Compliance Order by the California Department of Public Health” herein. See also Appendix B – “REPORT ON THE ENGINEERING AND FINANCIAL FEASIBILITY STUDY” for a further description of federal requirements applicable to the Water System.

Proposed Regulations

In December 2006, the EPA promulgated the Stage 2 Disinfectants and Disinfection Byproducts Rule (“Stage 2 DBPR”) and the Long Term 2 Enhanced Surface Water Treatment Rule, which built upon prior rules to address protection of public water systems against microbial contaminants, especially *Cryptosporidium*, and at the same time, reduce potential health risks of disinfection byproducts. The Stage 2 DBPR requires operators of public water systems to determine if they exceed permitted disinfection byproduct concentration levels and, if so, identify actions that may be taken to mitigate future high disinfection byproduct levels. The City has complied with the initial phase of the Stage 2 DBPR to date and expects to complete its initial distribution system evaluation and comply with its reporting and monitoring requirements by the compliance deadlines set forth in the Stage 2 DBPR, a portion of which is expected to be financed with proceeds of additional water revenue bonds described under “Financing Plans for the CIP” herein.

Other new regulations, including regulations that are in effect but whose compliance are not yet mandated (such as the Ground Water Rule promulgated by the EPA pursuant to the National Primary Drinking Water Regulation) and regulations that are currently proposed, will continue to impact the operation of the Water System and its associated costs. Also, the costs of proposed new regulations, including rules and regulations regarding arsenic, radon, sulfate, groundwater and filter backwash, are currently unknown. See “RISK FACTORS – Statutory and Regulatory Compliance” herein.

Compliance Order by the California Department of Public Health

The State of California Department of Public Health ("DPH") is the regulatory agency responsible for ensuring that water systems meet the federal regulations outlined above, as well as additional or stricter State regulations. In January 1994, DPH notified the City that certain deficiencies in the Water System were found during a routine sanitary survey of the Water System conducted by the DPH Drinking Water Field Operations Branch. The deficiencies primarily related to the future reliability of various components of the Water System. As a result, the City and DPH entered into a compliance agreement (the "1994 Compliance Agreement") pursuant to which the City agreed to correct operational deficiencies noted during the survey and undertake the required capital improvements to the Water System by the deadlines established in the 1994 Compliance Agreement. The City was notified in January of 1997 that it was not in compliance with the 1994 Compliance Agreement. At that time, the DPH issued a compliance order (the "1997 Compliance Order"), which has been amended from time to time, including most recently in May 2007 (as amended to date, the "DPH Compliance Order"), to include additional items that were not in the 1997 Compliance Order. The DPH Compliance Order will remain in effect until the projects required thereunder are completed.

The Water Department has made substantial progress in completing the projects set forth in the DPH Compliance Order and is currently meeting the ongoing requirements thereof, including the obligation to provide DPH with quarterly progress reports and hold periodic status meetings. In addition, on February 26, 2007, the City authorized rate increases of 6.5% per year for Fiscal Years 2007-08 through 2010-11 to finance projects mandated in the DPH Compliance Order as well as other CIP projects.

DPH has the authority to impose civil penalties if the City fails to meet DPH Compliance Order deadlines, although DPH has not imposed such penalties to date. Violation of the DPH Compliance Order may be subject to judicial action, including civil penalties specified in California Health and Safety Code Section 116725 ("Section 116725"). Pursuant to Section 116725, a violation of a schedule of compliance for a primary drinking water standard may result in a maximum penalty of \$25,000 per day for each violation; and a violation of other standards, such as turbidity, the penalties can reach \$5,000 per day. There are a number of additional enforcement tools prescribed by law, including public notification, citations, citation with fines, public hearings, mandatory water conservation, litigation and service connection moratoriums.

The costs for bidding, constructing and completing the required work will fluctuate depending on variables such as changes in the cost of materials and labor. The estimated DPH Compliance Order project costs and DPH-related project costs for Fiscal Year 2008-09 through Fiscal Year 2012-13 is approximately \$515 million. The Water Department anticipates financing such costs with existing net assets, present and future revenues, and financing proceeds secured by system revenues.

Permits and Licenses

The Water System holds a Water Supply Permit from the DPH for operation of certain of its facilities (the "Water Supply Permit"). The City is required to apply for an amendment to its Water Supply Permit as changes occur within the Water System, including the capacity and process improvements at the water treatment plants. The City works closely with the DPH during the design, construction and subsequent operations of all improvements which result in amendments to the Water Supply Permit to ensure amendment approval. Various other permits and licenses are required to operate the water treatment plants, water impounding system, water quality lab and distribution system. The City does not anticipate any problems with continued Water System operation under existing and planned future permits and licenses.

WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

General

The Water System's CIP, which was originally prescribed in the Strategic Plan developed in 1997 and supplemented and updated in 2002 by the Long Range Water Resources Plan, each with the assistance of a citizen task force, was developed to ensure that the City has a cost-effective, safe and reliable water supply. See "WATER SUPPLY – Future Water Supply for the Water System" herein. The City reevaluates the projects contained in the CIP and the timing of improvements on an annual basis. Changes to the CIP are made to reflect changing priorities within the Water System and may occur as a result of project scope changes, date revisions, project sequencing and operational considerations. There are five fundamental driving forces behind the expansion and upgrades of the City's Water System: replacement of aging infrastructure to reduce pipeline breaks and emergency repairs, increasing treatment capacity and improving process technology, expansion of the Water System to accommodate retail growth, compliance with Federal Safe Drinking Water Act and satisfaction of the DPH Compliance Order. Approximately 71% of the anticipated projects to be constructed from Fiscal Years 2008-09 to 2012-13 are either mandated by the DPH Compliance Order or are related to DPH projects.

In April 2002, the City Council adopted increases to the water base fee rates and commodity rates to increase revenues from retail sales in each of the following five fiscal years by 6% per year. The revenues generated by such rate increases were used to fund the continued upgrade and expansion of the Water System as prescribed by the CIP. Despite not having access to the public bond market since 2004, the Water Department completed 86 capital projects aggregating approximately \$596 [Feasibility Report reflects 595. Please confirm correct amount.] million between Fiscal Year 2002-03 and Fiscal Year 2007-08, including improvements to water treatment plants, water storage reservoirs, water pump stations, water pipelines, reclaimed water projects and cast iron projects. In February of 2007, the City Council adopted rate increases of 6.5% per year for Fiscal Years 2007-08 through 2010-11. Accounting for such rate increases, the aggregate revenues generated by the Water System are expected to provide approximately \$543 million to help finance approximately 99 CIP projects, including projects related to water treatment plants, pipelines, reservoirs and pump stations, projects related to anticipated growth within the City's service area, annual allocation project groups and projects required by or related to applicable State and federal regulations and orders. The CIP remains subject to change and is expected to include additional projects for implementation subsequent to 2011, based on the program priorities explained previously.

Description of Major Projects

The Water Department has developed a comprehensive CIP to address current and future Water System needs. See "– Project Schedule and Cost" herein.

The CIP projects can be classified into one of nine categories as they relate to the Water System. Some of these projects were included in the original CIP as set forth in the Strategic Plan, while others have been added to the CIP or had their schedules modified since the Strategic Plan was finalized. See Appendix B – "REPORT ON THE ENGINEERING AND FINANCIAL FEASIBILITY STUDY" for a further description of these projects. The map which follows the Table of Contents of this Official Statement shows the location of the major CIP projects. Brief descriptions of the projects in each of the categories are provided below.

Water Treatment Plants. The CIP includes projects which will rehabilitate and upgrade the AWTP, the MWTP and the OTWP. As part of the Alvarado Upgrade, the rated capacity of the AWTP will be expanded to 200 MGD by Fiscal Year 2010-11 to meet future water demands through 2030. The MWTP will be expanded to a capacity of 215 MGD by Fiscal Year 2009-10 to meet future water demands through 2030. The improvements to the OWTP, which will increase the OWTP's rated capacity from 34.2

MGD to 40 MGD, are expected to be completed by Fiscal Year 2010-11. Such improvements to the City's water treatment plants will also assist the City in complying with the requirements of the Federal Safe Drinking Water Act and the DPH Compliance Order. See "WATER SYSTEM REGULATORY REQUIREMENTS – Federal Requirements" and "– Compliance Order by the California Department of Public Health" herein.

Pipelines. The CIP includes pipeline projects relating to the continued rehabilitation, replacement and installation of distribution and transmission lines throughout the Water System. Included in the anticipated pipeline projects is the replacement of approximately 20 miles per year of existing cast iron distribution mains which have passed their 50-year service life. Approximately 193 miles of such mains remain to be replaced.

Pump Stations. The CIP includes projects that will replace, rehabilitate and construct pump stations throughout the Water System.

Raw Water Storage Facilities. The CIP includes projects that will upgrade the raw water outlet structures on three reservoirs and make emergency outlet improvements at the Lower Otay Reservoir.

Treated Water Storage Facilities. The rehabilitation and construction projects included in the CIP through Fiscal Year 2010-11 will increase treated water storage capacity by 6% as compared to the amount available at July 1, 1998, when implementation of the CIP projects began.

Reclaimed Water Facilities. The North City Reclamation Plan System Expansion is currently in the design phase and construction will begin in Fiscal Year 2010. Currently, there is an annual allocation of \$500,000 to expand the reclaimed water system to connect new customers.

Groundwater Projects. See the caption "Future Water Supply for the Water System – Groundwater" for a description of groundwater feasibility projects being explored by the City in San Pasqual, Mission Valley and the San Diego Formation.

Security Projects. The water security project includes adding cameras, motion detectors, access control elements, and eight-foot high fences to our facilities. The facilities include nine lakes and dams, three treatment plants, an operations yard, 40 pump stations, 20 water tanks, five regulators and 50 pipeline locations. Communication elements will be installed so that all camera images can be monitored from a Security Operations Center located in the city of Chollas.

Miscellaneous Projects. Miscellaneous CIP projects include air valve adjustments, corrosion control for existing facilities, installation of pressure reducing stations, installation of flow meters and security enhancements at various water facilities. Also included are pooled contingencies, which are contingency amounts identified for each project to protect against uncertainties in the construction of such projects. All of the project contingencies are aggregated into a single pool of contingencies rather than included in the budget for each project.

Project Schedule and Costs

The current cost estimate of CIP projects for the period from Fiscal Year 2008-09 through Fiscal Year 2012-13, the period through which water service rate increases have been approved, is approximately \$724 million. The budget for each project and program is established and approved by the City Council and adjustments to such budget require approval of the City Council.

Table 6 shows categories of projects with the estimated cost of expenditures contained in the CIP for the period of Fiscal Years 2008-09 to 2012-13. Final CIP project costs will be refined as the CIP progresses.

TABLE 6
SUMMARY OF PROJECTED CIP PROJECTS⁽¹⁾
Fiscal Years 2008-09 through 2012-13

Description	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Water Treatment Plants	\$ 86,756,020	\$ 83,881,204	\$ 31,310,409	\$ 1,639,389	\$ 3,905,061	\$207,492,083
Pipelines	57,705,209	48,074,621	53,410,139	61,430,309	59,022,991	279,643,269
Pump Stations	9,550,000	3,840,792	831,375	2,438,729	3,523,976	20,184,872
Raw Water Reservoirs	2,333,035	449,014	914,062	3,440,796	9,135,167	16,272,074
Treated Water Reservoirs	4,461,387	493,575	608,607	768,112	1,848,048	8,179,729
Reclaimed Water Facility	3,104,606	7,106,101	7,414,401	2,980,224	1,000,000	21,605,332
Groundwater	2,019,816	7,643,634	18,528,908	20,127,520	1,209,935	49,529,813
Security	3,796,050	10,109,000	7,592,776	326,295	0	21,824,121
Miscellaneous	7,897,506	7,800,000	21,178,596	29,023,958	33,762,636	99,662,696
Total	\$177,623,629	\$169,397,941	\$141,789,273	\$122,175,332	\$113,407,814	\$724,393,989

Source: City of San Diego Water Department.

⁽¹⁾ Amounts reflect the aggregate costs of all CIP projects required to satisfy the DPH Compliance Order as well as projects related thereto or necessary for the operation thereof. For Fiscal Year 2008-09 through Fiscal Year 2012-13, DPH Compliance Order required projects cost approximately \$413 million and DPH-related projects cost approximately \$102 million.

Financing Plans for the CIP

The CIP is funded through a combination of System Revenues, bond proceeds and SRF loans. The Water Department currently has approximately \$__ million cash on hand to fund the majority of CIP costs through [May], 2009. The Water Department currently expects that approximately 80% of the costs of the CIP through 2013 will be funded with the proceeds of future financings, including water revenue bonds to be issued later in 2009 on either a parity or a subordinated basis, as further described below:

Fiscal Year	Total
2008-09	\$391 million ⁽¹⁾
2010-11	\$124 million
2011-12	\$206 million

⁽¹⁾ Consists of the Series 2009A Bonds in the amount of [Series A Par Amount] to pay in full the Series 2007A Notes and an additional series of water revenue bonds on either a parity or subordinated basis to refund the Series 2008A Notes and finance approximately \$150 million of CIP costs. Excludes the prepayment of all or a portion of the Series 1998 Certificates currently outstanding in the amount of \$245,010,000.

Preliminary, subject to change.

The remaining 20% of the costs of the CIP will be paid on a pay-as-you-go-basis, which are supported by currently approved water rates. See “– Financial Projections and Modeling Assumptions.” These projected costs include a 4% annual inflation factor due to anticipated increases in construction costs over time, which assumed inflation rate is intended to be a conservative estimate to ensure that the Water Department has adequate resources reserved to complete the necessary projects.

The Water Department has distinguished between repair and replacement and expansion CIP costs to properly apply revenue sources. New customers will benefit from capacity created by expansion projects. These projects will be funded by capacity charges and bond proceeds. Capacity charge revenues will range from \$11.5 to \$14.2 million over the period from Fiscal Year 2008-09 through Fiscal Year 2012-13 at increased capacity fee levels.

In addition, the Water Department has applied for an additional SRF loan in the approximate amount of \$30 million. Proceeds of such SRF loan, if received, will be used for the following projects: the OWTP Upgrade – Phase II in the amount of \$8 million; the OWTP Upgrade – Phase II in the amount of \$10 million; and the AWTP Upgrade – Phase IV in the amount of \$12 million. This additional SRF loan, if approved and entered into, would constitute a Subordinated Obligation payable on a parity with the outstanding Series 2002 Subordinated Bonds and the Series 2008A Notes. The Water Department anticipates that the amount of bonded indebtedness to be issued in the future will be reduced by the amount of SRF loan received from DWR, if any.

Environmental Compliance

The projects contained in the CIP are generally subject to the California Environmental Quality Act (“CEQA”), as amended (Division 13 of the California Public Resources Code). Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, including the preparation of an Environmental Impact Report (“EIR”). An EIR reflects not only an independent technical analysis of the project’s potential impacts, but also the comments of other agencies with some form of jurisdiction over the project and the comments of interested members of the public. Contents of an EIR include a detailed statement of the project’s potentially significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to eliminate or minimize such effects; alternatives to the proposed project; and any significant irreversible environmental changes which would result from the project. Approximately 4% of CIP projects reviewed between May 2002 and [August 2008] have required an EIR. If an agency determines that the project itself will not have a significant effect on the environment, it may adopt a written statement (called a “Negative Declaration”) to that effect and need not prepare an EIR. A Negative Declaration was prepared for approximately 2% of CIP projects reviewed between May 2002 and [August 2008]. A Mitigated Negative Declaration (“MND”) is appropriate for projects that could potentially result in a significant environmental impact, but revisions or standard mitigation measures are incorporated into the project that clearly mitigate the impact. Approximately 7% of CIP projects reviewed between May 2002 and [August 2008] resulted in the preparation of a MND. Statutory exemptions are activities that are not subject to CEQA. CIP projects can also be exempted if they fit a specific “category” of activities identified by the State Legislature. Between May 2002 and [August 2008], approximately 87% of CIP projects have qualified for either a statutory or categorical exemption. Once an agency approves or determines to carry out a project, either following an EIR process or after adopting a negative declaration, it must file a notice of such determination. Any action or proceeding challenging the agency’s determination must be brought within 30 days following the filing of such notice.

As part of its regular planning and budgetary process, all projects are evaluated under the City’s environmental impact review procedures, developed in compliance with State law and regulations.

Separate environmental documents for each of the CIP projects either have been or will be prepared in accordance with local, State and/or federal law and regulations.

Since much of the CIP involves replacement, upgrading or increasing capacity of existing facilities, the City does not believe that environmental considerations will adversely affect the completion of the CIP within the contemplated budget or the current timetable.

Project Management for the CIP

Prior to October 2007, the engineering design and construction of CIP projects, as well as their planning and attendant program controls, were all conducted by personnel within the Water Department. A reorganization of engineering functions for the City as a whole, including the Water Department's divisions and their respective responsibilities, resulted from recommendations of a steering committee assembled as part of the City's Business Process Reengineering program initiative to enhance the efficiencies and effectiveness of City government by, among other things, reviewing and improving City processes and procedures. The recommendations were presented to the Chief Operating Officer and Mayor and approved by the City Council. Project management, engineering design and construction of Water CIP projects are now managed by CIP project managers in the City's Engineering and Capital Projects Department ("E&CP"). Planning of and program controls for Water CIP projects are conducted and monitored by the Water Policy and Strategic Planning Division of the Water Department. See "ORGANIZATION AND MANAGEMENT - Governance and Management" herein.

E&CP provides a full range of engineering services for the City's capital investment in its various types of infrastructure and provides traffic engineering services to the community. E&CP is responsible for the planning, design, project management, and construction management of public improvement projects; quality control and inspection of private work permitted in the right-of-way; and surveying and materials testing. E&CP's activities include work on various public infrastructure assets to rehabilitate, restore, improve, and add to the City's capital facilities. E&CP's activities cover a wide range of City-wide projects including libraries; fire, lifeguard and police stations; parks and recreation centers; lighting and signals, street improvements, bikeways and other transportation projects; drainage and flood control facilities; rebuilding and expanding water and sewer pipelines, treatment plants, and pump stations; and dry utilities under-grounding projects. These functions are provided through four of the five divisions within the E&CP.

Architectural Engineering & Parks Division. This division manages the implementation of non right-of-way and vertical capital improvement projects. This responsibility includes the design and project management of water treatment plants, reservoirs and pump station projects.

Field Engineering Division. This division manages construction contracts, materials testing, land surveying services and geological assessment/support. This responsibility includes quality assurance/quality control inspection of CIP projects within the City's jurisdiction.

Project Implementation and Technical Services Division. This division provides centralized technical, operational and project support services to the other divisions within the Water Department, as well as other departments in the City. These services include preliminary engineering and asset management, project controls, CIP fund management, Americans with Disabilities Act compliance review for CIP projects, quality control and standards, and environmental and permitting assistance.

Right-of-Way Design Division. This division manages the implementation of right-of-way and related horizontal capital improvement projects, including the design and project management of water pipelines, flood plains and drainage infrastructure, and utilities under-grounding projects.

Contract Disputes

From time to time, the City is engaged in disputes with the contractors and subcontractors working on the CIP. As of [November 1, 2008], there are no pending contract disputes with vendors or contractors working on the CIP.

Insurance

Insurance for the projects contemplated in the CIP is required by contract to be provided by the consultant/contractor selected to design/construct the project. Design consultants are required to provide commercial general liability insurance of \$1 million per occurrence/\$2 million aggregate, commercial auto liability insurance of \$1 million per occurrence, workers' compensation insurance of \$1 million, and architect and engineers professional liability insurance of \$1 million per occurrence/\$2 million aggregate. Construction contractors are required to provide, among other things, commercial and general liability insurance aggregate limit of \$2 million (other than products/completed operations) and \$2 million (products/completed operations); personal injury insurance of \$1 million each occurrence; commercial automobile liability insurance of \$1 million combined single limit per accident; contractors builders risk property insurance in an amount equal to the replacement cost of the completed project.

WATER SYSTEM FINANCIAL OPERATIONS

Establishment of Water Service Charges

The City's deposits to the Water Utility Fund are primarily derived from water service charges to City residents and commercial enterprises, capacity charges on new, additional or larger connections to the Water System within the City, and interest income on fund balances. Water service charges to City utility customers are collected on a municipal water bill, which also includes sewer charges and storm drain fees. Bills are rendered on a bi-monthly basis for single family and most multi-family dwellings and on a monthly basis for industrial, commercial, and large multi-family dwellings. In accordance with the provisions of the City Municipal Code, these funds are administered in an enterprise account separate from the City of San Diego's General Fund.

The City establishes fees based upon the costs incurred by the City to meet customer demand for water and required capital improvements. The Water Department has personnel and resources to analyze rates and charges necessary to support the Water System. They are responsible for collecting and collating revenue and expenditure data from key administrative, engineering, financial and budgetary elements within the various divisions of the Water Department, then evaluating the adequacy of revenues and recommending rate adjustments to correspond with expected changes in maintenance and operations costs and the timing and magnitude of capital expenditures. This process, conducted semiannually for management purposes and as required to facilitate planned financings and rate adjustments, involves an extensive technical review by senior staff with oversight from senior city management.

Subsequent to consideration of the recommendations set forth in the December 14, 2006 Cost of Service Rate Study (as adopted by the City Council in 2007, the "2007 Rate Case"), in February 2007 the City Council adopted rate increases of 6.5% per year for Fiscal Years 2007-08 through 2010-11 in compliance with the requirements of Proposition 218. The rate increases were based on comprehensive forecasted annual Operation and Maintenance expenditures and additional capital costs for the Fiscal Years 2007-08 through 2010-11, which were based upon the City's budgeted Fiscal Year 2006-07 expenditures, adjusted for changes since the budget was developed and for anticipated changes in operations and the effect of inflation in future years. See "WATER SYSTEM FINANCIAL

OPERATIONS - Operation and Maintenance Expenditures" herein. The current water rates are slightly less than 1% of the median household income in the City.

The water fees are composed of two components: a base fee and a commodity charge. The base fee is determined by the size of a customer's meter, and is charged to the customer regardless of whether the customer uses water. The base fee is based upon the assumption that the Water Department incurs certain costs in order to be in a position to serve the commodity to the customer upon demand. Those costs are incurred by the Water Department regardless of whether the customer uses the commodity or not. They include such costs as the general administrative costs of the Water Department for billing, payment processing, and account management. The size of the customer's connection provides an approximation of the amount of water the customer conceivably could have delivered to his or her property.

The commodity charge is a charge for the amount of water consumed. The commodity charge is set at a rate based upon HCF of water consumed. Currently, the City has two types of commodity charges: a three-tiered rate for SFR, and a separate single rate for each of the other customer classes, including multi-family residential, commercial/industrial, and temporary construction/irrigation. The three-tiered rate structure for SFRs assesses a higher charge per unit of water as the level of consumption increases.

The City has historically increased water rates to reflect increases in the cost of water purchased from the CWA, which is based on the costs for the infrastructure, operation and maintenance of CWA's water supply system and the cost CWA pays to purchase water from MWD. CWA generally increases the rates it charges on an annual basis with its Board of Directors approving the rates in June to be effective the following January. Following a CWA announcement of higher rates, the City calculates the impact to its cost of purchased water and the rate adjustment it must make to its customers to recover those increased costs. It then follows the procedures necessary to satisfy Proposition 218's public notice and hearing requirements and procedures established by the City for receiving and tabulating protests against increases to water rates. The City Council acts on the proposed rate adjustments for the recovery from Water Department customers of increased costs resulting from CWA's rate increases. The purchase water cost increase affects both the base fee and commodity charges within the City's water billing structure. In October 2007, the City Council approved a 2.9% CWA-related rate increase to recover revenue in the amount of the purchase water cost increase from CWA, which is anticipated to generate approximately \$9.8 million annually. [In November 2008, the City Council and Mayor approved a \$0.20 per EDU increase to the base fee and an 8.5% increase to the commodity charge to generate sufficient revenue to offset the increased water wholesale purchase costs from CWA, which increase will become effective in January 2009 and is anticipated to generate approximately \$19.5 million annually.]

[In addition, the City Council and Mayor also approved in November 2008 a commodity charge increase of 3.08% to provide revenue to offset the cost of a \$11.8 million pilot project to determine the feasibility of indirect potable reuse, which consists of using highly treated reclaimed water to augment the City's drinking water supply. The approved commodity charge rate increase is scheduled to remain in effect through the end of Fiscal Year 2009-10, at which time such rate increase will sunset.]

Water rates have also been increased to help fund the Water Department's DPH Compliance Order project and DPH-related project costs and to permit the City to recover increased utility costs. Utility cost-related increases have not occurred since the 1980s. Any such increases will be subject to the procedures necessary to satisfy Proposition 218's public notice and hearing requirements and procedures established by the City. See "Compliance Order by the California Department of Public Health" herein.

Table 7 sets forth the five-year water service charge for each customer class from Fiscal Year 2004-05 through Fiscal Year 2008-09.

TABLE 7
FIVE-YEAR WATER SERVICE CHARGE HISTORY FOR SINGLE FAMILY
RESIDENTIAL UNITS AND MULTI-FAMILY, COMMERCIAL, INDUSTRIAL AND IRRIGATION/TEMPORARY CONSTRUCTION
Fiscal Years 2004-05 through 2008-09

Justification for Increase:	Revenue Requirement	Increase in Water Costs from CWA	Revenue Requirement	Increase in Water Costs from CWA	Revenue Requirement	Revenue Requirement	Increase in Water Costs from CWA	Revenue Requirement	Increase in Water Costs from CWA and IPR Project
BASE FEES⁽¹⁾									
Meter Size:									
5/8 inch	\$13.08	\$13.08	\$14.31	\$14.56	\$15.87	\$15.18	\$15.32	\$16.32	\$16.52
3/4 inch	13.08	13.08	14.31	14.56	15.87	15.18	15.32	16.32	16.52
1 inch	13.97	13.97	15.29	15.69	17.11	22.17	22.41	23.86	24.20
1 1/2 inch	62.52	62.52	68.41	69.16	75.41	38.13	38.59	41.10	41.76
2 inch	96.24	96.24	105.31	106.61	116.24	58.09	58.83	62.66	63.72
3 inch	345.44	345.44	377.98	380.38	414.73	104.98	106.38	113.29	115.29
4 inch	576.30	576.30	630.59	634.69	692.00	171.83	174.17	185.49	188.83
6 inch	1,286.28	1,286.28	1,407.45	1,414.95	1,542.72	337.46	342.12	364.36	371.02
8 inch	1,733.10	1,733.10	1,896.36	1,909.36	2,081.78	537.01	544.47	579.86	590.52
10 inch	2,323.85	2,323.85	2,542.76	2,562.26	2,793.63	770.49	781.23	832.01	847.35
12 inch	3,232.55	3,232.55	3,537.06	3,570.06	3,892.44	1,435.00	1,455.06	1,549.64	1,578.30
16 inch	5,394.93	5,394.93	5,903.13	5,974.63	6,514.14	2,499.62	2,534.62	2,699.37	2,749.37

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Justification for Increase:		Revenue Requirement	Increase in Water Costs from CWA	Revenue Requirement	Increase in Water Costs from CWA	Revenue Requirement	Revenue Requirement	Increase in Water Costs from CWA	Revenue Requirement	Increase in Water Costs from CWA and IPR Project
COMMODITY CHARGE										
Customer Type:	Usage	7/1/04	1/1/05	7/1/05	1/1/06	7/1/06	7/1/07	1/1/08	7/1/08	1/1/09
Single Family Dwelling	Tiered structure									
Tier 1	0-7 HCF	\$1.487	\$1.541	\$1.609	\$1.656	\$1.731	\$2.262	\$2.352	\$2.505	\$2.795
Tier 2	8-14 HCF	1.884	1.938	2.023	2.070	2.163	2.461	2.551	2.717	3.032
Tier 3	15 + HCF	2.076	2.130	2.223	2.270	2.372	2.775	2.865	3.051	3.404
	One rate for all usage amounts									
Multi-family Dwelling ⁽²⁾	per HCF	1.737	1.791	1.870	1.917	2.003	2.461	2.551	2.717	3.032
Commercial ⁽²⁾	per HCF	1.737	1.791	1.870	1.917	2.003	2.357	2.447	2.606	2.908
Industrial ⁽²⁾	per HCF	1.737	1.791	1.870	1.917	2.003	2.357	2.447	2.606	2.908
Irrigation ⁽²⁾	per HCF	-	-	-	-	-	2.524	2.614	2.784	3.107
Temporary Construction ⁽²⁾	per HCF	-	-	-	-	-	2.524	2.614	2.784	3.107

Source: City of San Diego Water Department

⁽¹⁾ The base fee is dependent on the meter size.

⁽²⁾ In July 1, 2007, the City established separate categories for Multi-Family Dwelling, Commercial/Industrial and Irrigation/Temporary Construction.

HCF (Hundred Cubic Feet) = 748 Gallons

⁽³⁾ Decrease in base fees for 2-inch and smaller meters reflect the 2007 Rate Case and pricing methodologies revised to reflect American Water Work Association methodologies.

Note: No rate increase in January 2007.

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Water Service Charges. The Water System's water service charge for all retail user classes includes a fixed base fee and a commodity rate. While the service charge is charged to each water meter and varies with meter size, the commodity rate is applied to a customer's water usage. Table 7 sets forth the base fees for the various water meter sizes in the Water System as of January 1, 2009. Table 8 sets forth such base fees for Fiscal Year 2009-10 and 2010-11, which rates have been adopted by the City Council.

**TABLE 8
BASE FEE
Fiscal Years 2009-10 and 2010-11
(As of January 1, 2009)**

Meter Size (inch)	July 1, 2009	July 1, 2010
5/8	\$ 17.59	\$ 18.73
3/4	17.59	18.73
1	25.78	27.45
1 1/2	44.47	47.37
2	67.86	72.27
3	122.79	130.77
4	201.10	214.17
6	395.14	420.82
8	628.91	669.79
10	902.43	961.08
12	1,680.89	1,790.15
16	2,928.08	3,118.40

Source: City of San Diego Water Department.

The City has separate commodity rates for SFR customers. The remaining retail customers (Multi-Family, Commercial, Industrial, Temporary Construction, and Irrigation) are billed under the same uniform commodity rate for their respective customer classification. SFR customers have a tiered rate structure which is broken down by water usage within each rate block. See Table 7 for a schedule of commodity rate(s) applicable to each customer class as of January 1, 2009. Table 9 sets forth the commodity rates for the Water System for Fiscal Years 2009-10 and 2010-11, which have been adopted by the City Council.

**TABLE 9
COMMODITY RATE
Fiscal Years 2009-10 through 2010-11
(As of January 1, 2009)**

<u>Customer Class</u>	<u>Volume Block HCF</u>	<u>July 1, 2009 \$/HCF</u>	<u>July 1, 2010 \$/HCF</u>
SFR			
Block 1	0-7	2.977	3.073
Block 2	8-14	3.229	3.333
Block 3	Over 14	3.625	3.742
Multi-family Dwelling	All Volume	3.229	3.333
Commercial	All Volume	3.097	3.196
Industrial	All Volume	3.097	3.196
Irrigation	All Volume	3.309	3.415

Source: City of San Diego Water Department.

Capacity Charges. In February 2007 the City Council and Mayor approved raising the capacity charge by 19.5% to \$3,047 per equivalent dwelling unit ("EDU"), which was estimated to provide for full cost recovery for Water System expansion projects planned through Fiscal Year 2014-15. The water used by an average SFR is equated to one EDU and equals 500 gallons per day ("GPD"). Non-residential customers are charged based upon calculated usage or an inventory of plumbing components that are assigned a number of "fixture units" which are converted to EDU's using a conversion factor that equates 20 fixture units to one EDU. The minimum capacity assigned to any user is one EDU.

Capacity charges are not treated as operating income for financial reporting purposes but are considered System Revenues and are deposited in the Water Utility Fund. Pursuant to State law, capacity charges can be applied only for the purpose of paying costs associated with capital expansion, bonds, contracts, or other indebtedness of the Water System related to expansion. Because capacity charges are primarily collected on new construction within the City, revenues obtained from such charges vary based upon construction activity.

Table 10 sets forth the capacity charges for Fiscal Years 2003-04 through 2007-08, which have been adopted by the City Council.

TABLE 10
RECENT RATE HISTORY FOR WATER CAPACITY CHARGES
Fiscal Years 2003-04 through 2007-08
(As of July 1, 2008)

Fiscal Year	Water Capacity Charges (Per EDU)	% Increase / (Decrease) ⁽¹⁾
2003-04	\$2,500	0.0%
2004-05	2,550	2.0
2005-06	2,550	0.0
2006-07	2,550	0.0
2007-08	3,047	19.5

Source: City of San Diego Water Department.
⁽¹⁾ Figure represents percentage change from prior year.

Table 11 sets forth the historical capacity charge revenues from Fiscal Year 2003-04 through Fiscal Year 2007-08. Aggregate capacity charge revenues may not equal the amount derived by multiplying the water capacity rate by the number of units because of individual customer account characteristics, such as a customer's credit score and the availability of an incentive rate. Since capacity charge revenue is dependent on development activity within the City of San Diego, capacity charge revenues are impacted by the slow down in residential construction. For Fiscal Year 2007-08, the estimated capacity charge revenue was \$8,458,512 and the budgeted amount for Fiscal Year 2008-09 is approximately \$11.5 million.

TABLE 11
WATER UTILITY FUND
HISTORICAL CAPACITY CHARGE REVENUES
Fiscal Years 2003-04 to 2007-08

Fiscal Year	New Equivalent Dwelling Units ⁽¹⁾	Capacity Charge Revenues ⁽²⁾
2003-04	7,475	\$17,653,915
2004-05	5,602	13,113,046
2005-06	5,713	12,897,676
2006-07 ⁽¹⁾	5,788	13,682,238
2007-08 ⁽³⁾	4,338	9,691,554

Sources: Water Department and Comptroller's Office, City of San Diego

⁽¹⁾ Unaudited.

⁽²⁾ Audited and included with Capital Contributions on Statement of Revenues, Expenses and Changes in Net Assets in comprehensive audited financial report of the indicated year, except as otherwise indicated.

⁽³⁾ Estimated.

Collection of Water Service Charges

In order for a person to be billed by the City for water fees, he or she must contact the Water Department to have water service initiated. The person initiating the service does not have to be the owner of the property to which the water is delivered. Regardless of customer class, the customer has a meter

from which the City measures the amount of the water consumed. The meter is read by the Water Department to calculate the water fees to be charged to the customer based on his or her customer class.

Pursuant to the approved policies and procedures, one hundred percent of the water used is billed, no matter how far back the water usage occurred, and time extensions for payment are granted by Water Department management under limited conditions, including health and safety-related reasons, legal negotiations, or the negative impact on other ratepayers in the absence of a grant of extension. Such policies and procedures also provide that the Water Department has the authority to grant a deferred payment in only two circumstances: a customer receiving a bill greater than 200% of the usage on their normal bill (in which case such customer can only receive a deferred payment plan once during the life of the account, and the total payment must be received within one year) and a customer being back-billed for services received but previously unbilled (in which case the total amount due must be paid within one year or referred to City Treasurer if a longer, deferred-payment plan is required). Further, the approved policies provide that a deposit, for those customers requiring one, will be equal to two average billing periods and a fee of \$20 will be imposed per returned check.

Typically, the City seeks to collect unpaid bills by (i) issuing a reminder notice as early as 25 days after a bill is issued, (ii) issuing a shut-off notice as early as 38 days after a bill is issued, and (iii) shutting off the customer's water service as early as 45 days after a bill is issued. This procedure results in almost all past due bills being paid. If necessary, the City establishes time payments for customers who are unable to pay a past due amount. If an account is closed with an amount due which remains unpaid, that account is referred to the City Treasurer for collection activities. An allowance is taken each fiscal year for accounts receivable which are not expected to be paid. During the five-year period from Fiscal Year 2003-04 through 2007-08, this amount ranged from a low of \$324,726 to a high of \$530,462. Water service charges to City utility customers are collected on a municipal water bill, which also includes sewer charges and storm drain fees. Bills are currently rendered on a bi-monthly basis for single family and most multi-family dwellings and on a monthly basis for all other customers.

Table 12 sets forth information related to accounts receivable and number of shut-offs.

TABLE 12
WATER CUSTOMER ACCOUNTS RECEIVABLE
AND SHUT-OFFS BY FISCAL YEAR
Fiscal Years 2003-04 to 2007-08
(\$ In Thousands)

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07⁽¹⁾</u>	<u>2007-08</u>
Water Sales Revenue	\$221,623	\$245,287	\$ 258,900	\$289,127	\$288,741
Accounts Receivable ⁽²⁾	\$ 20,957	\$ 33,622	\$ 25,404	\$ 28,126	\$ 25,995
Accounts Receivable Over 120 Days ⁽²⁾	\$ 1,450	\$ 1,727	\$ 3,672	\$ 3,644	\$ 2,940
% of Total Water Sales Revenues	0.7%	0.7%	1.42%	1.26%	1.02%
No. of Shut-Offs	21,689	24,459	21,230	20,451	22,420
Write-Off Amounts ⁽⁴⁾	\$ 478	\$ 402	\$ 325	\$ 531	\$ 564

Source: Water Department & Comptroller's Office, City of San Diego.

(1) Fiscal Year 2007-08 figure is preliminary and unaudited.

(2) As of June 30

(3) Shut-Offs for non-payment may include multiple shut-offs at the same address throughout the fiscal year.

(4) Write-Off amount for entire water bill, which includes billing for water, sewer, and storm drain services.

Revenues

The Water Utility Fund's principal source of revenues is water service charges to City residents and commercial enterprises. Table 13 sets forth the historical sources of water service revenues of the Water Utility Fund for each of the fiscal years from Fiscal Year 2003-04 to 2007-08.

TABLE 13
HISTORICAL SOURCES OF WATER SERVICE REVENUES⁽¹⁾
(In Thousands)
Fiscal Years 2003-04 through 2007-08

<u>Sources</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Retail⁽²⁾					
Single Family Domestic	\$ 85,262	\$ 92,630	\$102,505	\$ 114,461	\$123,063
Multi-Family ⁽³⁾	46,230	51,505	55,514	61,754	61,193
Commercial	75,571	82,477	82,669	93,042	85,644
Industrial	3,951	3,914	3,880	3,091	2,663
Reclaimed	3,465	3,751	4,452	5,528	2,073
Outside City	93	123	246	144	45
Wholesale to Other Retailers⁽²⁾					
Other Utilities ⁽⁴⁾	6,505	10,439	8,982	9,776	12,780
Irrigation Districts	546	448	652	1,331	1,280
TOTAL⁽⁵⁾	<u>\$221,623</u>	<u>\$245,287</u>	<u>\$258,900</u>	<u>\$289,127</u>	<u>\$288,741⁽²⁾</u>

Source: The City's 2004 - 2006 Comprehensive Annual Financial Reports with respect to the "Total" amounts; Water Department & Comptroller's Office, City of San Diego with respect to all other amounts.

⁽¹⁾ Does not include capacity charges or other operating revenues.

⁽²⁾ Unaudited.

⁽³⁾ Multi-Family primarily consists of multi-family dwellings.

⁽⁴⁾ Primarily reflects wholesale revenues from Cal-American.

⁽⁵⁾ Audited, except for data for Fiscal Years 2006-07 and 2007-08.

The four annual water rate increases approved in February 2007 and described previously are projected to increase water service charge revenues from \$287 million in Fiscal Year 2006-07 to \$370 million by Fiscal Year 2010-11. These revenue estimates include 6.5% annual rate increases in Fiscal Year 2007-08 through Fiscal Year 2010-11, but do not include revenues generated by purchase water cost increases that were affected as a result of rate increases implemented by CWA. Table 7 herein sets forth the Water System's water service rate increases from Fiscal Year 2003-04 to Fiscal Year 2008-09. Such rate increases are approved by the City Council and Mayor following the required Proposition 218 noticing process on an *ad hoc* basis as cost increases become effective, usually in January of each year.

Operation and Maintenance Expenditures

Operation and Maintenance expenditures include the cost of operating and maintaining water supply, treatment, storage, and distribution facilities. Operation and Maintenance expenditures also include the cost of purchasing water, providing technical services such as laboratory services, administrative costs of the water system including meter reading and billings, human resources administration and general management of the Water Department (collectively, "Operation and Maintenance expenditures"). The City used an inflationary factor of 4% in projecting all Operation and Maintenance expenditures, except for salaries and wages. Salaries and wages that were increased by 4% in Fiscal Year 2007-08 but are not increased thereafter. Electricity and gas expenses were assumed to

increase at 8% per year and data processing costs were based on a long-range plan which reflected planned changes to data processing systems.

Water purchases are part of operation and maintenance expenditures but are projected separately based on historical factors, required emergency storage factors, known supply availability factors, and projected demand. The City estimates that the projected water purchase costs will vary from \$128 million to \$135 million in Fiscal Years 2007-08 through 2010-11, excluding any additional price adjustments from MWD or CWA. As described previously, as MWD or CWA price adjustments occur, the City makes corresponding adjustments to its customer rates, subject to the requirements of Proposition 218. Absent those price adjustments from MWD and CWA, water purchase costs were forecast to increase at an average of 0.9%, based on the growth in accounts, over the same period. This can be attributed to the fact that conservation efforts and the reclaimed water program will partially offset the demand for additional potable water supplies that will result from population growth. The current water rate model has since been adjusted to reflect an assumed 15% reduction in water sales for Fiscal Year 2008-09 and Fiscal Year 2009-10 based on the Water Department's estimate of supply restrictions that may be in place for those years. For Fiscal Year 2008-09, the Water Department has included in its operating budget the anticipated reduction in water supply availability and a corresponding decrease in water purchases and reduced sales. The resulting revenue reduction is offset by reductions in water purchases and other budget reductions which also carry forward into future years.

Table 14 sets forth the statement of revenues, expenses and changes in fund net assets for Fiscal Years 2002-03 through 2006-07.

TABLE 14
REVENUES, EXPENSES, CHANGES IN FUND NET ASSETS
(In Thousands)
Fiscal Years 2002-03 through 2006-07
(Audited)

	2002-03	2003-04	2004-05	2005-06	2006-07 ⁽²⁾
OPERATING REVENUES					
Sales of Water	\$ 206,383	\$ 221,623	\$ 245,287	\$ 258,900	\$ 289,127
Charges for Services	887	965	1,027	1,031	1,147
Revenue from Use of Property	4,075	4,969	4,701	4,833	6,162
Recreation	-	1,426	-	-	-
Storage and Transportation of Water for Other Agencies	178	188	230	-	-
Usage Fees	1,239	1,426	1,756	1,943	1,594
Other	9,700	10,362	14,648	13,860	12,262
TOTAL OPERATING REVENUES	\$ 222,462	\$ 239,533	\$ 267,649	\$ 280,567	\$ 310,292
OPERATING EXPENSES					
Maintenance and Operations	\$ 94,345	\$ 95,182	\$ 92,959	\$ 94,433	97,736
Cost of Purchased Water Used	100,094	100,445	102,096	110,263	124,880
Taxes	1,260	1,359	1,457	570 ⁽¹⁾	163 ⁽¹⁾
Administration	30,134	33,602	37,762	35,370	30,943
Depreciation	19,045	21,745	27,277	29,230	27,644
TOTAL OPERATING EXPENSES	\$ 244,878	\$ 252,333	\$ 261,551	\$ 269,866	\$ 281,366
OPERATING INCOME (LOSS)	\$ (22,416)	\$ (12,800)	\$ 6,098	\$ 10,701	\$ 28,926
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	\$ 11,590	\$ 7,643	\$ 7,258	\$ 6,966	\$ 11,461
Federal Grant Assistance	565	506	640	424	283
Other Agency Grant Assistance	1,068	50	694	359	284
Gain (Loss) on Sale / Retirement of Capital Assets	(707)	(1,251)	(26,141)	(9,819)	(5,076)
Debt Service Interest Expense	(23,075)	(15,925)	(12,737)	(23,935)	(26,370)
Other	857	606	32	(67)	175
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ (9,702)	\$ (8,371)	\$ (30,254)	\$ (26,072)	\$ (19,243)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS					
	\$ (32,118)	\$ (21,171)	\$ (24,156)	\$ (15,371)	\$ 9,683
Capital Contributions	86,376	72,040	41,954	44,262	80,858
Transfers from Other Funds	1,204	197	3,377	220	352
Transfers from Governmental Funds	14	-	27	-	84
Transfers to Other Funds	(422)	(238)	(319)	(158)	(234)
Transfer to Governmental Funds	(1,021)	(1,563)	(1,046)	(1,481)	(1,713)
CHANGE IN NET ASSETS	\$ 54,033	\$ 49,265	\$ 19,837	\$ 27,472	\$ 89,030
Net Assets at Beginning of Year	1,075,816	1,129,849	1,179,114	1,198,951	1,226,423
NET ASSETS AT END OF YEAR	\$1,129,849	\$1,179,114	\$1,198,951	\$1,226,423	\$1,315,453

Source: Comprehensive audited financial report of the indicated year, except as otherwise indicated.

⁽¹⁾ Decrease represents in lieu taxes paid to the CWA and property taxes paid to the County Tax Collector.

⁽²⁾ Unaudited. Source: City of San Diego Water Department.

Table 15 sets forth the debt service coverage for Fiscal Years 2002-03 through 2006-07.

TABLE 15
CALCULATION OF HISTORIC DEBT SERVICE COVERAGE
(In Thousands)
Fiscal Years 2002-03 through 2006-07
(Unaudited)

Fiscal Year Ended June 30	Parity Obligations							All Obligations ⁽¹⁾			
	Total Income	Total Expenses	Net System Revenue	Earnings on Reserve Fund	Adjusted Net System Revenue	Total Debt Service	Less: Interest Earnings	Adjusted Debt Service	Adjusted Debt Service Coverage	Total Debt Service (Parity and Subordinated)	Aggregate Debt Service Coverage
2002-03	\$256,968	\$226,058	\$30,910	(\$1,305)	\$29,605	\$23,363	(\$1,305)	\$22,058	1.34x	\$27,002	1.15x
2003-04	267,649	232,193	35,456	(1,296)	34,160	21,355	(1,296)	20,059	1.70	34,861	1.02
2004-05	294,904	234,392	60,512	(1,262)	59,250	21,355	(1,262)	20,093	2.95	35,549	1.70
2005-06	303,453	242,180	61,273	(1,228)	60,045	21,355	(1,228)	20,127	2.98	36,237	1.69
2006-07 ⁽²⁾	336,599	255,486	81,113	(1,346)	79,767	21,351	(1,346)	20,005	3.99	39,412	1.99

Source: Comprehensive audited financial report of the indicated year for parity obligations for Fiscal Years 2002-03 through 2005-06; City of San Diego Water Department for Fiscal Year 2006-07 amounts and subordinated obligations amounts.

⁽¹⁾ Based on debt service coverage calculations set forth in the Installment Purchase Agreement.

⁽²⁾ Unaudited.

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Management's Discussion and Analysis

As of June 30, 2007, the Water Department's assets exceeded liabilities by \$1.32 billion, an increase of \$89.0 million from the previous year. This increase is primarily the result of increased net water sales revenues of \$30.2 million and increased capital assets, net of related debt and depreciation, of \$40.3 million.

Current assets increased \$49.1 million primarily due to an increase in cash and investment earnings of \$41.6 million, and an increase in accounts receivable of \$6.3 million. Current liabilities decreased \$1.3 million due to a decrease in accounts payable of \$1.3 million. Non-current liabilities increased \$44.1 million due to a combination of principal payments due within one year on outstanding bonds of \$13.4 million offset by an increase to Notes Payable of \$57 million in connection with the Series 2007A Notes to provide short-term financing of the Water Department's CIP. The Series 2007A Notes will be paid with proceeds of the Series 2009A Bonds described in this Official Statement.

Total operating revenues for Fiscal Year 2006-07 were \$310.3 million, an increase of \$29.7 million over the previous fiscal year. The increase was primarily due to a rate increase of 6% and an increase of 521 million cubic feet over the prior year in water delivery. This was a 5.5% increase in delivery quantity from the prior fiscal year.

Non-operating revenues increased by \$4.5 million. This was a result of an increase in interest earnings of \$4.5 million mainly due to higher average cash and investments during the fiscal year. Capital contributions increased by \$36.6 million to \$80.9 million in Fiscal Year 2005-06 and were primary attributable to sub-division developer contributed assets of \$36.8 million.

Total operating expenses for Fiscal Year 2006-07 were \$281.4 million, an increase of \$11.5 million from the prior year. This was mainly a result of an increase in water purchases of \$14.6 million. Water purchases accounted for approximately 44% of the Operating Expenses as the City purchased approximately 90% of the water distributed from the San Diego County Water Authority.

Administrative expenditures included long range strategic planning, policy, information systems, and general and administrative expenses. This represented 11% of total operating expenses. Administrative expenditures decreased \$4.4 million in Fiscal Year 2006-07. This continued a three-year trend of finding opportunities to create administrative efficiencies and better serve our customers.

Operation and Maintenance included the operation of 3 treatment facilities as well as operation and maintenance of approximately 3,400 miles of distribution mains and associated pump stations. Operation and Maintenance costs were 35% of Operating Expenses and totaled \$97.7 million. This was an increase of \$3.3 million or 3% over the prior fiscal year.

Non-operating expenses decreased by \$2.3 million down to \$31.4 million. This was due to a \$4.7 million decrease in losses attributable to the retirement of capital assets, and an increase in debt service interest expense of \$2.4 million.

As of June 30, 2007, the Water Department had total reserves of \$99.3 million. As of June 30, 2008, the Water Department increased its total reserves to \$101.2 million in compliance with a reserve policy adopted by the City in Fiscal Year 2007-08.

As of June 30, 2008, the Water Department had outstanding debt of approximately \$757.7 million. More detailed information about the Water Department's long-term debt is presented in the notes to the financial statements attached as Appendix D - "EXCERPTS FROM THE AUDITED FINANCIAL

STATEMENTS OF THE CITY OF SAN DIEGO FOR FISCAL YEARS 2005-06 AND 2006-07," including certain information regarding the Water Department's bond service coverage ratio requirements.

Rate Stabilization Fund; Other Funds and Accounts

The City has established within the Water Utility Fund two reserve funds: the Rate Stabilization Fund ("Rate Stabilization Fund") and the Secondary Purchase Fund ("Secondary Purchase Fund"). Amounts in the Rate Stabilization Fund are to be used exclusively for the operation and maintenance of the Water System and such Fund is maintained pursuant to the Master Installment Purchase Agreement. The Rate Stabilization Fund has no associated budgeted amount from year to year and amounts therein are intended to provide a source of funds to mitigate future rate increases. Deposits into the Rate Stabilization Fund are made from current Water System revenues and subject to the discretion of the City Council. Amounts may be deposited into the Rate Stabilization Fund from time to time but such amounts are typically deposited at the end of the fiscal year. When deposited in the Rate Stabilization Fund, Net System Revenues for purposes of calculating bond coverage ratios are reduced by the amount of the deposit. Amounts may be withdrawn from the Rate Stabilization Fund through the normal procedures established by the City Comptroller, including approval of the Chief Financial Officer, or by City Council action in the form of an ordinance to appropriate the amounts from the Rate Stabilization Fund into a specific program for expenditure. When withdrawn from the Rate Stabilization Fund, the amounts are deemed System Revenues for purposes of calculating bond coverage requirements. There are currently no expected transfers to or from the Rate Stabilization Fund, which is expected to be maintained at \$20,500,000, the amount in such fund as of June 30, 2008.

The Secondary Purchase Fund has no associated budgeted amount from year to year and any deposits thereto are subject to the discretion of the City. Amounts in the Secondary Purchase Fund, which may come from any moneys available therefor, are intended to be equal to 6% of the annual budget for the purchase of water and may be used as an emergency reserve for the purchase of water in the event of a drought or other emergency that unexpectedly disrupts the City's normal supply of water or for any operating and maintenance expense. Amounts may be withdrawn from the Secondary Purchase Fund and appropriated for program expenditures through City Council action in the form of an ordinance. There is no requirement to replenish any amounts withdrawn from the Secondary Purchase Fund. To the extent that amounts are deposited in the Secondary Purchase Fund from current Water System Revenues, System Revenues are reduced by the amount of such deposit for purposes of calculating debt service coverage requirements. Amounts withdrawn from the Secondary Purchase Fund are deemed System Revenues. There are currently no expected transfers to or from the Secondary Purchase Fund, other than those necessary to maintain the 6% annual water purchases target. As of June 30, 2008, amounts in the Secondary Purchase Fund equaled \$7,132,377.

The City has also established within the Water Utility Fund the Operating Reserve, which is funded at an amount necessary to provide for a certain number of days of operations in the event of an emergency or catastrophe that results in loss of revenues. Such amount is calculated based on the annual operating budget for the fiscal year (less water purchases and amounts in the Appropriated Reserve described below). The Operating Reserve is required to be replenished during any fiscal year in which amounts were withdrawn. The Fiscal Year 2008-09 budget included approximately \$23.1 million for the Operating Reserve, which accounts for 50 days' operating costs. The City is in the process of gradually increasing such reserve to a level sufficient for 70 days' operating costs by Fiscal Year 2013.

Other reserves established by the City include an SRF Loan Reserve (the "SRF Loan Reserve") for payment of principal and interest on its SRF loan; two Debt Service Reserve Funds (the "Debt Service Reserve Funds") for payment of principal and interest on its bonds; an Emergency Reserve (the "Emergency Reserve") annually budgeted at \$5.0 million to provide for emergency capital expenditures or other unanticipated capital needs; and an Appropriated Reserve (the "Appropriated Reserve") annually

budgeted in at amount determined by the Water Department in its discretion to provide for unanticipated needs that may arise during the course of the year, including payment of unanticipated operating expenses, which requires the approval of the Director of the Water Department, and payment of unanticipated capital needs, which requires approval of the City Council.

In Fiscal Year 2008, the City established a Dedicated Reserve for Efficiencies and Savings (the "DRES") for the Water Fund for use in connection with the City's efforts to protect and preserve savings found by increasing efficiencies, changing priorities or other actions related to reducing costs of the CIP or operations and maintenance of the Water System. The DRES is intended to track funds that can be used for accelerating CIP project schedules and help offset the need for future rate increases. At the end of each fiscal year, any savings not required for compliance with established reserve policies will be transferred into the DRES. At the end of four years, any funds transferred into the DRES and not used for capital improvements will be used to lower future rates for the Water System. The DRES has not been funded as of the date of this Official Statement.

Table 16 sets forth the funding levels of the funds and reserves established within the Water Utility Fund as of June 30, 2008.

TABLE 16
WATER UTILITY FUND RESERVES
(as of June 30, 2008)

<u>Fund Name</u>	<u>Funding Level</u>
Rate Stabilization Fund	\$ 20,500,000
Secondary Purchase Fund	7,132,377
Operating Reserve	19,936,102
SRF Loan Reserve	1,376,000
Debt Service Reserve	47,312,000
Funds	
Emergency Reserve	<u>5,000,000</u>
	<u>\$101,256,479</u>

Source: City of San Diego Water Department.

For information on the possible limitation on the City's ability to set rates and charges at levels which would permit the City to make deposits into the Rate Stabilization Fund or the Secondary Purchase Fund as a consequence of Proposition 218, see "WATER SYSTEM FINANCIAL OPERATIONS." See also Table 17 under the caption "WATER SYSTEM FINANCIAL OPERATIONS - Financial Projections and Modeling Assumptions" for currently anticipated deposits into and withdrawals from the Rate Stabilization Fund incident to the currently contemplated Water System CIP.

Financial Projections and Modeling Assumptions

Table 17 sets forth the estimated operating revenue and expenses for Fiscal Years 2007-08 through 2011-12.

TABLE 17
ESTIMATED OPERATING REVENUE AND EXPENSES
Fiscal Year 2007-08 through 2011-12
(In Thousands)
(Unaudited)

DESCRIPTION	2007-08 Estimated	2008-09 Budgeted	2009-10 Rate Case	2010-11 Rate Case	2011-12 Projected
Net Operating Revenues ⁽¹⁾	\$43,862	\$69,742	\$ 87,175	\$142,299	\$143,664
Interest Income on Operating Funds	8,268	5,167	6,323	8,647	12,682
Interest Income on Capital Monies ⁽²⁾	2,465	5,187	4,725	3,257	5,704
Capacity Fee Proceeds	8,459	11,466	14,224	13,510	14,139
Total Adjusted Net System Revenues ⁽³⁾	<u>\$63,053</u>	<u>\$91,561</u>	<u>\$112,447</u>	<u>\$167,713</u>	<u>\$176,190</u>
Projected Senior Debt Service	\$21,354	\$21,354	\$ 41,180	\$ 41,180	\$ 50,155
Senior DSRF Interest ⁽⁴⁾	\$ 1,370	\$ 998	\$ 1,634	\$ 2,063	\$ 2,837
Adjusted Debt Service	\$19,984	\$20,356	\$ 39,546	\$ 39,117	\$ 47,318
Senior Debt Service Coverage ⁽³⁾	316%	450%	284%	429%	372%
Aggregate Debt Service Coverage					
Net Operating Revenues	\$43,862	\$69,742	\$ 87,175	\$142,299	\$143,664
Interest Income on Operating Funds	8,268	5,167	6,323	8,647	12,682
Interest Income on Capital Monies	1,922	4,638	4,067	2,489	4,827
Capacity Fee Proceeds	8,459	11,466	14,224	13,510	14,139
Debt Service Reserve Fund Interest	2,435	1,546	2,292	2,831	3,714
Total Net System Revenues	<u>\$64,945</u>	<u>\$92,559</u>	<u>\$114,081</u>	<u>\$169,776</u>	<u>\$179,026</u>
Projected Senior Debt Service	\$21,354	\$21,354	\$ 41,180	\$ 41,180	\$ 50,155
Projected Subordinate Debt Service	\$21,728	\$26,271	\$ 31,504	\$ 28,668	\$ 28,672
Aggregate Debt Service ⁽⁵⁾	\$43,082	\$47,625	\$ 72,684	\$ 69,849	\$ 78,827
Aggregate Debt Coverage ⁽⁶⁾	151%	194%	157%	243%	227%

Source: Feasibility Engineer.

⁽¹⁾ Fiscal Year 2008-09 and Fiscal Year 2009-10 figures reflect an anticipated 15% water conservation. Thereafter, figures reflect pre-water conservation levels. Includes service charges and reclaimed water sales. Includes revenues generated from proposed rate adjustment to pass through CWA purchased water cost increases for Fiscal Year 2008-09 but not potential future adjustments to pass through CWA supply cost increases.

⁽²⁾ Includes interest income on Subordinate Debt Service Reserve Fund.

⁽³⁾ As defined in the Installment Purchase Agreement.

⁽⁴⁾ Includes anticipated bond issuances subsequent to Fiscal Year 2008-09.

⁽⁵⁾ Includes Parity Obligations, Subordinated Obligations, and SRF debt service without adjustment for Debt Service Reserve Fund earnings.

⁽⁶⁾ Ratio of total Net System Revenues to Aggregate Debt Service.

The data set forth in Table 17 is based upon various assumptions adopted by the Water Department and used by Camp Dresser & McKee Inc. (the "Feasibility Engineer") for purposes of its Report on the Engineering and Financial Feasibility Study attached as Appendix B hereto. The Water

System's growth projections are based on San Diego Association of Governments ("SANDAG") 2030 Forecasts, which was approved by the Board of SANDAG in November 2003. SANDAG's growth projections for Fiscal Year 2007-08 to Fiscal Year 2009-10 are 1.1% annually and 1% annually thereafter. These rates are applied to the number of customer accounts. The Water Department has based the current number of accounts from the Water Utilities Customers Information System Monthly Rate Code Summary (Actual).

Reclaimed water revenues, which are a component of water sales, are expected to increase from approximately \$2 million to \$9.5 million over the period from Fiscal Year 2006-07 to Fiscal Year 2010-11 due to new customers and increased demand from existing customers. Reclaimed revenues will continue to supplant revenues from potable water service charges as existing customers convert from potable to reclaimed water supplies. Revenues will also be lost as customers convert to reclaimed water since reclaimed water is priced below potable water. Reduced water purchases will offset a portion of revenue losses of conversion to reclaimed. However, a large portion of reclaimed water sales are made on a wholesale basis to other water districts and agencies outside of the City, including the Otay Water District, the City of Poway, the Olivenhain Water District, and the International Boundary and Water Commission. These districts/agencies comprise approximately 45% of current reclaimed water used. Reclaimed water used by these districts do not offset potable water sales in the City so they do not have a negative revenue impact to the Water Utility Fund.

The Water Department is actively pursuing Proposition 50 grants and other grants. Such amounts, however, are not included in the model unless grant agreements have been approved by the Water Department and the granting agency. Capital project costs are estimated based on current design, construction management, and construction cost plus a contingency equal to approximately 5% of construction cost. An inflation factor, calculated as described above is added to the costs in the out-years.

The Water Department's model reflects a capacity charge as a full-cost recovery charge reviewed as part of the 2007 Rate Case. The result of that study increased the capacity charge to \$3,047 (from \$2,550) which is incorporated in the rate model.

The Water Department's model includes the anticipated issuance of additional revenue bonds secured by installment payments pursuant to the Installment Payment Agreement, including bonds in the approximate principal amount of \$730 million maturing 30 years from their respective dates of issuance. The Water Department anticipates that the amount of revenue bonds to be issued in the future will be reduced by the amount of SRF loan received from DWR, if any.

Interest rates estimated for projected earnings on fund balance are 2.5% for Fiscal Year 2008-09, 3.0% for Fiscal Year 2009-10, 3.5% for Fiscal Year 2010-11 and 4.0% for Fiscal Year 2011-12 and Fiscal Year 2012-13. The interest rate for the projected public financing is reflected in the model to be 6%, based on the financial advisors' estimates. The model assumes annual inflation for Operations and Maintenance expenditures, except salaries and wages (which are assumed at 0%), is 4% based on the most recent 15-year San Diego area consumer price index for all urban consumers. The annual inflation for capital projects is 4% based on the *Engineering News Record Construction Cost Index* most recent 10-year annual average and 15-year annual average.

The Water Department's current rate model reflects an increase in salaries and wages in the amount of 4% in Fiscal Year 2007-08, but without an increase in subsequent years until Fiscal Year 2012-13, consistent with the Water Department's five-year financial plan. The Water Department reduced 63.16 positions in Fiscal Year 2007-08 (net of hires) to reflect the Mayor's direction to streamline and reduce an additional 92.4 positions in Fiscal Year 2008-09 (net of hires) both to continue streamlining and re-engineering efforts and to accommodate the reduced revenues resulting from the assumed 15%

reduction in water sales. Various other Operations and Maintenance reductions were also made to bring Fiscal Year 2008-09 expenditures into line with the reduced revenues.

Additional pension costs are reflected in the model based on the Water Utility Fund's proportionate share to fully fund the City's annual required contribution to the Pension System. See "WATER SYSTEM FINANCIAL OPERATIONS – Water System Share of Contribution to Pension System and NPO" herein. The Water Utility Fund also contributes its proportional share to the Retiree Health fund which was estimated at 7.92% of the total City contribution. See "WATER SYSTEM FINANCIAL OPERATIONS – Post-Retirement Healthcare Benefits" herein.

The data in Table 17 is based upon an assumption of the Water Utility Fund's proportionate share of costs for implementation of an Enterprise Reporting Program consistent with the Mayor's response to the Kroll Report. Additional costs for General Government Services are reflected based on the reorganization of the City government and the allocation of additional departments not previously included in the calculation.

The rate model assumes the City will not be a net purchaser of treated water beginning in Fiscal Year 2010-11. Treated Water Purchases averaged approximately 25,000 AFY from Fiscal Year 2003-04 through Fiscal Year 2007-08.

Based on the City's Long-Range Water Resources Plan, conservation is compared to water sales in Fiscal Year 1988-89. Conservation is anticipated to increase from 11.38% in Fiscal Year 2007-08 to 13.50% in Fiscal Year 2017-18 with an additional 2% added each year for passive conservation. In addition, in Fiscal Year 2008-09 and Fiscal Year 2009-10, the City is assuming an additional conservation factor of 15% to reflect potential restricted water supplies.

See a description of the Water Department's long-term debt as presented in Note 6 to the City's CAFR attached as Appendix D hereto. Except for covenants relating to its continuing disclosure undertakings, the Water Department was and is in compliance with bond covenants and debt service coverage ratio requirements.

Outstanding Indebtedness

As of September 1, 2008, the aggregate principal amount of Parity Obligations payable from Net System Revenues was \$245,010,000 and the aggregate principal amount of Subordinated Obligations payable from Net System Revenues was \$498,785,380. The aggregate principal amount of loans payable from Net System Revenues as of September 1, 2008 was \$18,940,380, consisting of loans payable to the State of California Water Resources Control Board.

Pursuant to Section 90 of the City Charter, general obligation bonded indebtedness for the development, conservation and furnishing of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation. The Water Department has not issued any general obligation balance as of June 30, 2008.

Table 18 sets forth the outstanding indebtedness payable from Net System Revenues as of June 30, 2008. See "PLAN OF FINANCE" herein for a description of the payments and prepayments to be effected with proceeds of the Series 2009A Bonds.

TABLE 18*
OUTSTANDING DEBT
As of September 1, 2008
(In Thousands)

Series	Final Maturity	Outstanding Amount	Amount to be Refunded*
Parity Obligations:			
Series 1998 Certificates	August 1, 2028	\$245,010,000	\$
Total Parity Obligations:		<u>\$245,010,000</u>	<u>\$</u>
Subordinated Obligations:			
Series 2002 Subordinated Bonds	August 1, 2032	\$272,845,000	\$
Series 2007A Notes	January 30, 2009	57,000,000	
Series 2008A Subordinated Notes	August 28, 2009	150,000,000	
State Revolving Fund Loan	July 1, 2025	18,940,380	
Total Subordinated Obligations:		<u>\$498,785,380</u>	<u>\$</u>
Total Parity Obligations and Subordinated Obligations:		<u>\$743,795,380</u>	<u>\$</u>

Source: City of San Diego, Debt Management Department.
Preliminary, subject to change.

Annual Debt Service Requirements

Table 19 sets forth the amounts required in each fiscal year for the payment of principal of and interest on the existing Parity Obligations and Subordinated Obligations and amounts payable on the Series 2009A Bonds. See "Security for the Series 2009A Bonds" herein.

TABLE 19
DEBT SERVICE ON ALL PARITY OBLIGATIONS AND SUBORDINATED OBLIGATIONS

Fiscal Year	Series 1998 Certificates ⁽¹⁾	Series 2002 Subordinated Bonds	Series 2008A Notes ⁽²⁾	Series 2009A Bonds ⁽³⁾			Total Debt Service
				Principal	Interest	Total Principal and Interest	
2008-09	\$ 6,044,536	\$ 18,036,568	\$ 4,551,000	\$	\$	\$	\$
2009-10	12,089,073	27,299,110	152,829,000				
2010-11	12,089,073	27,292,513					
2011-12	12,089,073	27,296,456					
2012-13	12,089,073	27,299,238					
2013-14	12,089,073	27,298,400					
2014-15	12,089,073	27,295,813					
2015-16	12,961,698	26,924,438					
2016-17	25,372,573	13,733,800					
2017-18	25,371,573	13,735,350					
2018-19	25,369,698	13,737,250					
2019-20	25,370,073	13,732,525					
2020-21	25,370,698	13,733,925					
2021-22	25,369,573	13,735,138					
2022-23	25,370,603	13,736,875		\$	\$	\$	\$
2023-24	25,374,423	13,735,325					
2024-25	25,369,800	13,732,525					
2025-26	25,370,750	13,737,263					
2026-27	25,370,156	13,733,413					
2027-28	25,373,619	13,734,625					
2028-29	25,373,644	13,734,500					
2029-30		13,736,875					
2030-31		13,735,375					
2031-32		13,733,625					
2032-33		13,735,000					
Total:	\$421,367,855	\$442,235,925	\$157,380,000				

Source: City of San Diego, Debt Management Department.

⁽¹⁾ A portion of the Series 1998 Certificates will be prepaid with proceeds of the Series 2009A Bonds; such prepayment is not reflected in the figures above. See "PLAN OF FINANCE" herein.

⁽²⁾ Matures on August 28, 2009; will be prepaid in full prior to maturity on or about April 2009.

⁽³⁾ Proceeds of the Series 2009A Bonds will be used to pay in full the Series 2007A Notes currently outstanding in the amount of \$57 million. See "PLAN OF FINANCE" herein.

Labor Relations

General. The total number of regular full-time Water Department employees as of July 1, 2008 was 779, of which 464 were represented by the Municipal Employees Association ("MEA") and 266 were represented by American Federation of State, County and Municipal Employees, AFL-CIO, Local 127 ("Local 127"). The remaining 49 employees are unrepresented. The two bargaining units represent approximately 94% of the Water Department's employees. Contract negotiations with both units for Fiscal Year 2008-09 did not end in agreement. The terms of the existing labor agreements will carry

forward into Fiscal Year 2008-09 with no salary increase. On May 27, 2008, the City Council approved the salary ordinance for Fiscal Year 2008-09, which sets the same pay and benefit levels as the prior fiscal year for the MEA. For employees represented by Local 127, the salary decrease of 1.9% from the July 1, 2005 labor agreement will be reinstated as a result of provisions of such labor agreement.

Worker-Related Insurance. The Water Department is self-insured for workers' compensation and long-term disability and for public liability claims exposure up to \$5 million per occurrence. For liability between \$5 million and \$50 million, the Water Department is covered by the City which purchases insurance from commercial insurers in layers for its public liability exposure.

Table 20 reflects the accrued estimated liabilities and expenditures for liability claims of the Water System for Fiscal Years 2002-03 through 2006-07.

TABLE 20
LIABILITY CLAIMS ACCRUED
ESTIMATED LIABILITIES AND EXPENDITURES
Fiscal Years Ending June 30, 2003 to 2007

<u>Fiscal Year</u>	<u>Accrued Estimated Liabilities⁽¹⁾</u>	<u>Expenditures</u>
2002-03	\$4,694,818	\$2,226,903
2003-04	1,447,227	1,125,404
2004-05	966,319	1,146,732
2005-06	2,852,333	3,028,169
2006-07 ⁽²⁾	4,794,657	2,483,122

Source: Comprehensive audited financial report of the indicated year, except as otherwise indicated.
⁽¹⁾ Accrued Estimated Liabilities includes actual cash expenditures plus the change in accrued liabilities from the previous fiscal year.
⁽²⁾ Unaudited.

The City maintains commercial property insurance on all City-owned buildings of an insurable nature, and currently carries property and extended loss insurance coverage of \$25 million per occurrence with a \$25,000 deductible on all City buildings, with earthquake insurance coverage of up to \$25 million on all bond-funded buildings under its primary policy. Depending on availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future. The City does not maintain any casualty insurance on the pipelines of the Water System as such insurance is not commercially available.

Investment of Funds

Amounts in the funds and accounts of the Water Utility Fund, including proceeds of the Series 2009A Bonds, are invested by the City Treasurer in the Treasurer's Pooled Investment Fund described below and accounted for separately from other funds of the City.

City Pool. In accordance with the Charter of the City and authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the Treasurer's Pooled Investment Fund (the "City Pooled Investment Fund"). Responsibility for the daily investment of funds in the City Pool is delegated to the City's Chief Investment Officer. The City and certain related entities are the only participants in the City Pool; there are no other City Pool participants either voluntary or involuntary. The investment objectives of the City Pool are preservation of capital, liquidity and return.

Oversight and Reporting Requirements. The City Treasurer provides an investment report on a monthly basis to the Chief Financial Officer, the City Comptroller and the City Council and annually presents the Investment Policy to the Chief Financial Officer, the City Council, and the Investment Advisory Committee. The Investment Advisory Committee is comprised of two City employees, currently the Chief Financial Officer and the Director of Debt Management, and three investment professionals from the private sector and is charged with overseeing the review of the City's Investment Policy and practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section uses outside services to provide investment portfolio valuations and accounting and reporting services. These services provide monthly portfolio valuation, investment performance statistics, and other portfolio reports that are distributed to the Office of the City Treasurer accounting section and the City Comptroller's office for review and reconciliation. The Office of the City Treasurer's accounting section prepares a series of monthly reports, including the portfolio market valuation, and distributes these to the Mayor, City Council, Chief Financial Officer, and other officials.

Authorized Investments. Investments in the City Pool are governed by State law and further restricted by the City's Investment Policy. The Investment Policy is prepared with safety of principal being the foremost objective. Permitted investments include U.S. Treasury securities, U.S. Agency securities, U.S. Agency mortgage backed securities, corporate medium term notes, money market instruments, non-negotiable FDIC-insured certificates of deposit and the Local Agency Investment Fund (California State Pool). Reverse repurchase agreements ("reverse repos") are restricted to 20% of the base value of the portfolio and are governed by various maturity restrictions as well. The main operating funds of the City are managed in two separate portfolios. In its management of the "Liquidity" portfolio, comprising about 35% of total funds, the City invests in a variety of debt securities with maturities ranging from one day to one year. The remaining 65% of funds are managed in a separate "Core" portfolio that consists of a variety of debt securities ranging from one day to five years; performance is measured against the Merrill Lynch one- to three-year U.S. Treasury Index. Safety of principal and liquidity are paramount considerations in the management of both portfolios.

Pool Liquidity and Other Characteristics. The City Pool (including both the "Liquidity" and the "Core" portfolios) is highly liquid. As of September 30, 2008, approximately 13% of the pool investments mature within 62 days, 17% within 92 days and 28% within 184 days, 53% within 1 year, 79% within 2 years, 99% within 3 years, and 100% within 5 years (on a cumulative basis). As of September 30, 2008, the Pool had a weighted average maturity of 1.25 years (459 days) and its weighted yield was 2.938%. For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund (California State Pool) as maturing within one day. The Liquidity portfolio had a duration of 0.33 years and the Core portfolio had a duration of 1.67 years as of September 30, 2008. Duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. Accordingly, the Liquidity portfolio should decrease in market value by 0.33% for every 1% increase in market interest rates while the Core portfolio should decrease in market value by 1.67% for every 1% increase in market interest rates. The City Pool's composition is designed with a goal of having sufficient liquid funds available to meet disbursement requirements. The composition and value of investments under management in the City Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities, and fluctuations in interest rates.

Table 21 sets forth the City Pooled Investment Fund results at September 30, 2008.

TABLE 21
CITY OF SAN DIEGO POOLED INVESTMENT FUND⁽¹⁾
at September 30, 2008
In Thousands
(Preliminary Unaudited)

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Total⁽¹⁾</u>
U.S. Treasury Bills and Notes	\$ 832,410	\$ 841,869	42.61%
Federal Agency Securities ⁽²⁾	922,536	924,677	47.22
Medium Term Notes (Corporate) ⁽³⁾	88,112	86,012	4.51
Money Market Instruments ⁽⁴⁾	86,264	87,185	4.42
Local Agency Investment Fund	24,226	24,226	1.24
NET ASSETS	<u>\$1,953,548</u>	<u>\$1,963,969</u>	<u>100.00%</u>

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

⁽¹⁾ Based on book value.

⁽²⁾ Federal National Mortgage Association ("Fannie Mae") securities and Federal Home Loan Mortgage Corporation ("Freddie Mac") securities represent 36.16% and 21.42%, respectively, of total Federal Agency Securities, which is approximately 17.07% and 10.12%, respectively, of the City Pooled Investment Fund.

⁽³⁾ These notes consist of both fixed and floating interest rate securities. The notes with floating interest rates are reset at intervals ranging from one day to three months.

⁽⁴⁾ These securities consist of commercial paper, negotiable certificates of deposit, Certificate of Deposit Account Registry Service certificate of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and/or thrift notes.

San Diego City Employees' Retirement System

The City faces significant financial challenges in addressing an unfunded pension liability of approximately \$1.2 billion, as of June 30, 2007. This liability is the product of a number of factors, including (i) improvements in benefits to members without corresponding funding, (ii) the use of pension funds to pay non-pension benefits, including contingent benefits and certain healthcare costs, rather than retaining such earnings in the Pension System (herein described), (iii) funding by the City at lower than actuarially required levels, (iv) use of realized earnings in excess of the assumed actuarial rate of return to make supplemental or contingent payments, and (v) investment returns lower than the actuarially assumed rate of return. Factors (i) through (iv) have been corrected through changes to City policies and practices; factor (v) is the result of market conditions and may recur in the future. The challenges posed by the unfunded pension liability are significant and, together with significant costs related to post-retirement healthcare benefits, pose a threat to the future fiscal health of the City. However, as explained below under the caption, "Water System Share of Contribution to Pension System and NPO," the Water System's proportionate share of the City's annual required contributions to the Pension System is approximately 5%. Estimates of the Water System's share of the City's annual contributions of approximately \$11.5 million for each of Fiscal Years 2007-08 through 2010-11 were included in the 2007 Rate Case model that served as the basis for the annual rate increases through Fiscal Year 2010-11 that were approved by the City Council. For Fiscal Years 2007-08 and 2008-09, the actual contributions required from the Water System were less than the amounts that were assumed in the 2007 Rate Case model. The City fully funded its annual required contribution to the Pension System in Fiscal Years 2005-06 through 2008-09.

The amounts and percentages set forth under this caption relating to the City's Pension System, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, post-retirement mortality, active member mortality, and rates of retirement. The prospective purchasers of the Series 2009A Bonds are cautioned to review, and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the Series 2009A Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change, any one of which could cause a significant change in the UAAL (as defined below).

The City is authorized by the City Charter to establish a pension system for its employees, and the City did so by an ordinance adopted in 1926, which was replaced by a new ordinance in 1962 (the "Pension System"). City employees participate with the full-time employees of the Airport Authority and the District in the SDCERS. The information below relates solely to the City's participation in SDCERS and not to the participation of the Airport Authority or the District. Through June 30, 2005, the plan assets of the City, the Airport Authority and the District were commingled, but separate cost calculations and actuarial valuation reports were completed annually for each employer. Since Fiscal Year 2005-06, the respective pension plan assets of each of the City, the Airport Authority and the District have been administered by SDCERS as separate trusts.

SDCERS is considered part of the City's financial reporting entity and is included in the City's CAFR as a pension system trust fund. SDCERS does prepare its own CAFR, the most recent of which is for Fiscal Year 2006-07.

UAAL and its Calculation

According to the June 30, 2007 Annual Actuarial Valuation of SDCERS, dated as of January 2008 (the "2007 Valuation") and prepared by Cheiron, Inc. ("Cheiron"), the funded ratio (the valuation of assets available for benefits to total actuarial accrued liability) of the SDCERS fund as of June 30, 2007 was 78.8%, and the SDCERS fund had an unfunded actuarial accrued liability (the "UAAL") of \$1.1842 billion as of June 30, 2007. Thus, for every dollar of benefits due (all vested liabilities), if all vested benefits were due on June 30, 2007, SDCERS had \$0.788 in assets available for payment. The UAAL is the difference between total actuarially accrued liabilities (\$5.597 billion as of June 30, 2007) and actuarially calculated assets allocated to funding (\$4.413 billion as of June 30, 2007).

The following are the principal actuarial assumptions that were used in preparing the 2007 Valuation:

1. Investment Return Rate: 8.00% a year, net of administrative expenses, compounded annually. The rate is comprised of two elements: a 4.25% inflation rate and a 3.75% real rate of return.
2. Inflation Rate: 4.25% a year, compounded annually.
3. Interest credited to member contributions: 8.00%, compounded annually.
4. Salary increase rates: 4.75% a year, comprised of a 4.25% inflation rate and a 0.50% merit and longevity component.
5. Annual Cost-of-Living Adjustment: 2% per year, compounded annually.
6. Additional Assumptions: Additional assumptions were used regarding rates of separation from active membership, post-retirement mortality, active member mortality, and rates of retirement.

The 2007 Valuation was based on demographic and economic data set forth in an experience study dated May 11, 2005. Cheiron has completed an experience study dated June 18, 2008 (the "2008 Experience Study") that sets forth an analysis of the experience of the Pension System during the three-year period from July 1, 2004 through June 30, 2007 and makes certain recommendations regarding the demographic and economic assumptions to be used for the actuarial valuation as of June 30, 2008. The 2008 Experience Study recommends (1) increasing the assumed rates of retirement and basing such assumption on years of service rather than the age of a member, (2) increasing the assumed termination rates across all ages and service groups, (3) decreasing the assumed disability rates, (4) updating the mortality assumptions for all members, (5) lowering the current 8.00% assumed investment return rate to 7.75% and (6) lowering the inflation assumption from 4.25% to 4.00%. According to the 2008 Experience Study, its recommended changes will produce estimated net results very close to those derived from the current assumptions. However, any changes from the economic and demographic assumptions currently used could have a significant impact on the calculation of each year's ARC (as defined below). The recommended changes set forth in the 2008 Experience Study, if approved by the SDCERS Board of Directors, will be used in the actuarial valuation as of June 30, 2008.

"Smoothing" Methodology

In determining the actuarial value of its assets, SDCERS, as permitted by applicable actuarial guidelines, uses a "smoothing" methodology to reduce the impact of market volatility on plan assets. The market value of assets represents, as of the valuation date, the value of the assets as if they were liquidated on that date. The actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce annual investment volatility. The actuarial value of assets is what is used to determine SDCERS' contribution rates for the City. As of June 30, 2007, the market value of plan assets was \$4.641 billion, and the actuarial value was \$4.414 billion. By the smoothing method used in the 2007 Valuation, the calculation of the actuarial value of assets at June 30, 2007 started with the actuarial value of assets at June 30, 2006, added to that 100% of the actuarially assumed rate of return (8%), plus the contribution towards plan assets, less payments out from plan assets, plus 25% of the difference between the expected actuarial value of assets at June 30, 2007 (using the above calculation) and the actual market value of assets at June 30, 2007. The impact of this smoothing methodology will vary each year depending upon the year's actual investment performance compared to the then-remaining amount to be smoothed, either as a net gain or a net loss.

City Contributions to SDCERS

The City's annual required contribution ("ARC") consists of: (i) the "normal cost," being the present value of the benefits that SDCERS expects to become payable in the future attributable to a current year's employment, and (ii) payments made to amortize the UAAL. SDCERS currently amortizes the UAAL over a 20-year period with no negative amortization. See Note 12 of the City's Fiscal Year 2006-07 CAFR (the "2007 CAFR") attached hereto as Appendix D for a description of the potential impact of shorter amortization period prescribed by the City Charter. For many years, the City was paying less than the full ARC. The reasons for this are numerous, including prior agreements between the City and SDCERS, earnings on pension assets at greater than the actuarially assumed rate of 8% being credited against contributions, payments pursuant to litigation settlements that were mistakenly characterized as "contingent" and therefore not made in certain years, and other reasons explained in detail in Note 12 to the 2007 CAFR. See Appendix D - "Excerpts from the Audited Financial Statements of the City of San Diego for Fiscal Years 2006-07 and 2005-06" attached hereto.

The City paid the full ARC, as calculated by SDCERS, for Fiscal Years 2005-06 and 2006-07. However, the calculation of the ARC by SDCERS for Fiscal Years 2004-05, 2005-06, and 2006-07 did not include certain benefit payments that the SDCERS Board of Directors views as having been contingent. Subsequent to those payments, the City determined that the liabilities were not contingent and the ARC for

financial reporting was restated from the original ARC calculated by SDCERS' actuary. Accordingly, the City Net Pension Obligation ("NPO") has been increased by such amounts. NPO is the cumulative difference between the annual pension cost of the City to the Pension System and the actual contribution in a particular year. Annual pension cost is equal to (i) the ARC, (ii) one year's interest on the NPO, and (iii) an adjustment to the ARC to offset, approximately, the amount included in item (i) for amortization of the past contribution deficiencies. The City has taken various actions to reduce the NPO and the related UAAL, including contributions of \$142.6 million in addition to the ARC through the securitization of future tobacco settlement revenue, transfers of actual tobacco settlement revenue receipts, and additional employee "pick up" savings.

The City's NPO at the end of Fiscal Year 2006-07 was \$193.9 million. In Fiscal Year 2007-08, the City's total pension payment was \$165 million. The City's pension payment for the Fiscal Year 2008-09 is \$161.7 million and has been paid in full.

Table 22 below sets forth the City's historical funding progress for Fiscal Years 2002-03 through 2006-07.

TABLE 22
CITY OF SAN DIEGO
Schedule of Funding Progress
Fiscal Years 2002-03 through 2006-07
(In Thousands)

Valuation Date (June 30)	Valuation Assets	AAL	Funded Ratio	UAAL ⁽¹⁾
2003	\$2,375,431	\$3,532,626	67.2%	\$1,157,194
2004 ⁽³⁾	2,628,680	3,997,328	65.8	1,368,648
2005	2,983,080	4,377,093	68.2	1,394,013
2006 ⁽³⁾	3,981,932	4,982,699	79.9	1,000,768
2007 ⁽²⁾	4,413,411	5,597,653	78.8	1,184,242

Source: SDCERS Comprehensive Annual Financial Report of the indicated year.

- (1) Actuarial gains and losses reduce or increase the UAAL, which is being amortized over a 20-year period with no negative amortization as of the 2007 Actuarial Valuation.
- (2) Reflects revised actuarial methodologies, including the return to the entry age normal actuarial funding method.
- (3) Reflects revised actuarial methodologies.

Water System Share of Contribution to Pension System and NPO

For Fiscal Year 2007-08, the Water Utility Fund's proportionate share to fully fund the City's contribution to the pension system was \$8.8 million, and for Fiscal Year 2008-09 such share will be \$8.1 million. In the Water System's 2007 Rate Case projection, which was the basis for the annual rate increases of 6.5% approved by the City Council for Fiscal Years 2007-08 through 2010-11 (see "WATER SYSTEM FINANCIAL OPERATIONS – Establishment and Collection of Water Service Charges" and "– Historical Rates and Charges" herein), the Water System used \$11.5 million each year for the assumed amount of the Water Utility Fund's proportionate share of the City's ARC for Fiscal Years 2007-08 through 2010-11. The City expects that the \$11.5 million estimate included in the Water System's 2007 Rate Case projection for Fiscal Years 2007-08 through 2010-11 will be sufficient to pay the Water Utility Fund's proportionate share to fully fund the City's contribution to the pension system for such years. The Water System's share of the NPO at June 30, 2007, is approximately \$9.7 million. See 2007 CAFR, line

item entitled "Non-Current Liabilities - Net Pension Obligation" under the table entitled "Proprietary Funds - Statement of Net Assets".

Table 23 sets forth, for Fiscal Years 2007-08 through 2010-11, the City's pension payments, the pension contributions included in the Water System's 2007 Rate Case projection and the corresponding actual/budgeted amounts, which have been lower than the projected amounts.

TABLE 23
CITY OF SAN DIEGO AND WATER DEPARTMENT
Pension Contribution
Fiscal Years 2007-08 through 2010-11
(In Millions)

Fiscal Year	City Pension Payment	Water Department	
		Rate Case Projection	Actual/Budgeted
2007-08	\$165.0 ⁽¹⁾	\$11.5	\$8.8 ⁽²⁾
2008-09	161.7 ⁽³⁾	11.5	8.1 ⁽³⁾
2009-10	169.0 ⁽⁴⁾	11.5	--
2010-11	176.0 ⁽⁴⁾	11.5	--

Source: City of San Diego Financial Management Department and Water Department.

⁽¹⁾ Unaudited actual. Consists of the City's ARC of \$137.7 million, an additional \$20 million to ensure no negative amortization of the UAAL and an additional \$7.3 million to offset contribution shortfalls from prior fiscal years.

⁽²⁾ Unaudited actual.

⁽³⁾ Final budgeted.

⁽⁴⁾ Estimated annual required contribution to the Pension System; projections assume a 4.25% growth rate per the Mayor's Five-Year Financial Outlook.

Post-Retirement Healthcare Benefits

The City is authorized pursuant to the San Diego Municipal Code to provide certain healthcare benefits to certain retired employees through SDCERS. Expenses for post-retirement healthcare benefits were paid for on a pay-as-you-go basis through Fiscal Year 2006-07 from City contributions, retiree contributions and amounts from the 401(k) Plan established by the City in 1985. In Fiscal Years 2005-06 and 2006-07, the annualized cost of retiree health benefits was approximately \$24.1 million and \$27.1 million, respectively. The City's portion of such cost was \$17.7 million and \$20.4 million, respectively, for such fiscal years. The remainder was paid from retiree contributions. The Water Utility Fund's proportionate share of such post-retirement healthcare benefits was approximately \$1.36 million (audited) and \$2.1 million (unaudited) for Fiscal Years 2005-06 and 2006-07, respectively. The City expects to contribute \$26.1 million to such pay-as-you-go post-retirement healthcare benefits in Fiscal Year 2008-09, of which \$1.89 million represents the Water Utility Fund's proportionate share.

The City has taken various actions to ensure that sufficient resources are available to pay for retiree healthcare expenses in future periods, including entering into an agreement with CalPERS on January 18, 2008 as a participating employer in the CalPERS irrevocable retirement trust fund to pre-fund expenses related to other post-employment benefits ("OPEB") and contributing approximately \$30.1 million to CalPERS in connection therewith. The City also contributed in Fiscal Year 2008-09 \$24 million for OPEB liabilities, of which \$1.73 million represents the Water Utility Fund's proportionate share. All future contributions for post employment healthcare benefits will be credited toward the City's ARC for retiree healthcare liabilities in accordance with Governmental Accounting Standards Board

("GASB") Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" ("GASB 43"), and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions" ("GASB 45"). See Note 13 of the 2007 CAFR attached hereto as Appendix D for a description of GASB 45 and the City's intended OPEB funding schedule.

An actuarial valuation of the City's post-retirement medical benefit program as of June 30, 2007 (the "2007 OPEB Valuation") was performed by Buck Consultants for the purpose of determining the City's annual cost in accordance with GASB 43 and GASB 45. The valuation, dated January 15, 2008 and revised on May 7, 2008, reflected a discount rate of 6.69% based on the City's actual and expected contributions to the CalPERS Retiree Benefit Trust Fund, inflation factors for increases in healthcare costs and premium costs, and a 30 year amortization period. According to the 2007 OPEB Valuation, using the assumptions discussed above and consistent with GASB 43 and GASB 45, the actuarial accrued liability for OPEB for all retirees, deferred retirement participants, vested terminated and active members will be \$1,027,917,641 and the ARC for OPEB will be \$104,475,129 for Fiscal Year 2008-09 (as reported in the actuarial valuation dated June 30, 2007). Table 24 sets forth the retiree health contributions included in the Water System's 2007 Rate Case projection for Fiscal Years 2007-08 through 2010-11 and the corresponding actual/budgeted amounts, which have been lower than the projected amounts. The City expects that such amount will be sufficient to pay the Water Utility Fund's proportionate share to fund the City's contribution to OPEB for such years.

TABLE 24
WATER DEPARTMENT
Retiree Health Contribution
Fiscal Years 2007-08 through 2010-11
(In Millions)

Fiscal Year	Rate Case Projection	Actual/Budgeted
2007-08	\$3.7	\$3.9 ⁽¹⁾
2008-09	5.7	3.6 ⁽²⁾
2009-10	6.0	--
2010-11	6.0	--

Source: City of San Diego, Financial Management Department.

⁽¹⁾ Unaudited actual. Consists of the Water Utility Fund's proportionate share of pay-as-you-go post-retirement healthcare benefits and its proportionate share of contributions to CalPERS for OPEB.

⁽²⁾ Final budgeted.

RISK FACTORS

The ability of the City to pay principal of and interest on the Series 2009A Bonds depends primarily upon the receipt by the City of Net Revenues. Some of the events which could prevent the City from receiving a sufficient amount of Net Revenues to enable it to pay the principal of and interest on the Series 2009A Bonds are summarized below. The following discussion of risks is not intended to be an exhaustive list of the risks associated with the purchase of the Series 2009A Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

General

The payment of principal of and interest on the Series 2009A Bonds is secured by a pledge of Revenues which consists primarily of 2009A Installment Payments and certain funds under the Trust Indenture. The 2009A Installment Payments are payable solely from Net System Revenues of the Water

System. No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2009A Installment Payments. The realization of future Net System Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water to its customers, and the ability of the City to establish, maintain and collect rates and charges sufficient pay for Operation and Maintenance costs and debt service. See "WATER SYSTEM FINANCIAL OPERATIONS – Historical Rates and Charges."

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City.

Water System Expenses and Collections

There can be no assurance that the City's projected future Maintenance and Operation costs for the Water System will actually stay within the levels described in this Official Statement. As reflected in the projected operating results of the Water System included under "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions," the Operation and Maintenance costs of the Water System are expected to increase in the next five years. In addition, demands on the Water System will increase due to population growth and regulatory requirements in the future. As described herein, the City is in the process of implementing the Long-Range Water Resources Plan and the attendant CIP to provide a framework for meeting future water requirements. Increases in expenses could require a significant increase in rates or charges in order to pay for CIP projects, including those anticipated under the City's Long-Range Water Resources Plan, and to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Although the City has covenanted to prescribe, revise and collect rates and charges for Water Service at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to pay the 2009A Installment Payments sufficient to provide for the payment of the Series 2009A Bonds.

Rate-Setting Process

The passage of Proposition 218 by the California electorate, which added Articles XIII C and XIII D to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the Installment Purchase Agreement to pay 2009A Installment Payments. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES—California Constitution Articles XIII C and XIII D."

Notwithstanding the foregoing, the City has covenanted to use its best efforts to effect water service rate increases in compliance with Proposition 218. The rate increases approved to date by the City Council have been effected in compliance with Proposition 218.

Statutory and Regulatory Compliance

Laws and regulations governing treatment and delivery of water are enacted and promulgated by government agencies on the federal, state and local levels. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed to ensure safe drinking water standards and the provision of water for other purposes, such costs will likely increase.

Claims against the Water System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the Water System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the Water Department may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Water Utility Fund, and no assurance can be given that such additional costs would not adversely affect the ability of the Water System to generate Net System Revenues sufficient to pay the 2009A Installment Payments. See "WATER SYSTEM REGULATORY REQUIREMENTS - Compliance Order by the California Department of Public Health" herein.

Although the City has covenanted in the Installment Purchase Agreement to fix, prescribe and collect rates and charges for the Water Service which will yield Net System Revenues for each fiscal year sufficient to pay debt service on the Series 2009A Bonds, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the Water System to generate Net System Revenues sufficient to pay the 2009A Installment Payments.

Risks Relating to the Water Supply

Drought Risks. The San Diego region and its primary sources of water supply can be subject to drought conditions. The region is situated in an arid and semi-desert environment. While suppliers of water to the City, including CWA and MWD, have planned and managed reserve supplies to account for normal occurrences of drought conditions, decreased runoff from Sierra Nevada snow pack and environmental issues in the Sacramento-San Joaquin Delta are restricting the ability to transport water supplies to Southern California. Due to drought conditions and court-ordered restrictions, on June 4, 2008, California Governor Arnold Schwarzenegger issued an Executive Order proclaiming a condition of statewide drought (the "Executive Order"). The Executive Order directs DWR to expedite existing conservation grant programs, facilitate water transfers, conduct a water conservation and outreach campaign in cooperation with local water agencies and organizations, and take additional drought response and water conservation actions. The Executive Order recognizes that some communities have worked to improve their drought preparedness and ability to cope with water shortages, but there are wide variations within the State. It orders State and local agencies to identify public water systems at risk of health and safety impacts due to drought and water delivery limitations and to mitigate these impacts. The Executive Order encourages local water agencies and districts to work cooperatively on actions to reduce water consumption locally and regionally. MWD, which supplies water to the City through CWA, is currently drawing on its stored water supplies to meet near-term demands and anticipates additional actions to stretch reserve supplies. The City has taken into account the effect of the current drought on operations in the Water Department's Fiscal Year 2008-09 and Fiscal Year 2009-10 budgets by assuming a 15% reduction in water sales and deliveries, which is expected to result in reduced revenues which are offset by reductions in both its operating budget and its capital improvement budget. As discussed under the caption "WATER SUPPLY - Current Water Supply," the City has declared a Stage 1 Voluntary Compliance Water Watch.

Earthquakes, Wildfires and Other Natural Disasters. Earthquakes or other natural disasters could interrupt operation of the Water System and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2009A Installment Payments securing the payment of the Series 2009A Bonds. The San Diego area is characterized by a number of geotechnical conditions which represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. The San Andreas, Rose Canyon, Elsinore and San Jacinto fault zones are all capable of producing earthquakes in the San Diego area. In anticipation of such potential disasters, the City designs and constructs all facilities of the Water System to the seismic codes in effect at the time of design of the project. Additionally, the Water Department has two capital improvement projects currently underway to

mitigate earthquake damage to selected pipelines. The Water System has not experienced any significant losses of facilities or services as a result of earthquakes.

Water conveyance facilities generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. The above ground facilities are designed to be tolerant to damage by wildfires through the use of fire resistant material where possible, such as concrete and masonry blocks. In addition, the Water Department works closely with the City's fire department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Water System. The Water Department watches for wildfires that may threaten the facilities of the Water System and operations and maintenance crews are dispatched to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Water Department works closely with the City's fire department and law enforcement officers to monitor and protect facilities of the Water System to ensure continuous operation. The Water System did not sustain damage from the October 2007 wildfires in San Diego County.

The City is also cooperating with CWA on the Emergency Storage Project, pursuant to which a system of reservoirs, interconnected pipelines and pumping stations is being created to improve the availability of water to the San Diego region in the event of an interruption in imported water deliveries. Currently, the pipelines that carry imported water for CWA, a portion of which is purchased by the Water Department, extend for hundreds of miles and cross several major fault lines en route to San Diego County. A severe earthquake, drought or other significant disaster could cut off the County's imported water supply for up to six months. As part of the Emergency Storage Project, CWA is increasing the height and storage of San Vicente Reservoir and connecting Lake Hodges to the imported water system, which will increase the amount of water locally available in an emergency.

Although the City has implemented disaster preparedness plans and made improvements to Water System facilities in connection with such natural disasters, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be within the range currently anticipated. Further, damage to components of the Water System could have a material increase in costs for repairs or a corresponding material adverse impact on Net System Revenues. The City is not obligated under the Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, nor does the City plan to procure and maintain, earthquake insurance on the Water System.

Environmental Considerations. Quagga (*dreissena rostriformis bugensis*) and Zebra (*dreissena polymorpha*) mussels are small freshwater bivalve mollusks native to Ukraine. Within the United States and in other areas of the world, they are considered an invasive species with significant adverse impact on the ecosystem. Presence of the invasive Quagga mussel has been verified in water bodies supplied by the lower Colorado River, beginning in January 2007. The first identification of mussel presence in the San Diego region occurred in August 2007. It is suspected that Quagga mussels were transported into the Colorado River basin by recreational vessels traveling from infested waters from the eastern United States. Once introduced into the Colorado River basin, the Quagga mussels have been transported through the imported water supply into City's reservoirs. To date, the City has found Quagga mussels in San Vicente, El Capitan, Otay, Murray, Miramar, and Hodges Reservoirs. Quagga mussels pose a significant risk to the aquatic life and ecosystem within reservoirs and to the operation and maintenance of the Water System. At this time, the ultimate impact is unknown; however, it has the potential to generate significant capital and annual operational and maintenance costs.

Security of the Water System. Military conflicts and terrorist activities may adversely impact the operations and finances of the Water System. The Water Department continually plans and prepares for emergency situations and immediately responds to ensure the quality of water is maintained and service is maintained/restored to customers. The Water Department prepares for emergencies such as earthquake,

fire, power failure, or possible water contamination in a variety of ways, including: extensively monitoring the entire water treatment and distribution system on a routine basis throughout the year, in part by taking thousands of water samples; routinely training staff on critical security and safety; conducting disaster drills to improve coordination efforts throughout the region; collaborating with the California Department of Health Services, law enforcement and fire-rescue agencies in order to improve multiple agency response to water emergencies; implementing a water quality notification plan to keep customers informed in emergency situations; implementing additional security measures at all water treatment plants, reservoirs, and other local and remote water facilities. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Water System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the City to increase expenditures for repairs to the Water System significantly enough to adversely impact the City's ability to pay debt service on the Series 2009A Bonds. The Capital Improvement Program of the Water Department has made use of and is continuing to use Homeland Security grants to enhance security of various facilities throughout the Water System. In addition, the City has established within the Water Utility Fund an Operating Reserve (the "Operating Reserve") funded at a minimum 45 days' operating costs (to be gradually increased to 70 days of operating costs in Fiscal Years 2009-10 to 2010-11) which may be used under certain circumstances for repairs to the Water System. See "WATER SYSTEM FINANCIAL OPERATIONS – Rate Stabilization Fund and Other Funds and Accounts" herein.

Suppliers of water to the Water Department have also taken actions to increase the security of water from the Colorado River Aqueduct and the SWP. MWD has reported that it has increased ground and air patrols of the Colorado River Aqueduct. In addition, MWD has increased the frequency of monitoring and testing at all treatment plants in addition to various sites along the Colorado River Aqueduct. Although MWD has constructed redundant systems and other safeguards, no assurance can be given that a terrorist attack against MWD's facilities would not impair MWD's ability to deliver water to its customers, including CWA, from which the Water Department purchases a substantial portion of its water supplies, through the Colorado River Aqueduct or the SWP.

Utility Costs. Power outages may cause difficulties in receiving an adequate water supply and thus increase the cost of water. No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Water System. Also, the Water Department cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water System's financial condition, although the rate increases previously approved by the City for Fiscal Years 2007-08 through 2010-11 allow for 8% inflation in gas and electric costs. The Water Department also cannot guarantee that additional increases in water rates charged by the City's wholesale provider or other charges imposed by the CWA or MWD will not be proposed. Such increases in water rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's water customers as increased water rates in accordance with the City's Municipal Code. Such "pass through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Articles XIIC and XIID" herein.

Limited Obligation

The obligation of the City to pay the 2009A Installment Payments securing the Series 2009A Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues. The obligation of the City to make the 2009A Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Installment Purchase Agreement to make the Installment Payments solely from Net System Revenues. There is no assurance that the City can succeed in operating the System such that the Net System Revenues in the future amounts projected in this Official Statement will be realized.

Limitations on Remedies

The rights of the Owners of the Series 2009A Bonds are subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the Owners of the Series 2009A Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Series 2009A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

Article XIII A

Article XIII A of the State Constitution provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value," which is defined as "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment", subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. As amended, Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the District's water or wastewater user rates or Capacity Fees were determined by a court to exceed the reasonable cost of providing service, the District would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as capacity fees will not be special taxes if they approximate the reasonable cost

of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See "FINANCIAL SYSTEM FINANCIAL OPERATIONS – Revenues" herein.

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fee and charges collected by the City are used to pay the costs of maintaining and operating the Water System and payments due on the Series 2009A Bonds (including the funding of the Reserve Fund), the City believes that such moneys are not subject to the annual appropriations limit of Article XIII B.

Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees and charges.

Section 1 of Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and Section 2 thereof requires two thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements. The City has not enacted, imposed, extended or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIII C expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIII C to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

"Fees" and "charges" are not expressly defined in Article XIII C or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIII C and Article XIII D ("SB 919"). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the "*Bighorn Decision*") that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIII D and are also fees or charges within the meaning of Section 3 of Article XIII C. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIII C.

In the *Bighorn Decision*, the Supreme Court did state that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's water service fees and charges, which are the source of Net System Revenues pledged to the payment of debt service on Series 2008 Bonds and other Outstanding Obligations.

Notwithstanding the fact that water service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIC, the City has covenanted to levy and charge rates which meet the requirements of the Installment Purchase Agreement in accordance with applicable law.

Article XIID defines a "fee" or "charge" as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership." In the *Bighorn Decision*, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

The City's water charges have two components, a base fee based on meter size and a commodity charge based on the volume of water consumed. The City has complied with the applicable notice and protest procedures of Article XIID for all increases in its water rates and charges approved since the effective date of Article XIID. There has not been nor is there any pending challenge to any of the City's water fees and charges approved since the effective date of Proposition 218. While the City Attorney is of the opinion, based upon the judicial precedent in place during the period of these rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the City nor the City Attorney can predict with certainty the outcome of a challenge to the increases in the City's water rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIID if one were brought.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge

imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 "property-related fee" protest proceedings, the City Council adopted Resolution R-2007-655 in January 2007 establishing additional procedures for submitting protests against proposed increases to water rates, including the provision of notice of a proposed change in water fees to all owners of record on each identified parcel and all water customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed increases to water rates, including guidelines for determining when a valid protest has been submitted.

Existing, new or increased assessments are subject to the procedural provisions of Proposition 218. However, certain assessments existing on November 6, 1996, are classified as exempt from the procedures and approval process of Article XIID. Expressly exempt assessments include (i) an assessment imposed exclusively to finance capital costs or maintenance and operation expenses for sewers, water, flood control and drainage systems, but subsequent increases are subject to the procedures and approval requirements; (ii) an assessment imposed pursuant to a petition signed by all affected landowners (but subsequent increases are subject to the procedural and approval requirements); (iii) assessments, the proceeds of which are used exclusively to pay bonded indebtedness, where failure to pay would violate the U.S. Constitution's prohibition against the impairment of contracts; and (iv) any assessment which has previously received approval by a majority vote of the voters (but subsequent increases are subject to the procedural and approval requirements).

On July 14, 2008, the California Supreme Court ruled in *Silicon Valley Taxpayers Association, Inc. v. Santa Clara County Open Space Authority* (the "SCCOSA Decision") that the Santa Clara County Open Space Authority's county-wide assessment which was designed to fund the acquisition and maintenance of unspecified open-space lands in the County of Santa Clara was invalid under Proposition 218. The Court held that deference should not be accorded to local agencies when Proposition 218 legislative acts are challenged. Under Proposition 218, courts must make an independent review of whether the assessment and formation of an assessment district meet the "special benefit" and proportionality requirements of Article XIID. Further, while an assessment will not be invalidated because it confers a benefit upon the public at large, the "special benefit" must affect the assessed property in a distinct and particular manner not shared by other parcels and the public at large. Specifically, in the SCCOSA Decision the assessment did not meet the requirements of a "special benefit" and the assessment was not proportional to the special benefits conferred. Finally, the Court held that the Santa Clara Open Space Authority did not meet the proportionality requirement of Article XIID because it did not specifically identify the improvements to be financed by the assessment and failed to sufficiently connect any costs of and benefits received from the open space assessment to the specific assessed parcels.

The City and the City Attorney are of the opinion that current water fees and charges that are subject to Proposition 218 comply with the provisions thereof and that the City will continue to comply with the rate covenant set forth in the Installment Purchase Agreement in conformity with the provisions of Article XIID of the California State Constitution. The City and the City Attorney are also of the opinion that current water capacity fees are not subject to Proposition 218. Should it become necessary to

increase the water fees and charges above current levels, the City would be required to comply with the requirements of Article XIID in connection with such proposed increase. To date, there have been no legal challenges to rate increases implemented by the City pursuant to Proposition 218 or otherwise. It is unclear whether under existing standards, rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves. See “Financial Projections and Modeling Assumptions” herein.

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

TAX EXEMPTION

The delivery of the Series 2009A Bonds is subject to delivery of the opinion of Bond Counsel, to the effect that interest on the Series 2009A Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Series 2009A Bonds (the “Code”), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The delivery of the Series 2009A Bonds is also subject to the delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California, that interest on the Series 2009A Bonds is exempt from personal income taxes of the State of California. The form of Bond Counsel’s anticipated opinion is included as Appendix F. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

Interest on all tax-exempt obligations, including the Series 2009A Bonds, owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a real estate investment trust (REIT), or a real estate mortgage investment conduit (REMIC). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the Authority and the City made in a certificate of even date with the initial delivery of the Series 2009A Bonds pertaining to the use, expenditure, and investment of the proceeds of the Series 2009A Bonds and will assume continuing compliance with the provisions of the Indenture by the Authority subsequent to the issuance of the Series 2009A Bonds. The Indenture contains covenants by the Authority with respect to, among other matters, the use of the proceeds of the Series 2009A Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Series 2009A Bonds are to be invested, the calculation and payment, if required, to the United States Treasury of any “arbitrage profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Series 2009A Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Series 2009A Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Series 2009A Bonds. Prospective purchasers of the Series 2009A Bonds should be aware that the ownership of tax-exempt obligations such

as the Series 2009A Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority and the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") or the State of California with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service or the State of California. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Series 2009A Bonds is commenced, under current procedures, the Service is likely to treat the Authority as the "taxpayer," and the Owners of the Series 2009A Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2009A Bonds, the Authority may have different or conflicting interests from the Owners of the Series 2009A Bonds. Public awareness of any future audit of the Series 2009A Bonds could adversely affect the value and liquidity of the Series 2009A Bonds during the pendency of the audit, regardless of its ultimate outcome.

A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

The initial public offering price of certain Series 2009A Bonds (the "Discount Bonds") may be less than the amount payable on such Series 2009A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes and exempt from California personal income tax, on the same terms and conditions as those for other interest on the Series 2009A Bonds described above. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during its tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other

taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price (as furnished by the Underwriters) of certain Series 2009A Bonds (the "Premium Bonds"), may be greater than the amount payable on such Series 2009A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that at least 10% of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning Premium Bonds.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the City (the "Disclosure Certificate"), the City has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data concerning the City. The Annual Report to be filed by the City is to be filed not later than 270 days following the end of the City's Fiscal Year (currently June 30), commencing with the Annual Report for Fiscal Year 2007-08, and is to include audited financial statements of the City.

Prior to March 2004, the City had never failed to comply with its previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. Since that date, the City has failed to comply with various filing deadlines for a number of previous undertakings due to the unavailability of the City's audited financial statements, as described in greater detail below. See "INTRODUCTION - Certain Investigations Regarding the City" herein.

On February 8, 2008, the City filed annual reports (including financial statements) relating to securities issued by the Public Facilities Financing Authority of the City of San Diego that are secured by the Water Utility Fund for Fiscal Years 2002-03 and 2003-04 and on June 13, 2008 the City filed the annual report for such securities for Fiscal Year 2004-05. In addition, on December 11, 2007, the City filed its annual report (including financial statements) relating to seven debt issues that are secured directly or indirectly by the City's General Fund for the Fiscal Years 2002-03 and 2003-04, and on June 13, 2008, the City filed the annual report for such securities for Fiscal Year 2004-05. With regard to special tax and

assessment bonds, the affected districts timely filed reports for Fiscal Year 2002-03 without financial statements, did not file reports for Fiscal Year 2003-04 when due, filed reports for Fiscal Year 2003-04 and Fiscal Year 2004-05 prior to the filing deadline for the report due June 30, 2005 without financial statements, timely filed the reports Fiscal Year 2005-06 without financial statements and timely filed the reports for Fiscal Year 2006-07 without financial statements. [The financial statements for Fiscal Years 2002-03 through 2006-07 have been filed with the Repositories.]

The City failed to comply with the undertakings related to 21 bond issues in each of Fiscal Years 2003-04, 2004-05, 2005-06, and 2006-07. [Each required annual report and audited financial statement has subsequently been filed.]

LITIGATION

There is no controversy of any nature now pending against the City or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2009A Bonds or in any way contesting or affecting the validity of the Series 2009A Bonds or the Authorizations or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2009A Bonds or the use of the proceeds of the Series 2009A Bonds.

There are no pending lawsuits that in the opinion of the City Attorney challenge the validity of the above issue, the corporate existence of the City, or the title of the officers to their respective offices. In this review attention has been given to not only litigation pending against the City, but also against the City's Water Department. The Office of the City Attorney has prepared the following summary, as of November __, 2008, of certain claims and lawsuits (with any potential loss exceeding \$1 million) pending against the Water Utility Fund for construction claims and certain other alleged liabilities arising during the ordinary course of operations of the Water System.

- **John Trunkey v. City of San Diego** (claims stage). On June 21, 2007, Claimant John Trunkey filed a \$2,000,000 claim for alleged damages resulting from a December 17, 2006 water main break that caused flooding in his La Jolla home. There was a partial settlement of \$50,000 for housing expenses to relocate claimant in a comparable house. The potential liability to the City could range from \$0 to approximately \$2 million.

- **Wayne Akesson, et al. v. City of San Diego.** On August 6, 2006 a water main break caused flooding along a private street in La Jolla belonging to the Colony Hills Homeowners Association. Plaintiffs filed a lawsuit against the City claiming that the water main failure caused soil subsidence, hillside failure, road failure and diminished the value of 40 properties. The potential liability to the City could range from \$0 to \$40 million.

- **Mount Soledad Landslide.** As a result of a landslide on October 3, 2007, lawsuits were filed in the San Diego Superior Court for inverse condemnation and other property-related torts by multiple plaintiffs. The alleged damages are estimated at between \$40 and \$60 million. Below are three cases that have been filed against the City as of the date of this Official Statement:

- *Crabbe, et al. v. City of San Diego* was filed on behalf of twenty-six owners of sixteen separate homes.

- *Al-Quraini, et al. v. City of San Diego* was filed on behalf of thirty-two claimants owning twenty-three residences.

- *McCormick, et al. v. City of San Diego* was filed on behalf of 44 individual plaintiffs, eight of whom are minors ranging in age from four to 11 years of age concerning 22 separate single family homes in the Mount Soledad area.

In the opinion of the City Attorney, the City has sufficient defenses against such claims and lawsuits and in no event should these claims and lawsuits result in judgments or settlements which, in the aggregate, would have a material adverse effect on the Water Utility Fund's financial position.

LEGAL OPINION

The validity of the Series 2009A Bonds and certain other matters are subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix F attached hereto. Certain legal matters will be passed upon for the Corporation by Fulbright & Jaworski L.L.P., for the Authority by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and by Michael Aguirre, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California.

RATINGS

Moody's, S&P, and Fitch have assigned the Series 2009A Bonds their ratings of "___," "___" and "___," respectively. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2009A Bonds.

UNDERWRITING

The Series 2009A Bonds are being purchased by Morgan Stanley & Co. Incorporated, as representative of the Underwriters named on the cover page to this Official Statement (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2009A Bonds at a purchase price equal to the original principal amount thereof, plus a net original issue premium of \$ _____ less underwriters' compensation in the amount of \$ _____. The Underwriters may offer and sell the Series 2009A Bonds to certain dealers and others at prices lower than the offering prices. The offering prices may be changed from time to time by the Underwriters.

J.P. Morgan Securities Inc., one of the underwriters of the Series 2009A Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Series 2009A Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009A Bonds with UBS Financial Services Inc.

PROFESSIONAL ADVISORS

Montague, DeRose and Associates LLC, Walnut Creek, California served as Financial Advisor to the City with respect to the sale of the Series 2009A Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

Camp Dresser & McKee Inc. has served as Feasibility Engineer to the City in connection with the issuance of the Series 2009A Bonds. A complete copy of the Feasibility Engineer's Report on the Engineering and Financial Feasibility Study is attached as Appendix B hereto.

FINANCIAL STATEMENTS

Prior to Fiscal Year 2002-03, the financial statements of the Water Utility Fund were included in the CAFR of the City and were also available as a separate annual financial report. Subsequently, financial statements of the Water Utility Fund were included solely as a part of the CAFR of the City, beginning with the CAFR of the City for Fiscal Year 2002-03. The CAFR of the City for the Fiscal Years 2005-06 and 2006-07 (the "2006 CAFR and 2007 CAFR") have been audited by Macias, Gini & Company LLP (the "Independent Auditor"), independent certified public accountants, as stated in their report. The Independent Auditor has consented to the inclusion of excerpts from its report as Appendix D.

Those portions of the City's 2006 CAFR and 2007 CAFR relating to the Water Utility Fund, including all of the City's basic financial statements for Fiscal Years 2005-06 and 2006-07 audited by Macias, Gini & Company LLP, are attached hereto as Appendix D. Appendix D also includes the letter of transmittal from the Mayor, required supplementary information with respect to the City's Pension System and unaudited statistical information regarding debt service coverage on Parity Obligations. Certain of the data and information set forth in Appendix D do not pertain to the Water Utility Fund but have been included in Appendix D for purposes of context. The City's General Fund does not secure payment of debt service on the Series 2009A Bonds. The City's comprehensive financial reports are available in its entirety on the City's website at <http://www.sandiego.gov>. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2009A Bonds.

MISCELLANEOUS

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

There are appended to this Official Statement a summary of certain provisions of the principal and legal documents, portions of the City's 2006 and 2007 CAFRs, including financial statements of the Water Utility Fund, the Engineer's Feasibility Statement, the proposed form of opinion of Bond Counsel, and a general description of the City and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2009A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the Authority or the Corporation since the date hereof.

PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO

By: _____
[Title]

APPENDIX A

CERTAIN INFORMATION REGARDING THE CITY OF SAN DIEGO AND AREA

The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.

INTRODUCTION

The City of San Diego (the "City"), with a total population of approximately 1.3 million in 2008 and a land area of approximately 342 square miles, is the seventh largest city in the nation and the second largest city in California. The City is the county seat for the County of San Diego (the "County"):

The City's population increased by approximately 12.4% between 1999 and 2008, with an average annual increase of approximately 16,331, based on population estimates published by the California Department of Finance in May 2008. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. Major components of the City's diversified economy include manufacturing, defense, tourism, agriculture, biotechnology/biosciences, financial and business services, software and telecommunications.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Set forth below is certain demographic information regarding the City of San Diego (the "City") and the County of San Diego (the "County"). This information is provided for informational purposes only. The Series 2009A Bonds (as defined in this Official Statement) are not a debt of the County, the State of California (the "State"), or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable thereon. The Series 2009A Bonds are payable from System Net Revenues and not from any other funds of the City, including amounts in the City's General Fund. See "Security for the Series 2009A Bonds" in this Official Statement.

Population

The following Table A-1 sets forth annual population figures for the City, the County and the State for calendar years 1999 through 2008.

Table A-1
Population Growth
Calendar Years 1999 through 2008

<u>Calendar Year</u> ⁽¹⁾⁽²⁾	<u>City of San Diego</u>	<u>Annual Growth Rate</u>	<u>County of San Diego</u>	<u>Annual Growth Rate</u>	<u>State of California</u>	<u>Annual Growth Rate</u>
1999	1,189,885	1.9%	2,751,011	1.8%	33,140,771	1.5%
2000	1,207,003	1.4	2,801,336	1.8	33,721,583	1.8
2001	1,242,148	2.9	2,865,208	2.3	34,430,970	2.1
2002	1,256,643	1.2	2,922,758	2.0	35,063,959	1.8
2003	1,279,790	1.8	2,975,082	1.8	35,652,700	1.7
2004	1,287,703	0.6	3,011,770	1.2	36,199,342	1.5
2005	1,296,869	0.7	3,038,074	0.9	36,675,346	1.3
2006	1,306,028	0.7	3,065,077	0.9	37,114,598	1.2
2007	1,317,625	0.9	3,100,132	1.1	37,559,440	1.2
2008	1,336,865	1.5	3,146,274	1.5	38,049,462	1.3

Source: State of California Department of Finance, Demographic Research Unit.

⁽¹⁾ As of January 1 of the calendar year.

⁽²⁾ Population figures and respective growth rates reflect revised figures that are benchmarked to base year 2000.

Employment

The following Table A-2 sets forth information regarding the size of the labor force, employment and unemployment rates for the City for calendar years 2003 through 2007.

Table A-2
Labor Force – Estimated Average Annual Employment and
Unemployment of City of San Diego Civilian Labor Force⁽¹⁾
Calendar Years 2003 through 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Civilian Labor Force					
City of San Diego					
Employed	621,300	634,000	643,100	651,700	656,900
Unemployed	34,100	31,500	29,200	27,000	31,600
Unemployment Rates					
City	5.2%	4.7%	4.3%	4.0%	4.6%
County	5.2	4.7	4.3	4.0	4.6
California	6.8	6.2	5.4	4.9	5.4
United States	6.0	5.5	5.1	4.6	4.6

Source: State of California Employment Development Department, Labor Market Information Division; and the U.S. Department of Labor, Bureau of Labor Statistics.

⁽¹⁾ The revised labor force data are based on a 2007 benchmark.

The State of California Employment Development Department, Labor Market Information Division, preliminarily estimates that the civilian labor force in the City through the first eight months of calendar year 2008 was 659,800, leaving approximately 45,300 persons unemployed. Based on such preliminary estimates, the City's unemployment rate matched those of the County at 6.4% and was below the unemployment rate of the State, which was 7.6%. However, the City's unemployment rate exceeded that of the United States, which was 6.1% through the first eight months of calendar year 2008.

The following Table A-3 sets forth estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major industry category in the County for calendar years 2003 through 2007. Annual employment information is not compiled by sector for the City.

Table A-3
County of San Diego
Wage and Salary Employment
Calendar Years 2003 through 2007⁽¹⁾

<u>Industry Category</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Natural Resources & Mining	300	400	400	500	400
Construction	80,200	87,700	90,800	92,700	87,200
Manufacturing	105,300	104,300	104,500	103,900	102,100
Nondurable Goods	26,500	26,200	25,400	25,500	25,000
Durable Goods	78,800	78,100	79,100	78,400	77,100
Transportation, Warehousing & Utilities	27,300	28,400	28,400	28,700	28,800
Trade	182,400	186,800	191,000	193,400	194,200
Wholesale	41,600	41,900	43,600	45,100	45,500
Retail	140,800	144,900	147,400	148,300	148,700
Financial Activities ⁽²⁾	79,900	81,900	83,200	83,700	80,400
Services ⁽³⁾	547,400	556,400	568,700	580,900	593,000
Government	217,300	214,300	215,100	217,900	222,100
Federal	40,100	39,700	39,700	40,400	40,800
State and Local	<u>177,100</u>	<u>174,600</u>	<u>175,400</u>	<u>177,500</u>	<u>181,400</u>
TOTAL NONAGRICULTURAL⁽⁴⁾	<u>1,240,100</u>	<u>1,260,300</u>	<u>1,282,100</u>	<u>1,301,600</u>	<u>1,308,200</u>

Source: State of California Employment Development Department, Labor Market Information Division.

(1) All figures are based on a March 2007 Benchmark.

(2) Includes finance, insurance, and real estate.

(3) Includes professional and business, information, educational and health, leisure and hospitality and other services.

(4) Figures may not add to total due to independent rounding.

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

Taxable Sales

The following Table A-4 sets forth taxable transactions in the City for calendar years 2002 through 2006.

Table A-4
City of San Diego
Taxable Transactions
Calendar Years 2002 through 2006
(In Thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Retail Stores					
Apparel	\$ 681,338	\$ 732,526	\$ 785,563	\$ 865,833	\$ 924,301
General Merchandise	1,926,369	2,040,450	2,142,892	2,170,831	2,236,087
Food	690,819	696,398	741,899	801,351	843,800
Eating and Drinking	1,931,214	2,066,425	2,197,430	2,311,013	2,466,681
Home Furnishings and Appliances	664,607	690,345	728,841	747,339	706,043
Building Materials and Farm Implements	1,160,915	1,248,903	1,440,726	1,396,894	1,427,987
Auto Dealers and Supplies	2,033,999	2,138,480	2,213,662	2,228,510	2,132,207
Service Stations	959,059	1,085,386	1,232,354	1,398,512	1,567,032
Other Retail Stores	<u>2,085,876</u>	<u>2,232,817</u>	<u>2,375,353</u>	<u>2,465,882</u>	<u>2,527,653</u>
Total Retail Stores	\$12,134,196	\$12,931,730	\$13,858,720	\$14,386,165	\$14,831,791
All Other Outlets	<u>4,491,659</u>	<u>4,533,632</u>	<u>4,679,723</u>	<u>5,105,581</u>	<u>5,227,476</u>
TOTAL ALL OUTLETS	<u>\$16,625,855</u>	<u>\$17,465,362</u>	<u>\$18,538,443</u>	<u>\$19,491,746</u>	<u>\$20,059,267</u>

Source: California State Board of Equalization.

Tourism

The tourism industry is the County's third largest industry in terms of business revenue generation, following manufacturing and the military. The following Table A-5 sets forth total visitor spending in the County for the calendar years 2003 through 2007.

Table A-5
County of San Diego
Total Visitor Spending⁽¹⁾
Calendar Years 2003 through 2007
(In Billions)

<u>Calendar Year</u>	<u>Amount</u>
2003	\$5.33
2004	5.52
2005 ⁽²⁾	7.22
2006 ⁽²⁾	7.72
2007 ⁽²⁾	7.90

Source: San Diego Convention and Visitors Bureau.

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

⁽²⁾ Figure reflects revised estimate to include Mexican day visitors, non-resident air travelers and conference and convention planners and exhibitor companies.

The following Table A-6 sets forth the City's transient occupancy tax revenues for Fiscal Years 2002-03 through 2006-07.

Table A-6
City of San Diego
Transient Occupancy Tax
Fiscal Years 2002-03 through 2006-07
In Thousands

<u>Fiscal Year</u>	<u>Amount</u>
2002-03	\$105,263
2003-04	113,209
2004-05	120,792
2005-06	136,803
2006-07 ⁽¹⁾	154,810

Source: Comprehensive audited financial report of the indicated year, except as otherwise indicated.

⁽¹⁾ Unaudited.

The City is the focal point for tourism in the County. The Convention Center, approximately 70% of the County's hotel and motel rooms, and most of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, Balboa Park and a host of other cultural and recreational activities.

In calendar year 2007, there were 9,156,587 airport arrivals and 712,948 Amtrak arrivals in the County. City average hotel occupancy was 75.2%.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major sporting events. The City annually hosts the Buick Invitational, a Professional Golfers' Association Tour Event played at the world renowned Torrey Pines Golf Course. Torrey Pines, which is owned and operated by the City of San Diego, also held the U.S. open in 2008. In addition, the City has annually hosted a pair of post season contests of elite college football teams, the Holiday Bowl since 1978 and the Poinsettia Bowl since 2005.

The San Diego Convention Center has 2.6 million total gross square feet. According to the San Diego Convention Center Corporation, since opening in 1989, the Convention Center has generated \$16.2 billion in economic benefit for the San Diego regional economy through increased visitor spending, additional hotel room nights, and new jobs.

Military

Military and related defense spending is the second largest industry in the County economy, with only manufacturing making a larger contribution to the County's Gross Regional Product. Military installations include Marine Corps Base Camp Joseph H. Pendleton; the Marine Corps Recruit Depot (MCRD); Marine Corps Air Station at Miramar; Naval Air Station North Island; Naval Station San Diego; and Naval Submarine Base, San Diego.

Military base realignments and closures in the 1990s proved to benefit the County. Despite losing the Naval Training Center at Point Loma, the region absorbed military operations from other areas. This transformation received additional impetus with the relocation to San Diego from Virginia of the Space and Naval Warfare Systems Command ("SPAWAR") in 1997. SPAWAR is responsible for the Navy's acquisition and life-cycle management of communications and warfare systems. SPAWAR employs nearly 6,400 military, civilian, and on-site contractors in the County and had an operating budget of \$5 billion in 2007. The closing of the Long Beach Naval Shipyard also transferred millions of dollars in shipbuilding and repair contracts to private San Diego companies. Coronado Naval Air Station will be the homeport to three nuclear-powered aircraft carriers.

The following Table A-7 sets forth the military and related defense expenditures and personnel in the City for the federal Fiscal Years ended September 30, 2002 through September 30, 2006.

Table A-7
City of San Diego⁽¹⁾
Total Defense Expenditure and Personnel
Federal Fiscal Years 2001-02 through 2005-06

<u>Fiscal Year</u>	<u>Expenditures (In Thousands)</u>			<u>Military & Civilian Personnel</u>		
	<u>Payroll Outlays⁽²⁾</u>	<u>Grants/ Contracts</u>	<u>Total</u>	<u>Active Duty Military</u>	<u>Civilian</u>	<u>Total</u>
2001-02	\$2,961,646	\$3,752,107	\$6,713,753	22,568	12,351	34,919
2002-03	3,180,150	4,159,879	7,340,029	22,263	12,055	34,318
2003-04	3,456,175	3,898,720	7,354,895	17,801	12,934	30,735
2004-05 ⁽³⁾	3,537,765	4,336,712	7,874,477	45,899	11,758	57,657
2005-06 ⁽³⁾	3,248,103	4,363,867	7,611,970	43,292	6,184	49,476

Source: Department of Defense, Statistical Information Analysis Division Work Force Publications

⁽¹⁾ Does not include Miramar Naval Air Station.

⁽²⁾ Military & Civilian.

⁽³⁾ 2005 and 2006 personnel figures include Navy/Marine Corps military personnel afloat. 2001-2004 personnel figures only account for Navy/Marine Corps shore-based personnel. Also, 2005 figures on grants and contracts reflect all grants and contracts for that fiscal year while the 2002-2004 figures only reflect contracts with obligations exceeding \$25,000.

International Trade

The following Table A-8 sets forth the valuation of exports originating in the San Diego Customs District for the calendar years 2003 through 2007.

Table A-8
Valuation of Exports
Originating in San Diego Customs District⁽¹⁾
Calendar Years 2003 through 2007
(In Millions)

<u>Calendar Year</u>	<u>Amount</u>
2003	\$12,721
2004	14,049
2005	14,990
2006	15,980
2007	16,002

Source: RAND California, Business and Economic Statistics and US Census Bureau Foreign Trade Statistics.

⁽¹⁾ The San Diego Customs District includes the ports of San Diego, Andrade, Calexico, San Ysidro, Tecate, Otay Mesa Station, and Calexico-East.

Top Ten Principal Employers

The following Table A-9 sets forth the top 10 principal employers in the City of San Diego as of June 30, 2007.

**Table A-9
City of San Diego
Top Ten Principal Employers
Fiscal Year-End 2007⁽¹⁾
(Unaudited)**

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment⁽²⁾</u>
United States Navy ⁽³⁾	71,423	10.54%
Science Applications International Corp	44,000	6.49
San Diego County ⁽⁴⁾	17,040	2.51
San Diego Unified School District ⁽⁵⁾	15,800	2.33
Scripps Health	11,000	1.62
City of San Diego ⁽⁶⁾	10,685	1.58
Sempra Energy	5,600	0.83
Solar Turbines	5,500	0.81
Kaiser Permanente	4,992	0.74
San Diego County Community College District	<u>4,778</u>	<u>0.71</u>
TOTAL TOP EMPLOYERS	<u>190,818</u>	<u>28.16%</u>

Source: 2006-07 CAFR unaudited statistical

⁽¹⁾ Past data going back to fiscal year-end 1998 is not available for a 10 year comparison.

⁽²⁾ Percentage based on total employment of 677,700 provided by the State of California's Employment Development Department Labor Force Data.

⁽³⁾ Employee count includes Navy personnel only (civilian/military).

⁽⁴⁾ Employee count is county-wide.

⁽⁵⁾ Employee count is district-wide.

⁽⁶⁾ Employee count is provided by the City of San Diego, Office of the Comptroller - Payroll Division

Personal Income

The following Table A-10 sets forth the per capita personal income in the County and the State for years 2003 through 2007.

Table A-10
Per Capita Personal Income
2003-2007

<u>Year</u>	<u>County of San Diego</u>	<u>California</u>
2003 ⁽¹⁾	\$35,676	\$33,554
2004 ⁽¹⁾	38,452	35,440
2005 ⁽¹⁾	40,383	37,462
2006 ⁽¹⁾	42,801	39,626
2007 ⁽²⁾	44,832	41,571

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

⁽¹⁾ Fiscal Year 2002-03 through Fiscal Year 2005-06 data reflects population estimates available as of April 2008.

⁽²⁾ Fiscal Year 2006-07 county and state data are preliminary, based on estimates released on August 7, 2008 and March 26, 2008, respectively.

Property Value and Construction

The following Table A-11 sets forth total City assessed value, building permit valuations and the number of new construction permits issued in the City for Fiscal Years 2003-04 through 2007-08. The valuation of commercial permits includes both private, commercial construction and publicly funded, non-tax generating projects.

The San Diego County residential real estate market has continued to decline since hitting its peak in 2005. The subprime mortgage crisis and the resulting dramatic increase in the number of foreclosures have contributed to this downturn.

Table A-11
City of San Diego
Property Value and Construction
Fiscal Years 2003-04 through 2007-08

<u>Fiscal Year</u>	<u>Assessed Value</u> ⁽¹⁾⁽²⁾	<u>Construction Permits Issued</u>			
		<u>Commercial</u>		<u>Residential</u>	
		<u>Number of Units</u>	<u>Value</u> ⁽²⁾	<u>Number of Units</u>	<u>Value</u> ⁽²⁾
2003-04	\$114,853,720	2,543	\$717,693	5,882	\$1,227,388
2004-05	125,550,046	2,516	641,857	6,605	1,321,526
2005-06	142,010,987	2,562	953,714	4,550	1,006,375
2006-07	158,286,234	2,543	670,497	3,907	820,581
2007-08	172,990,395	2,567	724,811	839	674,315

Source: County of San Diego Report ID VAL File-01 PSVVP7/California Municipal Statistics, Inc.; and Development Services Department, City of San Diego.

⁽¹⁾ Net all other exemptions, except homeowners' exemption which is reimbursed by the State of California.

⁽²⁾ Amounts expressed in thousands.

According to the County Assessor's Office, there has been an increase in the number of foreclosures and notices of loan default issued in San Diego County in the first seven months of calendar year 2008, relative to the first seven months of calendar year 2007. For the three calendar years from 2004 through 2006, an average 16.2% of notices of loan defaults resulted in foreclosures. This percentage increased to 36.00% in 2007 and 49.29% through July 2008. In 2007 an average of 4.73% of total deeds recorded were followed by foreclosures. This percentage increased to 16.59% through July 2008. However, annualized based on activity during the first six months of 2008, countywide foreclosure activity represents only 1.6% of the approximate 1.14 million county housing units. Any reduction in the revenues to be received by the City as a result of the residential foreclosure activity is expected to affect the City's General Fund, not the Water Utility Fund.

The following Table A-12 sets forth foreclosure activity in the County for the calendar years 2004 through 2008.

**Table A-12
County of San Diego
Foreclosure Activity
Calendar Years 2004 through 2008**

<u>Calendar Year</u>	<u>Foreclosures</u>	<u>Total number of Housing Units⁽¹⁾</u>	<u>% of Total Housing Units</u>
2004	553	1,093,198	0.00%
2005	559	1,107,985	0.00
2006	2,065	1,118,283	0.18
2007	8,417	1,131,749	0.74
2008 ⁽²⁾	13,757	1,140,349	0.81

Source: County of San Diego, Assessor's Records; and SANDAG.

⁽¹⁾ As of January 1 of the indicated year.

⁽²⁾ Cumulative total as of August 2008.

APPENDIX B

REPORT ON THE ENGINEERING AND FINANCIAL FEASIBILITY STUDY

(See attached.)