



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 22, 2008 REPORT NO: 08-157
ATTENTION: Council President and City Council
Docket of October 27, 2008
SUBJECT: City of San Diego Debt Policy, 2008

REQUESTED ACTION:

Review and adopt the updated City of San Diego Debt Policy, 2008.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

In November 2007, the City Council approved the City of San Diego Debt Policy ("Debt Policy"). Consistent with the Government Finance Officers Association ("GFOA") recommended practices and with examples of debt policies of other comparable municipalities and rating agency guidelines, this formal policy established guidelines for the City pertaining to debt instruments/securities issued by the City in public or private bond markets.

The Debt Policy addresses the following: purpose and need for financing; creditworthiness objectives; types of debt; affordability targets; structure and term of city indebtedness; method of issuance and sale; financing team role and selection process; refunding considerations; and post issuance administration.

Pursuant to Resolution R-303153, passed by City Council on November 6, 2007, Debt Management was directed to return to City Council on an annual basis for a review of the Debt Policy. Recommended substantive changes are notated in the attached copy of the Debt Policy on pages 11, 14, 17, 20, 21, 29 and 37. Minor changes, such as clarifying or grammatical changes, are not notated as they do not change the context or concepts set forth in the document.

In the motion approving the Debt Policy, City Council requested that a redevelopment debt policy, a CIP prioritization policy, and a variable rate and derivatives policy all be developed and presented to the Budget and Financing Committee ("Committee") by the end of Fiscal Year 2008. At this time, the Redevelopment Agency is developing the redevelopment debt policy, and anticipates it will present the policy to City Council by the end of Fiscal Year 2009. Revised

Council Policy 800-14, "Prioritizing CIP Projects" was approved by City Council on May 30, 2008 and is included in the updated Debt Policy. Based on the City Council discussion at the January 28, 2008 meeting and training regarding the use of variable rates and derivatives, Debt Management has removed any references to these types of instruments in the Debt Policy.

Pursuant to Resolution R-303153, it was also recommended that the existing San Diego Housing Commission ("Housing Commission") Multifamily Mortgage Revenue Bond Program be reviewed and updated, as appropriate, by the end of Fiscal Year 2008. The updated Housing Commission's Multifamily Mortgage Revenue Bond Program Policy was brought to the City Council by the Housing Commission where it was reviewed, noted and filed by the City Council on September 23, 2008, and is included in the updated Debt Policy.

Concurrent with the annual Debt Policy review, and pursuant to Resolution R-303153, Debt Management was asked to provide an informational report and include the following: a discussion of developments in the financial markets; the City's projected forward calendar for financings for the coming year; schedules showing all outstanding debt of the City and related entities that are subject to the Debt Policy, and all long term liabilities of the City, including pension and retiree healthcare costs that are not subject to the Debt Policy.

Municipal Debt Market Update

Financial markets changed significantly in 2008, and many of the changes had consequences for the municipal debt market. A primary factor contributing to the changes is the sub-prime mortgage crisis. The national and state residential housing market has been impacted by falling housing prices and an increase in mortgage delinquencies and defaults, particularly among property owners of sub-prime mortgages and other risky home loans. As a result, mortgage lenders were negatively impacted and lending standards were tightened. Many of the mortgages had been repackaged or structured into complex securities that were sold to other financial institutions which assumed the risk and began to experience losses. This led to a significant tightening of national and global credit markets.

The direct financial impact of the current market conditions to the City's outstanding debt issuances has been limited, but the practice of issuing municipal debt has been unsettled and will impact the City as it moves forward with planned debt issuances. Following is a discussion of specific developments in the municipal debt market:

Bond Insurers. Over the past year, rating agencies downgraded five of the seven major bond insurers that were rated AAA before the sub-prime mortgage crisis, including Ambac, MBIA and FGIC, which insure some of the City's outstanding debt issuances. Bond insurance guarantees the payment of principal and interest to investors in the event of an issuer default. In addition to guaranteeing municipal debt, these insurance companies were also ensuring mortgage related securities, and the downgrades were the result of this exposure.

The immediate effect to the City is limited. The purchase of bond insurance is an economic decision taken to reduce the overall cost of an issuance, and is not generally a requirement to issue new debt. Traditionally, bond insurance is purchased when the AAA insured rating results in lower interest rates to the issuer and the interest savings

exceed the insurance premium. There is no economic advantage to purchasing bond insurance from companies with ratings less than or equal to the issuer, and the municipal market is currently looking through insured ratings to the underlying credit quality of issuers. Based on the current environment, the municipal market will be less reliant on insurance than in the recent past when approximately 50% of new issues were insured.

Bank Consolidations. Several large investment banks that provide underwriting services in the municipal market, including firms that have served as underwriters for City bonds and/or have routinely bid to provide underwriting services, have reorganized or went bankrupt. Merrill Lynch was purchased by Bank of America, and Bear Stearns was purchased by JP Morgan. Lehman Brothers declared bankruptcy and its investment banking business was purchased by Barclays. Other banks, such as UBS, have withdrawn from the municipal underwriting sector. Two other firms, Morgan Stanley and Goldman Sachs, have restructured from investment banks to bank holding companies and are expected to remain active in the municipal sector.

There have been immediate impacts to some issuers with transactions that were in the process of being priced or closed. When UBS announced it was exiting the municipal bond market, the pricing of the City's CFD No. 4 (Black Mountain Ranch Villages) transaction was delayed several weeks while the City conducted a competitive process to replace UBS with Stone & Youngberg LLC, at which point the bonds were successfully priced.

Going forward, the number of large banks with the expertise and capital to serve as underwriters for large bond issuances has declined; however, there is a pool of remaining institutions. In addition, several medium sized firms have remained relatively untouched by the sub-prime mortgage crisis and credit crunch and may take a greater share of the municipal market, offsetting the loss of the larger banks. There should be sufficient underwriters to maintain a competitive marketplace, however, it is too early to assess whether there will be any long-term impacts to pricing, fees, and terms offered by the decreased pool of underwriters.

Variable Interest Rate Financings. The auction-rate security (ARS) market has been significantly impacted by the current environment. An ARS security has a variable interest rate that is set periodically and the interest is payable at the end of each period. The securities are typically credit enhanced with bond insurance. As a result of the bond insurer downgrades, the ARS market has experienced failed auctions where there are not enough bids or the clearing rate is above the maximum rate established in the financing documents. In these cases, the issuer has had to pay interest at the maximum rate defined in the financing documents. In some cases, interest rates increased from 3-4% to as high as 8%-10%, or more. There have been no impacts to the City from this development because the City does not have any ARS debt, and the City's Debt Policy does not permit this type of debt to be issued.

Municipal Bond Ratings. The major rating agencies are moving forward with plans to use a single scale to rate municipal and corporate debt. This is expected to result in minor (one notch) across-the-board increases in municipal debt ratings. There will be little if any financial advantages from the modified rating system since the market already

understands the relative credit risks of corporate and municipal debt. The implementation of a single scale could also decrease the use of bond insurance.

Nationwide, new municipal debt issuances declined in late 2008. Investors have adopted a "flight to quality" strategy, buying US Treasury securities and selling all other classes of bonds. This has led to both interest rate volatility and a widening of the spread between the yields of US Treasuries and highly rated municipal bonds. In addition, bond investors have focused their attention on the underlying credit qualities of each transaction instead of rating enhancements from credit derivatives.

Municipalities are moving forward more cautiously and may be opting to put pending deals on standby until there is some settlement in the market. Some transactions have been postponed or reduced in size and are being considered for day-to-day pricing depending on market conditions. Debt Management continues to move forward with debt issuances planned for calendar year 2009, working with rating agencies and structuring competitive bond offerings.

Financings to Date – FY 2009

Fund/Financing Type	Bond Issuance	Bond Issuance Date
Special Districts	Community Facilities District No. 4 – Black Mountain Ranch Villages, Series A of 2008	August 2008

Projected Forward Calendar – FY 2009

Fund/Financing Type	Bond Issuance	Target Date to Council
Water Enterprise	2009A and 2009B Water Revenue Bonds - Refund 2007A Water Revenue Notes, 2008A Water Revenue Notes, and 1998 Certificates (if economic); and new money CIP funding	October 2008 & April 2009
Wastewater Enterprise	2009 Wastewater Revenue Notes - Refunding Series and new money CIP funding	February 2009

Fund/Financing Type	Bond Issuance	Target Date to Council
Special Districts	Community Facilities District No. 2 – Santaluz, Improvement Area No. 1 Refunding (if economic)	May 2009
General Fund	FY 2010 Tax and Revenue Anticipation Note (TRAN)	June 2009

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

1. Outstanding City Debt

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

2. Long Term Liabilities of the City and Related Entities, including Pension and Retiree Healthcare Costs

Attachment 3 provides a comprehensive list of liabilities of the City and its Related Entities, including the City's Special Districts. This attachment is comprised of the below-listed Notes from the Comprehensive Annual Financial Report ("CAFR"), Fiscal Year 2006:

- Note 5: Governmental Activities Long-Term Liabilities
- Note 6: Business Type Activities Long-Term Liabilities
- Note 7: Discretely Presented Component Units Long-Term Debt
- Note 8: Short-Term Notes Payable
- Note 12: Pension Plans
- Note 13: Other Post Employment Benefits
- Note 19: Third Party Debt (Conduit Debt)

Attachment 4 is the Redevelopment Agency ("RDA") Annual Financial Report, Fiscal Year 2005², and reflects the activities of the RDA as a separate legal entity from the City. Loans from the City are reflected as a long term liability in Governmental Activities Long-Term Debt, Note 5.

FISCAL CONSIDERATIONS:

None specific to this action.

¹ The source document for this data is the Fiscal Year 2009 Annual Budget.

² The Fiscal Year 2005 Redevelopment Agency Annual Financial Report is the most recent report issued. It is anticipated to be reviewed by the Audit Committee and received and filed by the City Council in Fall 2008.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The initial Debt Policy was presented to the Budget and Finance Committee (the "Committee") on June 6, 2007, July 25, 2007 and September 26, 2007. On September 26, 2007, the Committee adopted and recommended the Debt Policy to the City Council with certain changes and additions. On November 6, 2007, the City Council approved the Debt Policy.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

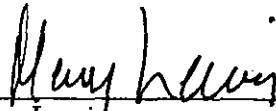
There were no community participation or outreach efforts.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

None.



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

Attachments:

1. City of San Diego Debt Policy, 2008
2. Annual Budget, Table 1 - Summary of Debt Obligations, Fiscal Year 2009
3. CAFR Notes 5, 6, 7, 8,12,13, and 19, Long Term Liabilities of the City and Related Entities, including Pension and Retiree Healthcare Costs, Fiscal Year 2006
4. RDA Annual Financial Report Note 5, Governmental Activities Long-Term Debt, Fiscal Year 2005

City of San Diego Debt Policy



Department of Finance

Note: Substantive changes are noted in italics on pages
11, 14, 17, 20, 21, 29 and 37.

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OVERVIEW

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

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

The policy does not cover other obligations like contracts payable, notes payable, loans payable (e.g., HUD section 108 loans, SANDAG loans), arbitrage liability, and net pension obligation ("NPO") and/or pension Unfunded Actuarial Liability ("UAL") and Other Post Employment Benefits ("OPEB") UAL. The City's Comprehensive Annual Financial Reports ("CAFRs") provide a complete list of the outstanding long term liabilities. Following are the sections in the ~~Fiscal Year 2004~~ CAFR listing the long term liabilities—~~Note 5: Governmental Activities Long-Term Liabilities; Note 6: Business Type Activities Long-Term Liabilities; Note 7: Discretely Presented Component Units Long-Term Debt; Note 8: Short-Term Notes Payable; and Note 19: Third Party Debt (Conduit Debt)~~. Consistent with GASB standards, the NPO is reflected in the Governmental Activities Note 5 of ~~the Fiscal Year 2004~~ CAFR as a long term liability. Starting Fiscal Year FY 2008, any OPEB-related NPO will also be captured in the same section as the NPO. The pension UAL and OPEB UAL are reflected in the Letter of Transmittal of the ~~Fiscal Year 2004~~ CAFR.

While various types of debt that may be issued by the City and its related agencies are generally discussed in Chapter 3 – Types of Financing Instruments, guidelines and parameters established under this policy do not encompass debt and other liabilities issued and administered by the San Diego Housing Authority and the City of San Diego Redevelopment Agency¹, and the San Diego Housing Authority².

~~Appendix A of this Debt Policy provides policy direction on the Special Districts Formation and Financing. This policy replaces the existing Council Policy 800-03 (Public Infrastructure Financing Assessment Districts and Community Facilities) that currently addresses Special Districts Formation and Financing. Appendix D, Council Policy 100-12 (Industrial Development Bond Program), provides policy direction with regards the Industrial Development Bonds. Also refer to Chapter 3, section 3.9.~~

¹ The San Diego Housing Commission administers the Multifamily Mortgage Revenue Bond Program (See Appendix C). The City of San Diego Redevelopment Agency Debt Policy is currently in development.

² The San Diego Housing Commission has Debt Policy specific to the Multifamily Mortgage Revenue Bond Program administered by the Housing Commission (see Appendix C). The City of San Diego Redevelopment Agency currently does not have a formal written debt policy.

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

Appendices of this Debt policy include: Appendix A, which provides policy direction on Special Districts Formation and Financing; Appendix B, Council Policy 100-12 (Industrial Development Bond Program) which provides policy direction with regard to Industrial Development Bonds (also refer to Chapter 3, section 3.9); Appendix C, the San Diego Housing Commission Policy Multifamily Mortgage Revenue Bond Program; and Appendix D, Council Policy 800-14, "Prioritizing CIP Projects."

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

The City's Debt Policy is also designed to:

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

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

CHAPTER I – PURPOSE & NEED FOR FINANCING

1.1 Purpose of Financing

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

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

The three primary borrowing purposes are summarized below:

A. Long-Term Capital Improvements

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

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

The Debt Management Department, working with City departments within the context of the Capital Improvements Program and the City’s Five-Year Financial Outlook, oversees and coordinates the timing, processing, and marketing of the City’s borrowing and capital

³ The City issues annual Tax and Revenue Anticipation Notes (“TRANS”) to meet its cash flow needs. TRANS are not deemed to be debt within the meaning of Section 90 of the City Charter. See Section 3-10.3.11 for details.

funding activities. Close coordination of capital planning and debt planning will ensure that the maximum benefit is achieved with the limited capital funds. The debt management process will determine the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

B. Essential Vehicle and Equipment Needs

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

C. Refinancings/Refunding of Existing Debt

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

1.2 **Financing Priorities**

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

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

A. Nature of Project and Use of Funds

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

B. Cost-Benefit Analysis of Project:

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

1. The benefits of a proposed project must be defined and, where appropriate, quantified in monetary terms. The funding sources will be identified and estimated. Where revenues are part of the benefits, all assumptions made in

deriving the revenues will be documented. The validity of the assumptions and the risk associated with the revenue streams will be assessed.

2. The costs of the project will be estimated, with the basis documented and the risk associated with the estimates assessed. The uses of funds will be identified and estimated.
3. Identify whether project will increase or reduce ongoing operation and maintenance expenses.

C. Expenditure Plan

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

D. Revenue for Debt Service Payment

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

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

1.3 Asset Life

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

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

CHAPTER II - CREDITWORTHINESS OBJECTIVES

2.1 Credit Ratings

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

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

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

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

2.2 Rating Agency Relationships

The Chief Financial Officer is responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort shall include providing periodic updates, both formal and informal, on the City's general financial condition and coordinating meetings and presentations in conjunction with a new debt issuance when determined necessary (see sections 2.3, 5.6, and 5.7). Written disclosure documents to the Rating Agencies shall be approved by the City's Disclosure Practices Working Group⁴ ("DPWG").

2.3 Bond Ratings

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

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

CHAPTER III - TYPES OF FINANCING INSTRUMENTS

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

DIRECT DEBT OBLIGATIONS

3.1 General Obligation Bonds

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

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

3.2 Certificates of Participation / Lease Revenue Bonds

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

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

3.3 Revenue Bonds

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

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

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

OTHER DEBT OBLIGATIONS

3.4 Revenue Securitizations

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

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

3.5 Pension Obligation Bonds

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

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

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

REDEVELOPMENT AGENCY DEBT OBLIGATIONS

~~Note: A debt policy will be developed by the City's Redevelopment Agency (RDA).~~

3.6 Tax Allocation Bonds

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

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

CONDUIT FINANCINGS

3.7 Special Districts Financing

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

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

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

3.8 Marks-Roos Bonds

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

The Public Facilities Financing Authority of the City of San Diego was established pursuant to a Joint Exercise Powers Agreement by and between the City and the Redevelopment Agency of the City. The Public Facilities Financing Authority has in the past used Marks-Roos bonds to pool and refund certain assessment district bonds to maximize property owner savings by transforming the existing non-rated land-secured debt into insured revenue bond debt.

3.9 Industrial Development Bonds

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

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

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

HOUSING AUTHORITY DEBT OBLIGATIONS

3.10 Multifamily Mortgage Revenue Bonds

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

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

SHORT-TERM BORROWINGS

3.11 Tax and Revenue Anticipation Notes

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

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

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

3.12 Bond Anticipation Notes

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

3.13 Lines and Letters of Credit

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

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

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

3.14 Lease – Purchase Financings

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

LOAN OBLIGATIONS

3.15 State Revolving Funds

The State Revolving Fund (SRF) loan is a low interest loan program for the construction of water and wastewater infrastructure projects. SRF debt service payments are factored into debt service coverage ratios as defined by applicable water and wastewater indentures (see Section 4.3). [Provides clarification on coverage targets for revenue bonds.] These loans are zero interest loans, over a 20-year term; the City contributes 16.7% of the loan amount and receives 83.3% in loan proceeds. While these are zero interest loans, given that the City pays back 100% of the loan, the effective interest rate of this loan is calculated at approximately 2%. Compared to traditional bond financing, the City may realize substantial savings as a result of the 20-year amortization period of the SRF Loans. The loans are typically administered by the benefiting department.

3.16 HUD Section 108 Loan Guarantee Program

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

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

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

CHAPTER IV - AFFORDABILITY TARGETS

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

4.1 Affordability Targets for General Obligation Bonds

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

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

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

Pursuant to Section 90 of the City Charter, the City may incur general obligation bonded indebtedness for the purpose of acquiring, constructing, or completing any municipal improvements, not including improvements to the City's water facilities, in an amount not to exceed 10% of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also incur indebtedness for the purpose of acquiring or constructing both non-utility related improvements and water related improvements in an amount not to exceed 25% of the total assessed valuation⁵.

⁵ All voter approved debt is subject to this limit.

4.2 Affordability Targets for General Fund-Supported Debt

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

Credit rating agency guidelines recommend a lease burden ratio between 8% and 12%; the City shall strive to maintain its lease burden ratio below 10%. Affordability analysis as determined by this measure will be undertaken when new General-Fund supported debt is issued.

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

4.3 Coverage Targets for Revenue Bonds

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

In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance expense) to estimated annual debt service. Per rating agency guidelines, the City shall strive to maintain a coverage ratio of at least 110% using historical and/or projected net revenues to cover annual debt service for bonds issued on a subordinate basis with 100% coverage ratio requirement. ~~or a~~ A coverage ratio higher than 110% will be maintained if it is a covenant requirement for a debt issuance. The City will require a rate increase to cover both operations and debt service costs, and create debt service reserve funds at the maximum levels allowed under tax law, to maintain the required coverage ratios. ~~at 110%. Depending on market conditions the city shall strive to maintain coverage ratios higher than 110%. Provides clarification on coverage targets for revenue bonds.~~

CHAPTER V - STRUCTURE & TERM OF CITY INDEBTEDNESS

5.1 Term of Debt

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

5.2 Rapidity of Debt Repayment

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

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

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

5.3 Serial Bonds, Term Bonds, and Capital Appreciation Bonds

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

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

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

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

5.4 Interest Rate Structure

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

5.5 Debt Instrument Rating

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

5.6 Credit Enhancement

Credit enhancement may be used to improve or establish a credit rating on a City debt obligation. Types of credit enhancement include Letters of Credit, bond insurance or surety policies (see Section 5.78). The Debt Management Director will recommend to the Chief Financial Officer the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the Chief Financial Officer, the use of such credit enhancement furthers the City's overall financial objectives.

A *Letter of Credit*, as discussed in Section 3.1312, may be obtained from a major bank, for a fee, to enhance the credit rating. This letter is an unconditional pledge of the bank's credit to make principal and interest payments on the City's debt in the event insufficient funds are available to meet a debt service obligation.

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

5.7 Debt Service Reserve Fund/Surety Policy

With the exception of general obligation bond indebtedness, unless there are extraordinary circumstances, the City will size the debt issuance such that a debt service reserve fund is established at the time of issuance. The debt service reserve funds will be held by and are available to the Trustee to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so. The size of the reserve fund is governed by tax law, which permits the lesser of: 1) 10% of par; 2) 125% of average annual debt service and 3) 100% of maximum annual debt service. Reserve funds are typically equal to approximately one year's maximum debt service on the bonds.

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

~~Based on the City's recent experience with the credit rating/downgrade of bond insurers, the City is recommending a more conservative policy in the use of debt service reserve funds and surety policies.~~

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

5.8 Capitalized Interest

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

5.9 Call Options/Redemption Provisions

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

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

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

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

CHAPTER VI - METHOD OF ISSUANCE & SALE

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

6.1 Method of Sale

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

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

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

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

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

6.2 Bidding Parameters

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

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

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

6.3 Initial Disclosure Requirements

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

All primary disclosure documents, which are a part of the bond offering documents (e.g., Official Statement), will be approved by the Disclosure Practices Working Group ("DPWG") before being taken to the City Council for approval (see Section 6.4). ~~The DPWG Disclosure Controls and Procedures (Appendix C) details the preparation and approval process of primary disclosure documents.~~

The City will also provide ongoing disclosure, in accordance with the Continuing Disclosure Agreements executed when the financing is authorized, as required by SEC Rule 15c2-12 (see Chapter IX). Ongoing disclosure will also be approved by the DPWG before it is disseminated to the markets.

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

6.4 Approval Process

In coordinating the bond issuance process, ~~the Debt Management Department~~ will work with the City Attorney's office, other responsible City departments, and outside consultants to compile all bond related documents (see Chapter VII for the role of various outside consultants). The City Attorney's office will assess any legal issues that may arise with respect to the issuance of the bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the City may pursue an

active validation action to obtain judicial approval before the bonds are issued. If a bond transaction is controversial and gives rise to a reverse validation action, the City may find itself a party to that litigation.

All proposed debt financings shall be authorized by the City Council. To ensure accuracy, all disclosure and bond related documents will go through many levels of review prior to being submitted for City Council approval.

- As stipulated by City Ordinance O-19320, the City's DPWG will serve as an oversight body that is responsible to ensure accuracy of disclosure documents. See Appendix E F for DPWG Disclosure Controls and Procedures.
- The City's Audit Committee will serve as an oversight body that is responsible to ensure accuracy of the audited financial statements.
- Pursuant to the City's Municipal Code, section 22.2301, the Independent Budget Analyst ("IBA") assists the City Council with regard to its decisions. The IBA will be provided advance copies of all documents related to the proposed bond financings for its review.
- Bond related documents will be submitted by established docket deadlines. All efforts will be made to distribute documents to reviewers at the earliest possible date.

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

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

Provides a review period and process for updates!

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

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

CHAPTER VII – FINANCING TEAM – ROLES AND SELECTION PROCESS

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

7.1 Selection and Compensation

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

Selection of consultants will be made from either an as-needed list, which is assembled via a Request for Proposal (RFP) process, or a separate RFP issued for a specific bond issuance. Once the selection of a financial advisor has occurred, the financial advisor will assist the City in the selection of other service providers, including underwriters, trustees, escrow agents, credit enhancers, verification agents, title and insurance companies, and printers.

Compensation for Bond Counsel, Disclosure Counsel, Financial Advisors, and other consultants will be as low as possible, given desired qualification levels, and consistent with industry standards.

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

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

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

7.2 Financing Team: Outside Consultants

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

A. Financial Advisors

As needed, the Debt Management Director, in consultation with the Chief Financial Officer, will identify an independent financial advisor based on an RFP process or from the as-needed list of Financial Advisors. The as-needed list of Financial Advisors is maintained by the Debt Management Department, which is compiled through an RFP process conducted every two years~~bi-annually~~. The primary responsibilities of the Financial Advisor are to advise and assist on bond document negotiations, transaction structuring including advising on call provision options and timing of issuance, running debt service cash flow numbers, obtaining ratings on the proposed issuance, and generally acting as an independent financial consultant and economic market expert.

B. Bond Counsel

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

C. Disclosure Counsel

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

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

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

D. Underwriters

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

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

- Experience with the particular type of financing, and size of the financing

- Overall experience
- Familiarity with City issues
- Marketing expertise
- Distribution capability
- Previous experience as managing or co-managing underwriter
- Financial strength, as evidenced by the firm's current financial statements
- Experience of the public finance team assigned to the financing
- Resources to complete the financing
- Compensation
- Community Reinvestment⁶

E. Trustee / Paying or Fiscal Agent

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

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

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

F. Other Service Providers

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

⁶ In accordance with guidelines laid out in Council Policy 900-09 "Community Reinvestment."

CHAPTER VIII - REFUNDING OF CITY INDEBTEDNESS

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

8.1 *Types of Refunding*

A. Current Refunding

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

B. Advance Refunding

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

8.2 *Refunding Considerations*

Refundings may be undertaken to

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

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

8.3 *Refunding Escrows*

The City will seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. However, at the discretion of the Chief Financial Officer, the City may choose to fund an

escrow through purchase of treasury securities on the open market when market conditions make such an option financially preferred.

CHAPTER IX – POST ISSUANCE ADMINISTRATION

9.1 Investment of Bond Proceeds

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

9.2 Arbitrage Compliance

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

9.3 Ongoing Disclosure

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

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

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

9.4 Compliance with Other Bond Covenants

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

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

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

APPENDIX A – SPECIAL DISTRICT FORMATION AND FINANCING POLICY**10.1 — Overview**

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

The City expects that private developers should have primary responsibility for providing public infrastructure required in connection with new development. With this policy as a guideline, the City will continue to consider requests for Special District formation and debt issuance to finance such public infrastructure when the requests address an extraordinary public need or benefit. However, due to the significant burden placed on the City to provide these conduit financings, and in light of potential impacts to the City’s debt position, the Chief Financial Officer, working with the Debt Management Director, will consider each application for Special District debt issuance on a case by case basis, and may not proceed with such financing if it is determined that the financing could be detrimental to the debt position or best interests of the City.

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

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

- Establish parameters for the Special District formation and financing processes
- Assist concerned parties in following the City’s approach for forming districts and issuing any related debt
- Facilitate the actual formation and financing processes by establishing important policy guidance in advance
- ~~Set forth~~ Amend and restate the City’s Local Goals and Policies (currently set forth within Council Policy 800-03) for CFD formation and financing, as required by Section 53312.7 of the California Government Code

A140.2 Background: Types of Special Districts

This Special District Formation and Financing Policy is intended to provide a uniform guideline for Community Facilities District (“CFD”)¹ and 1913/1915 Act² Assessment District formation and financing. These Special Districts are primarily developer initiated, whereby a developer seeks a public financing mechanism to fund public infrastructure required of it by the City in connection with development permits or agreements, and/or tentative or subdivision maps. Special District formation may also be initiated by an established community.

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

A. Community Facilities District Financing – Mello-Roos Bonds

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

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

The financed public facilities must ultimately be owned and operated by a public entity, such as the City, and may include, among other things, parks, libraries, police and fire facilities, roadways, and water and sewer infrastructure improvements that have a useful life of five years or more. In accordance with Section 53313 of the California Government

¹ The Mello-Roos Community Facilities Act of 1982 permits a public agency to levy a special tax within a defined area to finance certain essential facilities, or to pay for certain services, when specific voting requirements are met.

² An Assessment District may be formed pursuant to the Streets and Highways Code Municipal Improvement Act of 1913. The associated bond acts, also contained within the Streets and Highways Code, include the Improvement Bond Act of 1915 and the Refunding Act of 1984, which provide for the issuance of bonds under various assessment proceedings and the refunding of assessment bonds, respectively.

Code, CFDs may also provide funds for certain public services, including police and fire services, and recreation program services so long as they are in addition to, and do not supplant, services already provided within the territory.

B. Assessment District Financing

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

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

10.3A2 Considerations for Authorization of Special District Financing

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

A. Credit Considerations

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

B. Extraordinary Public Benefit

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

Regional Benefit – The improvements must be generally large in scope, and provide a community-wide or regional benefit. Examples of regional improvements are libraries, fire stations, and transportation improvements that result in a significant net improvement to the regional transportation system, and parks and recreational improvements of a unique or otherwise significant nature that are anticipated to serve residents from across the City.

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

C. Competing Projects

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

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

D. Administrative Considerations

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

consideration will also be given to the significant burden placed on the City's limited resources to administer these conduit financings for the term of the bonds.

E. Recommended Method of Special District Financing

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

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

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

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

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

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

10.4A3 Eligible Public Facilities and Priorities

A. Ownership and Useful Life of Proposed Facilities

The improvements eligible to be financed must be owned by a public agency or public utility, and must have a useful life of at least ten years.

B. Types of Eligible Facilities

The list of public facilities eligible to be financed by a CFD may include, but is not limited to the following: streets, highways, and bridges; water, sewer, and drainage facilities; parks; libraries; police and fire stations; traffic signals and street lighting; recreation

facilities; governmental facilities; flood control facilities; environmental mitigation measures; and public rights-of-way landscaping.

C. Priority of Facilities

In general, with respect to CFDs, none of the types of facilities listed under Section 10.4.B. will have priority over the others; however, when a developer submits an application to finance more than one eligible facility, the applicable City departments (e.g., the Library Department, the Park and Recreation Department, Engineering & Capital Projects, City Planning and Community Investment, etc.) will confer and determine the priority based on the estimated impacts (i.e., benefits conferred) of the eligible projects to the district and surrounding impacted communities.

D. Joint Communities Facilities Agreement(s)

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

- The proposed CFD complies with the provisions of this Special District Formation and Financing Policy with regard to Sections 10.6 (C), "Maximum Tax and Assessment Rates," Section 10.8 (C) "Disclosure to Prospective Purchasers of Property," as well as any other provisions the Debt Management Director may deem applicable to the proposed CFD;
- The applicant/developer requesting CFD financing provides funds to reimburse City costs incurred to review and approve the JCFA.

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

E. Services

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

In general, the City would expect that when a CFD provides for public facilities that require on-going City operations and/or maintenance (or when the impacts of the new development

create other on-going service demands within the area), a mechanism would be established to off-set a portion of those associated costs through the CFD. Methods that could be employed may include: (1) the incorporation of some pre-determined amount into the special tax formula for services; or (2) a provision in the special tax formula that special taxes would be levied up to the maximum tax rates, with any amounts collected over and above the amount needed for debt service, replenishment of the Debt Service Reserve Fund, administrative costs, and any other periodic items required in connection with a bond issuance, to be allocated for services. The City will have complete discretion as to the method of incorporating a services component into the CFD, and would consult with its Bond Counsel and special tax consultant in developing the appropriate mechanism.

A410.5 Credit Quality Requirements for Bond Issuances

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

A. Value of Property

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

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

B. Debt Service Coverage for CFD Bonds

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

C. Capitalized Interest

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

D. Debt Service Reserve Fund

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

E. Maturity Date

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

F. Acquisition Type Districts

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

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

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

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

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

H. Foreclosure Covenants

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

A510.6 Tax and Assessment Allocation Formulas

A. Calculation and Allocation of Special Taxes and Assessments

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

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

B. Administrative Expenses

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

C. Maximum Tax and Assessment Rates

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

D. Special Tax Coverage and Maximum Tax Rates

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

E. Predictability of Special Tax Liabilities

Special tax formulas should promote stable and predictable tax liabilities, particularly for residential properties. With the exception of a variation for administrative expenses, the annual special tax levy on each residential parcel developed to its final land use shall be approximately equal each year. In the event special tax payments are supporting the provision of services, rather than, or in addition to, capital expenditures, an appropriate escalation factor may be incorporated into the Rate and Method of Apportionment to provide for the impact of inflation to on-going service costs.

F. Term of Special Tax

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

A610.7 Appraisal Standards

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

A7 Sources of Payment for Special Districts Bonds

As described above, Special District bonds are limited obligations of each district, payable from special taxes or assessments levied on property within the district. The bonds are not general or special obligations of the City and the City does not pledge its credit to payment of the bonds. The disclosure documents for each Special District bond offering will describe the sources of payment, and will include statements that the city is not pledging its credit to pay debt service on the bonds.

Although there is no legal requirement that the City step in to make payments from its general revenues in the event of a short-fall in special taxes or assessments due to delinquencies to pay debt service on Special District bonds, the City does have the discretion to do so. However, it will be the City's policy that if there is such a short-fall, the City will not step in to make payments from its general revenues.

[New section: Clarifies legal requirements of the City for Special Districts issuances and states the City's policy in the event of a shortfall in special taxes or assessments due to delinquencies.]

A8 Applicant/Developer Disclosure Requirements**A. Initial Disclosure to Investors**

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

B. Developer Continuing Disclosure to Investors

The City shall use all reasonable means to ensure that an appropriate Developer Continuing Disclosure Agreement is executed at the time a financing is issued to ensure that the Developer and/or any affiliates, as applicable, which are material to the district are required to provide on-going disclosure to bond investors so long as they remain material.

C. Disclosure to Prospective Purchasers of Property

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

A910.9 Application and Administrative Procedures

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

A. Petition

Notwithstanding the minimum petition thresholds established under the State law³, the City requires that a preponderance of the affected property owners (75%) petition the City to form a Special District. The higher threshold is established due to the following factors: (1) significant City resources would be directed to the advance work to form the district, and it is prudent to have some assurance that formation of the district would be successful; and (2) a successful petition and subsequent ballot process in an established community

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

(e.g., where there are residential property owners) could result in a significant lien on property whose owners voted against the proposed district.

B. Application Procedures

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

C. Feasibility Study

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

D. Fees

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

E. Selection of Financial Consultants and Service Providers

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

A10.10 Timing

If recommended by the Chief Financial Officer, and pursuant to the filing of an appropriate petition and application, and, if applicable, the completion of a Feasibility Study that concludes the project is feasible (all as set forth above in Sections 10.9 A, B, and C), the City will use its best efforts to form the district and, if a financing is contemplated, issue the bonds. However, the City will prioritize the formation and any financing activities as specified in Section 10.3 of this policy.

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

A10.11 Policy Exceptions

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

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

SUBJECT: INDUSTRIAL DEVELOPMENT BOND PROGRAM

POLICY NO.: 100-12

EFFECTIVE DATE: June 15, 1993

BACKGROUND:

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

PURPOSE:

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

POLICY:

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

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

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

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

IMPLEMENTATION:

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

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

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

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

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

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

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

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

- 1) **Application Fee.** If the City is proposed to be the issuer, a \$2,500 non-refundable application fee shall be payable at time of submission of the IDB application; if the issuer is to be the JPA or some similar entity other than the City, the application fee shall be \$1,250.
- 2) **Other City Processing and Administrative Expenses.** Staff shall engage the services of qualified independent consultants, at the expense of the applicant, to provide assistance in IDB application review, transaction processing and/or bond administration, as needed. The applicant shall be required to deposit in advance with City amounts sufficient to pay for City staff time and City out of pocket costs for consultant services. If bonds are issued, any unexpended balance remaining on deposit shall be applied, without interest, towards reduction of the origination fee due prior to closing. If bonds are not issued, any amount remaining shall be returned without interest to the applicant.
- 3) **Origination Fee.** A non-refundable IDB origination fee equal to 1/4% of the principal amount of bonds shall be payable prior to IDB issue closing.
- 4) **Administration Fee.** An administration fee equal to .025% of the principal amount of bonds outstanding as of January 1 of the year of payment (minimum \$500) shall be payable on each anniversary of the date of issuance of the IDB's. The administration fee shall be waived if the City is not the issuer of the IDB's.
- 5) **Transaction Fee.** The applicant or its successor shall be required to deposit in advance with the City amounts sufficient to cover City staff and consultant costs related to any proposed change in the bond documents after IDB's are issued.

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

HISTORY:

"Administration of the City's Private Activity Bond Allocation" Adopted by Resolution R-264213
10/14/1985

Retitled to "Industrial Development Bond Program" and Amended by Resolution R-282170
06/15/1993

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

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

1. SUMMARY

- 1.1 Federal, state and local legislation authorize issuance of mortgage revenue bonds by local governments to finance the development, acquisition and rehabilitation of *multifamily rental projects*. The interest on the bonds can be exempt from federal and state taxation. As a result, bonds provide below market financing for qualified rental projects located in the City of San Diego (the "City"). In addition, the bonds issued under the program can qualify projects for allocations of federal low-income housing tax credits, which can provide a significant portion of the funding necessary to develop affordable housing. The program is administered by the San Diego Housing Commission (the "Housing Commission") and uses tax-exempt mortgage revenue bonds issued by the Housing Authority of the City of San Diego (the "Housing Authority").
- 1.2 There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City's or the Housing Authority's faith, credit or taxing power and the bonds do not constitute general obligations of the issuer because the security for repayment of bonds is limited to project revenue and other sources specified under each financing. Project loans are, in most cases, secured by a first deed of trust on the bond-financed property. The program is completely self-supporting; developers must secure funding to pay for costs of issuance of the bonds and all other costs under each financing.
- 1.3 The goals of the program include: increase and preserve the supply of affordable rental housing; encourage economic integration within residential communities; maintain a quality living environment for residents of assisted projects and surrounding properties; and, in the event of provision of public funds towards the project, optimize the effectiveness of Housing Commission, Redevelopment Agency, or other public funding by maximizing the leveraging of private sector funds.
- 1.4 There is no limit on the maximum loan amount; however, the minimum loan amount is determined by the overall cost effectiveness of the financing, which includes payment for the costs of issuance, services of the financing team members, rating fees, etc. The bond issuance amount for individual projects is based upon project costs, interest rates, and revenues available to pay debt service. The Housing Authority will consider multiple properties as part of a single bond financing on a case by case basis.
- 1.5 Projects must consist of complete rental units, including kitchens and bathrooms. Loan funds may be used for costs of property acquisition (up to 25% of bond

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

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

2. TYPES OF BONDS

- 2.1 The Housing Authority may issue either tax-exempt or taxable bonds. Taxable bonds would generally be issued only in combination with tax-exempt bonds. Taxable bonds do not require an allocation of bond authority from the California Debt Limit Allocation Committee ("CDLAC").
- 2.2 Tax-Exempt Private Activity Bonds (Non-Refunding) require an allocation of bond authority from CDLAC. To obtain the allocation, the Housing Authority must submit an application to CDLAC on behalf of the developer. Submittal of the application is at the discretion of the Housing Authority, not the developer. The developer must pay all required CDLAC fees when due.
- 2.3 The Housing Authority may issue 501(c)(3) bonds on behalf of qualified nonprofit organizations. 501(c)(3) bonds are tax-exempt and do not require an allocation from CDLAC, but cannot be used with the Low Income Housing Tax Credit Program.
- 2.4 The interest on taxable bonds is not exempt from federal taxation. These bonds are not subject to federal volume "cap" limitations and therefore do not require allocation authority from CDLAC. Taxable bonds can be used in combination with low-income housing tax credits awarded by the Tax Credit Allocation Committee. Taxable bond issues must meet all applicable requirements of this Policy (including rating requirements) and any additional regulations that may be promulgated, from time to time, by the Housing Commission.
- 2.5 The Housing Authority will allow refunding of bond issues that meet the following conditions:
 - A. The project sponsor agrees to cover all costs of the issuer.

- B. Projects originally financed by tax-exempt bonds prior to the 1986 Tax Act will have to make a minimum ten percent of the units affordable to persons earning 50 percent of median area income with the rents affordable at the same level.
- C. The affordability restrictions of the existing bond regulatory agreement are subject to extension. The Housing Commission reserves the right to impose additional requirements on a case by case basis. All specifics of refunding proposals must be approved by the Housing Authority.
- D. Default refunding applications require a default refunding analysis (to determine the eligibility for a default refunding). The Housing Commission shall choose the firm to conduct the analysis. The project applicant will deposit the cost for the study with the Housing Commission before the study begins.

3. AFFORDABILITY REQUIREMENTS

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

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

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

- 3.2 Income Restrictions—To be eligible for tax-exempt bond financing, **federal law** requires that the project meet one of the following conditions:
- A. A minimum of 20% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size; or
 - B. A minimum of 40% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 60% of area median income, as adjusted by family size.

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

Project owners must certify their tenant's eligibility annually. If a tenant is no longer eligible, the next available unit in the project must be rented to a new eligible tenant

and the current tenant's rent can be raised to a market level. A unit occupied only by full time students does not count towards the set-aside requirement.

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

- 3.3 Rent Restrictions—The maximum rent for one-half of the set-aside units may not exceed 30% of one-twelfth of 50% of area median income, or 30% of one-twelfth of 60% of area median income (as the case may be, depending on the selected set-aside). The maximum rent amounts are further reduced by a utility allowance for tenant-paid utilities in the amounts determined by the President and CEO. In the event tax-exempt bonds are used with Low Income Housing Tax Credits, or any other public funds, the most restrictive rents of the applicable programs shall apply. The affordability of restricted units in relation to the project's market rents will be considered as part of the Housing Commission's approval of the financing. The maximum rent amounts will also apply if the set-aside units are occupied by Section 8 tenants.
- 3.4 Unit Distribution—The set-aside units must proportionately reflect the mix of all units in the project, be distributed throughout the project and have the same floor area, amenities, and access to project facilities as market-rate units. The objective of the program is to provide a set-aside of units with lower rents, not to create special "low-income sections" within larger developments.
- 3.5 Additional Affordability Restrictions under Restructuring of Existing Bond Issues—Additional public benefit in the form of deeper income targeting; additional rent restrictions; extension of the term of restrictions; additional number of restricted units; or any combination thereof, will be negotiated in connection with refundings or debt restructurings of existing bond issues. The level of additional restrictions will be determined in the context of the overall financial feasibility of each financing. The maximum rent amounts will also apply if the set-aside units are occupied by Section 8 tenants. Should the bond restructuring result in an extension of the maturity of the bonds, a minimum of 10% of the units in the project will be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size, with rents set at the corresponding affordability level, for the term of the restructured bond.

4. CREDIT CONSIDERATIONS

- 4.1 Required Rating on the Bonds—Any bonds issued under the program that are sold to the public should generally be rated "A", or its equivalent, or better from the following nationally recognized rating agencies: Moody's Investors Service, Standard & Poors Corporation, or Fitch Ratings. The same rating requirement applies in the case of a substitution of existing credit facility for bonds which are outstanding.
- 4.2 Credit Enhancement—A preferred way of obtaining the required rating on the bonds in accordance with Section 4.1 is through the provision of additional, outside credit support for the bond issue provided by rated, financially strong private institutions, such as bond insurance companies; domestic and foreign banks and insurance companies; savings and loans and smaller commercial banks willing to pledge ratable collateral to bond trustee; FHA mortgage insurance or co-insurance, etc. The rating on the bonds is determined based on the credit worthiness of the participating

credit enhancement provider. The applicant is required to identify and obtain credit enhancement for each bond issuance. As the primary source of security for the repayment of bonds, the credit enhancement provider reviews and approves the borrower (credit, financial capability, experience, etc.) and the project and its feasibility, including the size of the loan and the terms of repayment, using their own underwriting criteria.

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

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

- A. The bonds are privately placed with "qualified institutional buyers" as defined under Rule 144A of the Securities Act of 1933, or "accredited investors," as generally defined under Regulation D of the Securities Act of 1933.
- B. The bonds must be sold in minimum \$100,000 denominations.
- C. All initial and subsequent purchasers must be willing to sign a sophisticated investor letter (Investor Letter) in a form approved by the Housing Commission. While the bonds remain unrated, their transferability will be restricted to qualified institutional buyers or accredited investors who sign an Investor Letter.
- D. Unless otherwise approved by the Housing Commission, the bonds must be sold to 15 or fewer investors.
- E. Upon terms acceptable to the Housing Commission, bonds may be placed in a trust or custodial arrangement with participations sold to investors.

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

5. OTHER ISSUERS

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

6. SELECTION OF THE FINANCING TEAM

- 6.1 Through separate Requests for Qualifications ("RFQ"), a pool of bond counsels, and a pool of financial advisors, will be established to serve as financing team participants on individual bond transactions. The RFQ process is a fair and competitive process which includes advertising, a competitive selection process and interviewing, if necessary. Firms will be selected in accordance with the Housing Commission's applicable equal opportunity policies.
- 6.2 The establishment of each pool will be made by a selection committee with the approval of the Housing Commission Board. The selection committee will consist of Housing Commission staff and representatives from other City departments, such as the City Attorney's Office, City Auditor, and Debt Management. Generally, the selection will be made for a two-year period. The term may be extended for two additional one-year periods by the President and CEO.
- 6.3 The bond counsel and financial advisor specifically represent the interests and concerns of the Housing Commission, the Housing Authority and the City of San Diego in ensuring the integrity of the bond transaction. The project sponsor may, at its own expense, add additional members to the finance team to represent its interests.
- 6.4 The Financial Advisor for each transaction will be designated by the President and CEO from the selected pool for approval by the Housing Commission Board on a rotating basis. The Financial Advisor will prepare a feasibility study on whether it is economically advisable to proceed with the financing, including: evaluation of the financial strength of the project; assumptions regarding income and expenses; sources of security for bonds in addition to the project; developer's financial situation and experience in operating and managing rental projects; marketability of the bonds; rights and resources of parties to the transaction in the event of default; and provide financial advice on all relevant issues to best protect the interests of the City and the Housing Authority. The compensation for financial advisory services to determine whether it is advisable to proceed with a financing will not be contingent on the sale of the bonds.
- 6.5 Bond Counsel will be designated for each financing by the President and CEO from the selected pool on a rotating basis subject to approval by the Housing Commission Board. Bond Counsel will prepare the necessary legal documentation, including provisions regarding compliance with any applicable continuing disclosure requirements, provide an opinion regarding the validity of the bonds and their tax exemption, and provide legal advice on all relevant issues to best protect the interests of the City and the Housing Authority.
- 6.6 Bond Underwriter/Remarketing Agent/Private Placement Purchaser—The developer shall select the debt provider and method of selling the bonds for a given transaction subject to the approval of the Housing Commission. The practice of allowing the developer to propose the debt provider and bond structure is intended to create an incentive for qualified financial firms to actively work with developers to structure and present feasible financing proposals that meet program requirements.
- 6.7 In the event the developer has not identified a proposed financing structure for a given transaction, the Housing Commission will select an underwriter or private placement purchaser through a request for proposals process.

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

7. THE FINANCING PROCESS

- 7.1 Application—A developer interested in new-money financing must submit an application for bond financing or, in the case of an existing financing, a request for bond refunding or restructuring to the Housing Commission. Part of the required information is a disclosure statement on each of the parties involved in the developer/ownership entity. Housing Commission staff will review the application for feasibility.
- 7.2 Deposit—At the time of the application, the developer must pay an application fee to cover the cost of the feasibility analysis of the proposed bond issuance, reissuance or restructuring. If the financing goes ahead, the fee will be subject to reimbursement as a required cost of issuance at the bond closing. The application fee may be waived by the President and CEO.
- 7.3 Inducement Resolution—In conjunction with the City Attorney's Office and Bond Counsel, a bond inducement resolution will be drafted and approved by the Housing Authority. All new-money projects must be induced. An inducement resolution is a conditional expression of the Housing Authority's "official intent" to issue bonds for a given project and is required under Treasury Regulation Section 1.150-2(e) 1.150-2(e). Approval of the inducement resolution establishes, through the public record, the date from which project costs incurred may be determined to be eligible for financing under the program. Therefore, applicants are encouraged to induce their projects as soon as practicable to clearly identify the project, its location, maximum number of units, the maximum amount of financing, and the proposed ownership entity.
- A. Application to CDLAC—The inducement resolution also authorizes Housing Commission staff to submit an application to CDLAC, on behalf of the developer/project sponsor, for a private activity bond allocation.
- B. No Binding Financial Commitment—Adoption of the inducement resolution does not represent any commitment by the Housing Commission, Housing Authority, or the developer to proceed with the financing. The approval of the inducement resolution, by itself, does not authorize any subordinate financing by the Housing Authority or any other entity of the City. The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a resolution authorizing such issuance.
- C. No Land Use or Building Code Approval—Approval of the inducement resolution shall not be construed to signify that the project complies with the planning, zoning, subdivision and building laws and ordinances of the City or suggest that the Housing Authority, the City, or any officer or agent of the Housing Authority or the City will grant any such approval, consent or permit that may be required in connection with the development of a given project.
- 7.4 TEFRA Hearing and Approval—In order for interest on the bonds to be tax-exempt and in accordance with the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, Section 147(f) of the Internal Revenue Code of 1986, the issuance of bonds

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

- 7.5 Bond Allocation—Prior to the issuance of private activity, tax exempt bonds, the Housing Authority must apply for, and receive an allocation of bond issuing authority from CDLAC. To receive such an allocation, the Housing Authority and the developer must document their readiness to proceed with the bond financing.
- 7.6 Performance Deposit—At the time of the application to CDLAC, the developer must deposit with the Housing Authority one half of one percent of the requested allocation amount as a performance deposit. The deposit will be returned to the developer according to the CDLAC procedures; the deposit is subject to reversion to the CDLAC if the financing does not close according to the CDLAC procedures.
- 7.7 Local Review—All projects must be in compliance with the City's land use requirements and the adopted community plans. Prior to requesting Housing Authority's approval of new-money bond issuance, the project must undergo all planning procedures, discretionary reviews and land use approvals, including review by the local planning group and environmental analysis, as required.
- 7.8 Coordination with City Finance Representatives—Housing Commission staff will work with the City Attorney's Office, the Debt Management Department, and other City departments, as necessary, in preparing bond issuances for affordable housing projects.
 - A. Compliance with City's Disclosure Ordinance—As a related entity of the City, the Housing Commission will adhere to the City disclosure ordinance (O-19320) as it may be amended from time to time. The Housing Commission will present offering statements and disclosure documents for review and approval, as appropriate, by the City's Disclosure Practices Working Group.
- 7.9 Housing Commission/Housing Authority Final Approval—Housing Commission staff's recommendation to proceed with a proposed bond issuance, reissuance, or bond restructuring will be presented for approval by the Housing Commission. If approved, staff will work with the approved financing team to structure the financing and to prepare the necessary bond documents. The resulting bond documents, authorizing resolution, staff report, and other relevant docket materials will be submitted for final approval by the Housing Authority.

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

Authorized:

(Signed by Carrol M. Vaughan)

Carrol M. Vaughan,
Executive Vice President and COO

10/ 6/08
Date

(Signed by Cissy Fisher)

Cissy Fisher, Director
Housing Finance

10/ 6/2008
Date

History:

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

APPENDIX D – BASIC LEGAL DOCUMENTS COUNCIL POLICY 800-14 “PRIORITIZING CIP PROJECTS”

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

BACKGROUND:

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

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

PURPOSE:

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

IMPLEMENTATION:

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

A. Project Funding

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

The following is a partial listing of restricted funding categories:

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

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

B. Project Categories

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

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

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

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

C. Project Phases

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

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

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

D. Prioritization Factors

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

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

1. **Health & Safety Effects:** This criterion will include an assessment of the degree to which the project improves health and safety factors associated with the infrastructure asset. For example, projects that result in the reduction in accidents, improved structural integrity, and mitigation of health hazards would score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.
2. **Regulatory or mandated requirements:** This criterion will include an assessment of the degree to which the project is under a regulatory order or other legal mandates. For example, projects that are required by consent decrees, court orders, and other legal mandates would score higher. The evaluation of this criterion will constitute twenty-five percent (25%) of the project's total score.
3. **Implication of Deferring the Project:** This criterion will include an assessment of the consequences of delaying a project. For example, projects that would have significantly higher future costs, negative community impacts, or negative public perception, should they be deferred, would score higher. The evaluation of this criterion will constitute fifteen percent (15%) of the project's total score.
4. **Annual recurring cost or increased longevity of the capital asset:** This criterion will include an assessment of the degree to which the project reduces operations and maintenance expenditures by the City. For example, a roof replacement project that reduces both maintenance requirements and energy consumption or a storm drain replacement project that reduces the need for periodic cleaning would score higher. On

the other hand, a new library that increases maintenance, energy and staffing costs would score lower. The evaluation of this criterion will constitute ten percent (10%) of the project's total score.

5. **Community Investment:** This criterion will include an assessment of the degree to which the project contributes toward economic development and revitalization efforts. For example, a project within an approved Redevelopment Area or Community Development Block Grant eligible area would score higher. The evaluation of this criterion will constitute ten percent (10%) of the project's total score.
6. **Implementation:** This criterion will include an assessment of the degree to which the project is in compliance with the General Plan, Community Plan, or approved City-wide master plan. An assessment of other issues involved in completing the project (e.g., significant environmental issues, project complexity, and level of public support) will also be included in this criterion. For example, projects that would benefit the City of Villages Strategy, further smart growth, or receive overwhelming support from the community would score higher, while projects that would significantly impact the environment and trigger high mitigation requirements would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.
7. **Project Cost and Grant Funding Opportunity:** This criterion will include an assessment of the amount of funding needed to complete the current project phase and the entire project, and shall also include assessment of the amount of City funding in the project compared to the amount of funding provided by grant funds from outside agencies. For example, a project that would bring grant funds from an outside agency into the City would score higher, while a project that relies only on City funds would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.
8. **Project Readiness:** This criterion will include an assessment of the time required for a project to complete its current project phase (i.e., planning, design or construction). For example, a project with a completed environmental document or community outreach would score higher, while a highly complex project requiring longer design time would score lower. The evaluation of this criterion will constitute five percent (5%) of the project's total score.

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

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

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

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

2. **Project Cost and Grant Funding Opportunity:** This criterion shall include an assessment of the amount of funding needed to complete the current project phase and the entire project, and shall also include assessment of the amount of City funding in the project compared to the amount of funding provided by grant funds from outside agencies. For example, a project that would bring grant funds from an outside agency into the City would score higher, while a project that relies only on City funds would score lower. The evaluation of this criterion shall constitute twenty percent (20%) of the project's total score.
3. **Revitalization, Community Support & Community Plan Compliance:** This criterion shall include an assessment of the degree to which the project is in compliance with the General Plan, Community Plan, Regional Transportation Plan, or an approved City-wide master plan. This criterion shall also include an assessment of the degree to which the project is officially supported by the Community Planning Group(s), the Councilmember(s), or a Regional Agency (such as SANDAG). This criterion shall also include an assessment of the degree to which the project contributes towards economic development and revitalization efforts. For example, projects that benefits a pilot village in the City of Villages strategy or furthers smart growth, implements a portion of the City-wide master plan or corridor study, has overwhelming and documented support from the community, implements a portion of an approved Redevelopment Area infrastructure plan, and provides transportation facilities for a Community Development Block Grant eligible area would score higher. The evaluation results of this criterion shall constitute fifteen percent (15%) of a project's total score.
4. **Multiple Category Benefit:** This criterion shall include an assessment of the degree to which the project provides highly rated facilities for multiple project categories (see Section B for project categories). For example, a roadway project that also provides for the replacement of a deteriorated storm drain, a streetscape project that also provides street lighting at critical intersections, and a bikeway project that provides slope stabilization at an area of known erosion problems would score higher. The evaluation of this criterion shall constitute ten percent (10%) of the project's total score.

5. **Annual recurring cost or increased longevity of the capital asset:** This criterion shall include an assessment of the degree to which the project reduces operations and maintenance expenditures by the City. For example, a roadway widening project that replaces an area of pavement in poor condition or that installs a highly rated traffic signal would score higher, while a project with equipment that requires frequent maintenance would score lower. The evaluation results of this criterion shall constitute five percent (5%) of a project's total score.
6. **Project Readiness:** This criterion shall include an assessment of the time required for a project to complete its current project phase (i.e., planning, design or construction). For example, a project with a completed environmental document or community outreach would score higher, while a highly complex project requiring longer design time or significant environmental mitigation would score lower. The evaluation results of this criterion shall constitute five percent (5%) of a project's total score.

E. Implementation Process

1. Using the project categories (funding & project), phases, and criteria, the Mayor shall develop a prioritization score for each CIP project. The Mayor shall then rank all CIP projects within their respective categories (funding & project) and phases according to their project score. In case of ties, the Mayor shall evaluate the overall infrastructure deficiency within the communities for each project as the deciding factor.
2. The resultant ranking list for each category and phase of CIP projects shall be reported by the Mayor to the Council as part of the annual CIP budget, with recommendations for funding.
 1. Upon approval of the CIP budget by the Council, the Mayor shall pursue the completion of each project phase according to the priority ranking resulting from this prioritization process up to the total amounts authorized by Council for each project category. The Mayor shall also utilize the resultant priority ranking for the pursuit of all outside grant funding opportunities.
 2. The Mayor will update the priority score as the conditions of each project change or other new information becomes available. For instance, if grant funding becomes available for a lower ranked project, the priority score would be re-evaluated with this new information. When changes occur that would alter a project's priority ranking, the priority list will be revised. The City Council will receive an informational brief of changes to the priority list at mid-year, and the annual update of the list will be part of the budget process. Similarly, resources shall not be withdrawn from a project prior to the completion of its current phase, unless reallocation is authorized by the annual appropriation ordinance or approved by Council.

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

HISTORY:

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

APPENDIX D E – BASIC LEGAL DOCUMENTS

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

E11.1 Indenture**Purpose:**

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

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

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

Principal Drafter: Bond Counsel.

Parties: Issuer, Trustee.

Critical Provisions for Issuer Review:

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

E11.2 Loan Agreement**Purpose:**

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

Substitutes: Installment Sale Agreements, Facilities or Project Lease.

Principal Drafter: Bond Counsel.

Parties: Conduit Borrower/Obligator, Issuer.

Critical Provisions for Issuer Review:

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

E11.3 Authorizing Resolution

Purpose:

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

Substitutes: Authorizing Ordinance.

Principal Drafter: Bond Counsel or Issuer's Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review:

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

E11.4 Bond/Note Purchase Agreement

Purpose:

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

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

Principal Drafter: Underwriter's Counsel or Disclosure Counsel.

Parties: Underwriter, Issuer, and Conduit Borrower.

Critical Provisions for Issuer Review:

All points listed under "Purpose" section.

E11.5 Official Statement**Purpose:**

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

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

Principal Drafter: Issuer, Disclosure Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review:

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

E11.6 Continuing Disclosure Agreement**Purpose:**

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

Substitutes: Continuing Disclosure Certificate.

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

Parties: Issuer, Obligated Persons; Trustee.

Critical Provisions for Issuer Review:

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

E11.7 Reimbursement Agreement**Purpose:**

The Reimbursement Agreement appears in transactions involving a letter of credit or surety policy guaranteeing payment on the bond or draws against the reserve fund, respectively. It

contains the obligation to repay the letter of credit bank amounts drawn on the credit facility. Term and conditions vary depending upon the type of transaction involved.

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

Substitutes: Financial Guarantee Agreement.

Principal Drafter: Bank Counsel, Surety Provider Counsel.

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

Critical Provisions for Issuer Review:

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

E44.8 Tax Certificate

Purpose:

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

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

Principal Drafter: Bond Counsel.

Parties: Issuer, Borrower.

Critical Provisions for Issuer Review:

Spend down requirements, yield restrictions, arbitrage filing dates.

E44.9 Closing Documents

Purpose:

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

- A. Document the factual representations required by the purchase contract and accuracy and completeness of expertise portions of the disclosure;

- B. Document compliance with the requirements of law and contract for the issuance of the bonds;
- C. Document the flow of funds at closing; and
- D. Instruct parties to take certain actions upon closing; i.e., deposit funds in accounts, record documents, file reports, release security, etc.

Substitutes: None.

Principal Drafter: Bond Counsel.

Parties: All parties to transaction.

Critical Provisions for Issuer Review:

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

**APPENDIX EF – DISCLOSURE PRACTICES WORKING GROUP –
DISCLOSURE CONTROLS AND PROCEDURES**

City of San Diego
Disclosure Practices Working Group
Disclosure Controls and Procedures

Article I
General

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

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

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

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

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

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

Article II *Definitions*

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

“*CAFR*” means the City’s Comprehensive Annual Financial Report.

“*City*” means the City of San Diego, California.

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

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

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

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

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

“*Disclosure Group*” means the Disclosure Practices Working Group.

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

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

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

“*Preparer*” means those persons defined as such in subsection A. of Section 4.4.

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

Article III *Disclosure Documents*

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

- A. Preliminary and final official statements, and preliminary and final private placement memoranda, relating to the City’s securities, together with any supplements;
- B. the City’s Financial Statements;
- C. any filing made by the City with the NRMSIRs, whether made pursuant to a continuing disclosure agreement to which the City is a party or made voluntarily;
- D. press releases (to the extent that such releases are or could reasonably be construed to be an intended communication to the financial markets), rating agency presentations, postings on the investor information section of the City’s webpage, and other communications, reasonably likely, in the determination of the Disclosure Group, to reach investors or the securities markets;
- E. any disclosure materials requiring, pursuant to the Municipal Code, approval and certification by the Mayor, City Attorney, or Chief Financial Officer;
- F. disclosures provided by the City in connection with securities issued by Related Entities, together with all of such documents and materials prepared, issued, or distributed in connection with such securities of such related entity, to the extent that the City, the City Council, or City officers, or staff have prepared or are responsible for the preparation of the form or content of such documents or materials;
- G. offering documents prepared by Related Entities if such documents are subject to the approval of the City Council (e.g. when the City Council is

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

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

Article IV *Review Process*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. identify material information that should be disclosed;
2. identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document; and
3. determine when the Disclosure Document is final and ready for review by the Disclosure Group.

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

Article V
Approval Process

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

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

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

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

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

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

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

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

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

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

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

Article VI *Timelines for Review*

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

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

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

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

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

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

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

Article VII *Training Policy*

Section 7.1. Training Sessions.

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

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

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

Article VIII *Document Retention Policies*

Section 8.1. Official Statements.

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

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

2. the "deemed final" certification provided by a City official to the underwriter of the securities in accordance with paragraph (b)(1) of Rule 15c2-12;
3. the executed copies of the letters, requests, and certifications, the forms of which are attached as Exhibits B-K, and M;
4. the information and related sources referenced in the materials described in 3. above;
5. the bond purchase agreement; and
6. any written certification or opinions executed by a City official relating to disclosure matters, delivered at the time of delivery of the related securities.

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

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

1. the final version of the Disclosure Document,
2. all transmittal letters, requests, and certifications relating to information in the Disclosure Document,
3. the information and related sources referenced in the materials described in 2. above.

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

Article IX

Confidential Submissions

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

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

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

Article X *Annual Review*

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

Exhibits

- A. List of Related Entities
- B. Related Entity Letter
- C. Request for Information from Contributors
- D. Transmittal by Department Director or Deputy City Manger to Financing Group
- E. Underwriter's/Financial Advisor's Confidentiality Agreement
- F. Letter from Human Resources Manager
- G. Letter from SDCERS Representative
- H. Letter from City Attorney's Office Regarding Litigation
- I. Letter from Chief Financial Officer
- J. Municipal Finance Disclosure Reference Materials
- K. Transmittal of Official Statement by Financing Group to Disclosure Group
- L. Transmittal of Official Statement by Disclosure Group to City Manager and City Attorney
- M. Certifications by City Attorney and City Manager
- N. Certification by Chief Financial Officer Regarding Official Statements
- O. Certification by Chief Financial Officer Regarding CAFR

Exhibit A

Related Entities

Assessment District 4030 (Otay Mesa Industrial Park)

Assessment District 4096 (Piper Ranch Business Park)

City of San Diego/MTDB Authority

Community Facilities District No. 1 (Miramar Ranch North)

Community Facilities District No. 2 (Santaluz)

Community Facilities District No. 3 (Liberty Station)

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

Convention Center Expansion Financing Authority

Public Facilities Financing Authority of the City of San Diego

Reassessment District No. 1999-1

Reassessment District No. 2003-1

Redevelopment Agency of the City of San Diego

San Diego Facilities and Equipment Leasing Corporation

San Diego Housing Authority

San Diego Housing Commission

San Diego Open Space Park District No. 1

San Diego Tobacco Revenue Funding Corporation

Exhibit B

Related Entity Letter

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

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

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

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

Related Entity: _____

Authorized Officer: _____

Exhibit C

Request for Information from Contributors

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

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

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

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

If you require additional information regarding this request for information, please contact _____, at x _____. Thank you for your assistance.

Exhibit D

**Transmittal by Department Director
or Chief Operating Officer
to Financing Group**

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

[Department Director/Chief Operating
Officer]

Attachments

- reviewed disclosure
- source materials
- list of Contributors

Exhibit E

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

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

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

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

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

Exhibit F

Letter from the Labor Relations Director

Financing Group:

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

Labor Relations Director

Exhibit G

Letter from SDCERS Representative

Financing Group:

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

SDCERS Representative

Exhibit H

Letter from City Attorney's Office Regarding Litigation

Financing Group:

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

Deputy City Attorney for Finance and
Disclosure

Exhibit I

Letter from Chief Financial Officer

Financing Group:

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

Chief Financial Officer

Exhibit J

Municipal Finance Disclosure Reference Materials

1. Public Finance Criteria, Standard & Poor's (see www.standardandpoors.com, click on "Criteria and Definitions" under "Credit Ratings").
2. Questions to Ask Before You Approve a Bond Issue: A Pocket Guide for Elected and Other Public Officials, National League of Cities; National Association of Counties; National Association of State Auditors, Comptrollers, and Treasurers; and the Government Finance Officers Association, Dec. 1996
3. Disclosure Roles of Counsel in State and Local Government Securities Offerings, American Bar Association, State and Local Government Law, and National Association of Bond Lawyers, 1994.
4. Recommended Best Practices in Disclosure, National Federation of Municipal Analysis, 2004.
5. Making Good Disclosure: The Role and Responsibilities of State and Local Officials Under the Federal Securities Laws, Government Finance Officers Association, 2001.
6. Disclosure Guidelines for State and Local Government Securities, Government Finance Officers Association, 1991.

Exhibit K

**Transmittal of Official
Statement by Financing Group
to Disclosure Group**

Disclosure Group:

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

Representative of Financing Group

[list names of members of Financing Group]

Exhibit L

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

City Manager and City Attorney:

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

Representative of Disclosure Group

[list names of members of Disclosure Group]

Exhibit M

Certifications by City Attorney and City Manager

City Council:

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

City Manager/City Attorney

APPENDIX FG – GLOSSARYArbitrage

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

Assessment

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

Backloading

Debt repayment is scheduled towards the back-end of a project.

Assessment District

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

Community Facilities District

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

Conduit Financing

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

Continuing Disclosure

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

Debt Service

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

Debt Service Reserve Fund

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

Escrow Agent

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

Generally Accepted Accounting Principles (GAAP)

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

Government Accounting Standards Board (GASB)

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

Joint Powers Authority

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

Municipal Standards Rulemaking Board (MSRB)

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

Nationally Recognized Municipal Securities Information Repositories (NRMSIRs)

NRMSIRs is an acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs are the repositories for all annual reports and event notices filed under SEC Rule 15c2-12. NRMSIRs are required to be approved by the Municipal Standards Rulemaking Board (MSRB).

SEC Rule 15c2-12

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

Securities and Exchange Commission (SEC)

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

Special Assessment

See "Assessment"

Special Tax

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

State and Local Government Series (SLGS)

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

True Interest Cost (TIC)

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

Underwriter

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

Underwriter Syndicate

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

Verification Agent

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

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Debt Obligations

TABLE 1 – SUMMARY OF DEBT OBLIGATIONS

		Projected Principal Outstanding 6/30/2008	Projected FY 2009 Debt/Lease Payment	Final Maturity	Primary Funding Source
GENERAL OBLIGATION BONDS					
1991	San Diego General Obligation Bonds (Public Safety Communications Project)	\$8,170,000	\$2,332,273	FY 2012	Property Tax
1994	San Diego Open Space Facilities District No. 1 Refunding Series	\$410,000	\$434,600	FY 2009	Franchise Fees
Subtotal General Obligation Bonds		\$8,580,000	\$2,766,873		
GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS					
Certificates of Participation					
1996A	Certificates of Participation Balboa Park/ Mission Bay Park Improvements Program	\$9,760,000	\$3,529,135	FY 2011	Transient Occupancy Tax
1996B	Refunding Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	\$8,445,000	\$877,130	FY 2022	Transient Occupancy Tax
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	\$10,490,000	\$2,156,739	FY 2024 ⁽¹⁾	Transient Occupancy Tax
Lease Revenue Bonds					
1994	City/MTDB Authority Refunding - Bayside Trolley Extension	\$5,390,000	\$2,925,813	FY 2010	Transient Occupancy Tax
1996	Qualcomm (Jack Murphy) Stadium	\$57,775,000	\$5,769,853	FY 2027	Stadium Revenues & Transient Occupancy Tax
1998	Convention Center Expansion Authority	\$173,355,000	\$13,698,438	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002B	Fire and Life Safety Facilities Project	\$22,805,000	\$1,611,208	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	\$12,775,000	\$1,151,224	FY 2023	Transient Occupancy Tax
2007A	Ballpark Refunding Bonds	\$152,765,000	\$11,314,500	FY 2032	Transient Occupancy Tax & Centre City Development Corporation ⁽²⁾
Subtotal General Fund Backed Lease-Revenue Obligations		\$453,560,000	\$43,034,039		
TOTAL GENERAL FUND OBLIGATIONS		\$462,140,000	\$45,800,912		
WASTEWATER AND WATER SYSTEM OBLIGATIONS ⁽³⁾					
Wastewater System Obligations					
1993	Sewer Revenue Bonds	\$167,955,000	\$16,319,000	FY 2023	Net Wastewater System Revenues
1995	Sewer Revenue Bonds	\$265,540,000	\$23,585,016	FY 2025	Net Wastewater System Revenues
1997	Sewer Revenue Bonds	\$196,800,000	\$16,636,723	FY 2027	Net Wastewater System Revenues
1999	Sewer Revenue Bonds	\$263,400,000	\$20,514,898	FY 2029	Net Wastewater System Revenues
2007	Sewer Revenue Notes (Short Term Private Placement) ⁽⁴⁾	\$223,830,000	\$11,191,500	FY 2009	Net Wastewater System Revenues
Water System Obligations					
1998	Water Certificates of Undivided Interest	\$254,075,000	\$21,353,503	FY 2028	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	\$277,675,000	\$18,036,568	FY 2032	Net Water System Revenues
2007	Subordinated Water Revenue Notes (Private Placement) ⁽⁴⁾	\$57,000,000	\$2,307,772	FY 2009	Net Water System Revenues
2008	Subordinated Water Revenue Notes (Private Placement) ⁽⁴⁾	\$150,000,000	\$4,551,000	FY 2010	Net Water System Revenues
TOTAL WATER AND WASTEWATER SYSTEM OBLIGATIONS		\$1,856,275,000	\$134,495,980		

⁽¹⁾ The 2003 Balboa Park/Mission Bay Park Refunding Series consists of two underlying leases – the North Course Torrey Pines lease (terminates in FY 2009); and the House of Charm lease (terminates in FY 2024).

⁽²⁾ \$7.5 million contributed by the Centre City Development Corporation for Fiscal Year 2009.

⁽³⁾ In addition to the debt obligations, the Water and Wastewater Systems have outstanding State Revolving Fund (SRF) loan obligations. As of 6/30/08, principal outstanding in Water SRF loans is projected at \$19.8 million, and principal outstanding in Wastewater SRF loans is projected at \$87.9 million.

⁽⁴⁾ Interest only payments to be refunded with long term bonds in Fiscal Year 2009.

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

a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2006 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
Compensated Absences				\$ 71,820
Liability Claims				202,482
Capital Lease Obligations				40,541
Contracts Payable:				
Contract Payable to SDSU Foundation, dated December 1991	variable*	—	1,598	1,598
Amendment to Contract Payable to SDSU Foundation, dated January 1995	variable*	—	117	117
Contract Payable to Western Pacific Housing, Inc. dated April 2004	5.00%	—	900	900
Total Contracts Payable				2,615
Notes Payable:				
Note Payable to Wal-Mart, dated June 1998	10.0%	2017	1,308	512
Notes Payable to San Diego Revitalization, dated April 2001	5.0	2032	5,115	4,682
Notes Payable to San Diego Revitalization, dated May 2005	8.0	2025	2,100	2,100
Total Notes Payable				7,294
Loans Payable:				
International Gateway Associates, LLC, dated October 2001	10.0	2032	1,876	1,838
North Park Theatre, LLC, dated December 2004	variable*	—	3,335	3,335
PCCP/SB Las America, LLC, dated August 2005	10.0	2036	1,247	1,247
Bud Fischer, dated March 2006	6.0	2007	2,679	2,679
Centerpoint, LLC, dated April 2006	7.0	2021	5,246	5,246
Total Loans Payable				14,345
San Diego Association of Governments (SANDAG)				
Loans Payable				7,355
Section 108 Loans Payable				42,499
General Obligation Bonds:				
Public Safety Communications Project, Series 1991	5.0 - 8.0**	2012	25,500	11,520
Open Space Park Refunding Bonds, Series 1994	5.0 - 6.0**	2009	64,260	1,170
Total General Obligation Bonds				12,690
Revenue Bonds / Lease Revenue Bonds / COPs:				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625**	2010	66,570	10,240
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45**	2027	68,425	60,490

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation, Series 1996 A	4.0 - 5.6**	2011	\$ 33,430	\$ 15,440
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996 B	4.0 - 6.0**	2022	11,720	9,180
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25**	2028	205,000	183,300
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.49**	2026	12,105	10,810
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75**	2018	30,515	17,315
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10**	2018	7,630	4,295
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15 - 7.7**	2032	169,685	167,560
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0**	2032	25,070	23,780
Centre City Parking Revenue Bonds, Series 2003 B	3.0 - 5.30**	2027	20,515	19,390
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.0 - 4.375**	2023	15,255	14,050
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 2003	1.0 - 4.0**	2024	17,425	14,000
Total Revenue Bonds / Lease Revenue Bonds / COPs				549,850
Special Assessment / Special Tax Bonds:				
Otay Mesa Industrial Park Limited Obligation Improvement Bonds, Issued May 1992	5.5 - 7.95**	2013	2,235	395
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375**	2021	59,465	46,600
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2000 A	4.75 - 6.375**	2031	56,020	54,545
Santaluz Special Tax Bonds, Improvement Area No.3, Series 2000 B	4.5 - 6.2**	2031	4,350	4,210
City of San Diego Reassessment District No. 2003-1 Limited Obligation Refunding Bonds	4.25 - 5.8**	2018	8,850	7,905
Piper Ranch Limited Obligation Improvement Bonds, Issued January 2004	2.5 - 6.2**	2034	5,430	5,195
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2004 A	1.7 - 5.5**	2031	5,000	4,885
Santaluz Special Tax Bonds, Improvement Area No.4, Series 2004 A	1.65 - 5.5**	2034	9,965	9,870
Total Special Assessment / Special Tax Bonds				133,605

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
Tax Allocation Bonds:				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75**	2014	\$ 1,400	\$ 815
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0**	2020	1,200	880
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9 - 8.2**	2021	3,955	3,200
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75 - 6.592**	2020	3,750	2,455
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0**	2016	12,970	8,395
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3 - 7.0**	2007	9,830	410
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125**	2019	25,680	25,320
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	6.25**	2014	11,360	11,360
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	3.1 - 4.75**	2025	13,610	12,405
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8**	2020	5,600	5,455
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	5.75 - 6.4***	2029	10,141	9,825
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.6 9**	2031	3,395	3,160
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6**	2025	6,100	5,345
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35**	2025	21,390	19,670
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8**	2022	15,025	14,425
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875**	2031	13,000	11,920
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9**	2031	7,000	6,425
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.5**	2026	1,860	1,670
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	4.93 - 5.55****	2027	58,425	57,175
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0**	2027	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5 - 5.0**	2029	31,000	21,755
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875 - 6.5**	2034	4,955	4,955
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5 - 4.25**	2014	865	625

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5 - 6.125**	2028	7,145	6,610
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75 - 5.0**	2034	5,360	5,360
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65 - 5.1**	2022	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25 - 5.45**	2022	4,530	4,530
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49 - 7.74**	2022	8,000	7,460
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	3.5 - 5.25**	2030	101,180	99,670
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2.26 - 4.58**	2011	9,855	8,245
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2.26 - 6.18**	2030	27,785	27,230
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2.26 - 6.28**	2030	8,905	8,730
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 B	4.25-5.25**	2033	76,225	76,225
Centre City Redevelopment Project Tax Allocation Bonds, Series 2006 A	5.66-6.2**	2032	33,760	33,760
Total Tax Allocation Bonds				514,845
<u>Tobacco Settlement Asset-Backed Bonds:</u>				
Tobacco Settlement Revenue Funding Corporation Asset-Backed Bonds, Series 2006	7.125**	2023	105,400	105,400
Total Tobacco Settlement Asset-Backed Bonds				105,400
Total Bonds Payable				1,316,390
Net Pension Obligation				158,087
Total Governmental Activities Long-Term Liabilities				\$ 1,863,428

* Additional information on the variable rate contracts payable with the SDSU Foundation and loans payable with North Park Theatre, LLC are discussed further on the following page.

** Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

*** The City Heights Redevelopment Tax Allocation Bonds, Series 1999 B, are capital appreciation bonds, which mature from fiscal year 2011 through 2029. The balance outstanding at June 30, 2006 does not include accreted interest of \$5,342.

**** The Centre City Redevelopment Tax Allocation Bonds, Series 2001 A, partially include capital appreciation bonds, which mature from fiscal year 2015 through 2027. The balance outstanding at June 30, 2006 does not include accreted interest of \$3,877.

Liability claims are primarily liquidated by the Self Insurance Fund and Enterprise Funds. Compensated absences are paid out of the operating funds and certain internal service funds. Pension liabilities are paid out of the operating funds based on a percentage of payroll.

Public safety general obligation bonds are secured by a pledge of the full faith and credit of the City or by a pledge of the City to levy ad valorem property taxes without limitation. Open space general obligation bonds are backed by Environmental Growth Fund 2/3 franchise fees.

Revenue bonds are secured by a pledge of specific revenue generally derived from fees or service charges related to the operation of the project being financed. Certificates of Participation (COPs) and lease revenue bonds provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Special assessment/special tax bonds are issued by the City to provide funds for public improvements in/and or serving special assessment and Mello-Roos districts created by the City. The bonds are secured by assessments and special taxes levied on the properties located within the assessment districts and the community facilities districts, and are payable solely from the assessments and special taxes collected. The assessments and the special taxes, and any bonds payable from them, are secured by a lien on the properties upon which the assessments and the special taxes are levied. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

Section 108 loans are the loan guarantee provisions of the Community Development Block Grant (CDBG) program. Section 108 loans provide the community with a source of financing for economic development, housing rehabilitation, public facilities, and capital improvement and infrastructure projects.

SANDAG loans are comprised of two components: repayment of debt service on bonds, and repayment of proceeds from commercial paper. The City receives distributions of SANDAG bond proceeds, based on the City's agreement with SANDAG. The annual debt service payments related to these bond issuances are recovered by SANDAG through reductions in TransNet allocations that would otherwise be available for payment to the City. TransNet-Proposition A, was passed in 1987 to enact a ½ percent sales tax increase to fund regional transportation projects. All expenses must first be approved by SANDAG and be included on the Regional Transportation Plan (RTP). The City recognizes repayment of the principal and interest on bonds as an increase in TransNet revenues and an offsetting debt service expenditure. The interest rates on the outstanding bonds range from 4.75 percent to 5.50 percent. In addition to financing from bond issuances, financing for TransNet related projects is made available through the issuance of commercial paper notes by SANDAG, at the request of the City. Repayment of proceeds related to the commercial paper is collected in future periods through reductions in TransNet allocations, similar to the repayment of the debt service on bonds. Interest rates on commercial paper notes during the current year have varied from 2.40 percent to 3.58 percent, with maturities from 1 day to 166 days. Interest rates on outstanding commercial paper note amounts at June 30, 2006, ranged from 3.50 percent to 3.58 percent.

San Diego State University Foundation executed an Agreement for Processing a Redevelopment Plan and Land Use Entitlements with the Redevelopment Agency of the City of San Diego which allows for reimbursement of expenses incurred by the Foundation, in assisting in the preparation and processing of the Redevelopment Plan and Land Use Entitlements in the College Area. The agreement is a variable rate obligation of the Agency. The unpaid principal bears interest at the prime rate and is fixed on a quarterly basis, using the prime rate established on the first banking day of each calendar quarter. Interest calculations are made on the quarterly weighted average of the principal balance and are made at the end of the quarter based upon the rate fixed for that quarter. The interest rate is not to exceed 12 percent per annum on funds advanced to the Agency. The effective interest rate as of June 30, 2006 is 7.75 percent.

The Redevelopment Agency of The City of San Diego and North Park Theatre, LLC entered into a Disposition and Development Agreement dated April 23, 2002, a Second Implementation Agreement dated, April 28, 2004 and a Third Implementation Agreement dated December 9, 2004. These agreements were executed for the purposes of effectuating the Redevelopment Plan for the North Park Redevelopment Project, by providing for the disposition of certain real property and a loan to the Agency from the Developer to fund the Agency's subsidy of the rehabilitation of the North Park Theatre building by the Developer. The Third Implementation Agreement converted the loan from a fixed rate to a variable rate obligation of the Agency. The interest on the loan is based on the prime rate plus 2 percent for the first two years, then will increase by a 1/2 percent per year for the remainder of the term of the loan. The interest rate shall not exceed the lesser of the Prime Rate plus four percent, or the maximum interest rate allowed by law. The interest rate shall be reset annually, on August 1st, based on the Prime Rate on the reset date. The effective interest rate as of June 30, 2006 is 8.25 percent.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2006, including interest payments to maturity, are as follows:

Year Ended June 30,	Capital Lease Obligations		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 8,774	\$ 1,510	\$ -	\$ -	\$ -	\$ -
2008	7,233	1,218	-	-	-	-
2009	6,474	938	-	-	-	-
2010	5,431	688	-	-	-	-
2011	4,067	487	-	-	-	-
2012-2016	8,562	527	-	-	-	-
Unscheduled*	-	-	2,615	1,713	7,294	4,144
Total	\$ 40,541	\$ 5,368	\$ 2,615	\$ 1,713	\$ 7,294	\$ 4,144

* The contracts payable to SDSU Foundation in the amount of \$1,715, the contract payable to Western Pacific Housing, Inc. in the amount of \$900, and the notes payable to Wal-Mart of \$512 and San Diego Revitalization of \$6,782, do not have annual repayment schedules. Annual payments on the San Diego State University debt is based on the availability of tax increment net of the low-moderate and taxing agency set-asides as well as project area administration costs. Annual payments to the Wal-Mart, Western Pacific Housing, Inc., and San Diego Revitalization debt are based on available tax increment.

Year Ended June 30,	Loans Payable		SANDAG Loans		Section 108 Loans		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 2,702	\$ 385	\$ 5,107	\$ 225	\$ 3,068	\$ 2,340	\$ 1,985	\$ 783
2008	25	306	2,248	94	3,535	2,203	2,125	641
2009	27	304	-	-	2,364	2,046	2,265	502
2010	30	301	-	-	2,457	1,920	1,975	353
2011	33	298	-	-	2,595	1,783	2,100	219
2012-2016	224	1,433	-	-	15,066	6,415	2,240	74
2017-2021	361	1,295	-	-	9,443	2,424	-	-
2022-2026	581	1,076	-	-	3,971	421	-	-
2027-2031	935	722	-	-	-	-	-	-
2032-2036	846	185	-	-	-	-	-	-
Unscheduled*	8,581	242	-	-	-	-	-	-
Total	\$ 14,345	\$ 6,547	\$ 7,355	\$ 319	\$ 42,499	\$ 19,552	\$ 12,699	\$ 2,572

* The loans payable to North Park Theatre, LLC in the amount of \$3,335, and Centerpoint, LLC in the amount of \$5,246 do not have annual repayment schedules. Annual payments are based upon future receipts of unallocated tax increment or other available sources.

Year Ended June 30,	Revenue Bonds / COPs		Special Assessment / Special Tax Bonds		Tax Allocation Bonds			Tobacco Asset-Backed Bonds	
	Principal	Interest	Principal	Interest	Principal	Unaccreted		Principal	Interest
						Appreciation	Interest		
2007	\$ 19,875	\$ 32,416	\$ 3,770	\$ 7,286	\$ 12,041	\$ 1,910	\$ 23,442	\$ 2,700	\$ 7,093
2008	20,860	31,437	4,045	7,112	13,371	1,996	24,746	3,300	7,317
2009	21,550	30,395	4,315	6,921	14,476	2,081	24,208	3,600	7,082
2010	21,235	29,337	4,630	6,709	15,088	2,163	23,555	3,900	6,826
2011	19,325	28,303	4,960	6,474	15,853	2,243	22,808	4,000	6,555
2012-2016	91,445	126,723	29,375	28,033	101,267	12,058	99,778	25,100	28,015
2017-2021	108,975	98,482	35,055	19,364	124,038	11,280	71,011	35,500	17,691
2022-2026	135,645	62,689	18,985	11,855	119,894	6,394	40,397	27,400	3,285
2027-2031	95,390	22,726	25,520	5,001	77,322	447	13,849	-	-
2032-2036	15,550	1,155	2,950	260	21,495	-	1,166	-	-
Subtotal	549,850	463,663	133,605	99,015	514,845	40,572	344,960	105,400	83,864
Add:									
Accrued Appreciation through June 30, 2006					9,219				
Total	\$ 549,850	\$ 463,663	\$ 133,605	\$ 99,015	\$ 524,064	\$ 40,572	\$ 344,960	\$ 105,400	\$ 83,864

* The Tobacco Asset-backed bond's Principal Debt Service requirements are based upon expected Turbo Principal payments.

c. Change in Long-Term Liabilities

Additions to governmental activities long-term debt for contracts, notes and loans payable may differ from proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, due to funding received in prior fiscal years being converted from short-term to long-term debt as a result of developers extending the terms of the obligation.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2006. The effect of bond accretion, bond premiums, discounts, and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Governmental Activities				Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Compensated Absences	74,387	50,878	(53,445)	71,820	31,064
Liability Claims	218,366	35,905	(51,789)	202,482	32,390
Capital Lease Obligations	30,647	20,087	(10,193)	40,541	8,774
Contracts Payable	1,715	900	-	2,615	-
Notes Payable	7,924	-	(630)	7,294	-
Loans Payable	5,187	9,171	(13)	14,345	2,702
Section 108 Loans Payable	42,858	2,151	(2,510)	42,499	3,068
SANDAG Loans Payable	13,979	1,651	(8,275)	7,355	5,107
General Obligation Bonds	14,530	-	(1,840)	12,690	1,985
Revenue Bonds / COPs	571,285	-	(21,435)	549,850	10,875
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(950)	-	51	(899)	-
Net Revenue Bonds/COPs	570,335	-	(21,384)	548,951	19,875
Special Assessment / Special					
Tax Bonds	137,305	-	(3,700)	133,605	3,770
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(654)	-	46	(608)	-
Net Special Assessment Bonds	136,651	-	(3,654)	132,997	3,770
Tax Allocation Bonds	415,778	109,985	(10,918)	514,845	12,041
Interest Accretion	7,463	1,822	(66)	9,219	-
Balance with Accretion	423,241	111,807	(10,984)	524,064	12,041
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	3,215	2,408	-	5,623	-
Net Tax Allocation Bonds	426,456	114,215	(10,984)	529,687	12,041
Tobacco Settlement Asset-Backed Bonds:					
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	105,400	-	105,400	2,700
Net Tobacco Settlement Asset-Backed Bonds	-	105,400	-	105,400	2,700
Net Pension Obligation	254,486	6,325	(102,724)	158,087	-
Total	\$ 1,797,521	\$ 346,683	\$ (267,441)	\$ 1,876,763	\$ 123,476

d. Defeasance of Debt

As of June 30, 2006, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Amount</u>
Horton Plaza Redevelopment Project Subordinate Tax Allocation Refunding Bonds, Series 1996 B	\$ 6,640
Total Defeased Bonds Outstanding	<u>\$ 6,640</u>

6. BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES (In Thousands)

a. Long-Term Liabilities

Business-type activities long-term liabilities as of June 30, 2006 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
Arbitrage Liability				\$ 193
Compensated Absences				16,390
Liability Claims				50,379
Capital Lease Obligations				2,051
Loans Payable:				
Loans Payable to San Diego County Water Authority			100	100
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80%**	2020	10,606	7,816
Loans Payable to State Water Resources Control Board, issued February 9, 2000	1.80**	2022	6,684	5,533
Loans Payable to State Water Resources Control Board, issued March 30, 2001	1.80**	2022	33,720	27,912
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2022	7,742	6,406
Loans Payable to State Water Resources Control Board, issued May 17, 2001	1.80**	2021	860	673
Loans Payable to State Water Resources Control Board, issued June 11, 2001	1.80**	2021	2,525	1,977
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.99**	2020	3,767	3,042
Loans Payable to State Water Resources Control Board, issued October 3, 2002	1.80**	2023	8,068	7,033
Loans Payable to State Water Resources Control Board, issued December 14, 2005	1.89**	2024	10,093	9,647
Loans Payable to Department of Health Services, issued July 6, 2005	2.5132	2026	21,525	21,108
Total Loans Payable				91,247
Bonds Payable:				
Sewer Revenue Bonds, Series 1993	2.8 - 5.25*	2023	250,000	182,370
Sewer Revenue Bonds, Series 1995	3.9 - 6.0*	2025	350,000	284,505
Sewer Revenue Bonds, Series 1997 A	3.7 - 5.375*	2027	183,000	152,625

(continued on next page)

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006
Sewer Revenue Bonds, Series 1997 B	3.7 - 5.375*	2027	\$ 67,000	\$ 55,875
Water Certificate of Undivided Interest, Series 1998	4.0 - 5.375*	2029	385,000	271,055
Sewer Revenue Bonds, Series 1999 A	3.5 - 5.125*	2029	203,350	178,665
Sewer Revenue Bonds, Series 1999 B	3.5 - 5.125*	2029	112,060	98,665
Subordinated Water Revenue Bonds, Series 2002	2.0 - 5.0*	2033	286,945	286,945
Sewer Revenue Bonds, Series 2004	variable***	2008	152,000	152,000
Total Bonds Payable				<u>1,662,705</u>
Estimated Landfill Closure and Postclosure Care				14,811
Net Pension Obligation				<u>36,394</u>
Total Business-Type Activities Long-Term Liabilities				<u>\$ 1,874,170</u>

* Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

** Effective rate

*** Variable rate based on 62.34% of the London Inter-bank Offered Rate (LIBOR), which is a daily reference rate based on the interest rates at which major banks offer to lend unsecured funds to other banks in the London inter-bank market, plus 90 basis points through December 16, 2006. The effective interest rate at fiscal year end June 30, 2006 is 3.8984%.

b. Amortization Requirements

Annual requirements to amortize long-term debt as of June 30, 2006, including interest payments to maturity, are as follows:

Year Ended June 30	Revenue Bonds Payable		Loans Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 56,845	\$ 80,721	\$ 4,677	\$ 1,802	\$ 1,045	\$ 69
2008	74,015	77,795	4,767	1,712	840	31
2009	75,995	74,606	4,860	1,619	166	4
2010	77,985	71,404	4,956	1,523	-	-
2011	80,210	67,972	5,052	1,427	-	-
2012-2016	305,245	292,865	26,783	5,612	-	-
2017-2021	369,745	211,023	28,624	2,883	-	-
2022-2026	398,920	109,321	11,428	533	-	-
2027-2031	197,600	25,353	-	-	-	-
2032-2036	26,145	1,324	-	-	-	-
Unscheduled*	-	-	100	-	-	-
Total	<u>\$ 1,662,705</u>	<u>\$ 1,012,384</u>	<u>\$ 91,247</u>	<u>\$ 17,111</u>	<u>\$ 2,051</u>	<u>\$ 104</u>

* The loan payable to the San Diego County Water Authority in the amount of \$100 does not have an annual repayment schedule. The payment is due if funding for the projects for which the loan was received becomes available from other sources.

c. Change in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006. The effect of bond premiums, discounts and deferred amounts on refunding are reflected as adjustments to long-term liabilities.

	Business-Type Activities				Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Arbitrage Liability	\$ 213	\$ 3	\$ (23)	\$ 193	\$ -
Compensated Absences	17,521	12,974	(14,105)	16,390	7,580
Liability Claims	47,389	4,551	(1,561)	50,379	3,524
Capital Lease Obligations	3,521	-	(1,470)	2,051	1,045
Loans Payable	63,803	31,618	(4,174)	91,247	4,677
Revenue Bonds Payable	1,698,060	-	(35,355)	1,662,705	56,845
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(8,510)	-	751	(7,759)	-
Net Revenue Bonds Payable	1,689,550	-	(34,604)	1,654,946	56,845
Estimated Landfill Closure and Postclosure Care	13,665	1,146	-	14,811	-
Net Pension Obligation	35,104	2,264	(974)	36,394	-
Total	\$ 1,870,766	\$ 52,556	\$ (56,911)	\$ 1,866,411	\$ 73,671

d. Defeasance of Debt

As of June 30, 2006, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Balance</u>
Water Revenue Bonds, Series 1998	\$ 77,155
Total Defeased Bonds Outstanding	\$ 77,155

7. **DISCRETELY PRESENTED COMPONENT UNITS LONG-TERM DEBT (In Thousands)**

Discretely presented component units long-term debt as of June 30, 2006 is comprised as follows:

San Diego Convention Center Corporation

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006	Due Within One Year
Compensated Absences				\$ 1,121	\$ 1,076
Capital Lease			3,942	3,662	706
Note Payable to San Diego Unified Port District, dated 1999	0.00%	2011	10,000	4,500	1,000
Total Long-Term Liabilities				9,283	2,782

Annual requirements to amortize long-term debt as of June 30, 2006, are as follows:

Capital Lease		Note Payable	
Fiscal Year	Amount	Fiscal Year	Amount
2007	\$ 706	2007	\$ 1,000
2008	755	2008	1,000
2009	807	2009	1,000
2010	863	2010	1,000
2011	531	2011	500
Total	<u>\$ 3,662</u>	Total	<u>\$ 4,500</u>

San Diego Housing Commission

Type of Obligation	Interest Rate	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2006	Due Within One Year
Compensated Absences				\$ 1,391	\$ 1,391
Note Payable to Bank of America, dated February 1985	5.0 – 10.2%	2025	3,789	3,077	103
Note Payable to City of San Diego Redevelopment Agency, dated March 1992	0.0	2022	696	696	-
Note Payable to Washington Mutual, dated June 1995	Variable*	2011	4,725	3,672	169
Note Payable to State of California (RHCP)	3.0	2013	3,149	3,149	-
Note Payable to State of California (RHCP)	0.0	2015	1,405	1,405	-
Note Payable to State of California (CalHELP)	0.0	2013	704	1,892	-
Total Notes Payable				<u>\$ 15,282</u>	<u>\$ 1,663</u>

* The interest rate as of June 30, 2006 was 4.31%

Annual requirements to amortize such long-term debt as of June 30, 2006 to maturity are as follows:

Year Ending June 30	Principal	Interest
2007	\$ 272	\$ 313
2008	289	295
2009	302	283
2010	314	271
2011	3,001	257
2012-2016	7,211	1,772
2017-2021	957	312
2022-2025	1,545	62
Total	<u>\$ 13,891</u>	<u>\$ 3,565</u>

8. **SHORT-TERM NOTES PAYABLE (In Thousands)**

The City issues Tax and Revenue Anticipation Notes (TRANS) in advance of property tax collections, depositing the proceeds into the General Fund. These notes are necessary to meet the cash requirements of the City prior to the receipt of property taxes.

Short-term debt activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax and Revenue Anticipation Notes	\$ -	\$ 145,000	\$ (145,000)	\$ -

The \$145,000 FY06 TRANS issue had an average interest rate of 3.19% and was repaid on May 31, 2006.

12. PENSION PLANS (In Thousands)

The City has a defined benefit pension plan and various defined contribution pension plans covering substantially all of its employees.

DEFINED BENEFIT PLAN

a. Plan Description

San Diego City Employees' Retirement System ("SDCERS"), as authorized by Article IX of the City Charter, is a public employee retirement system established in fiscal year 1927 by the City. SDCERS is an agent multiple-employer defined benefit public pension plan and acts as a common investment and administrative agent for the City, the San Diego Unified Port District (the "Port"), and the San Diego County Regional Airport Authority (the "Airport"). It is administered by the SDCERS Board (the "Board") to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval as well as a majority vote by members, provided that benefit increases also require a majority vote of the public (effective January 1, 2007). All approved benefit changes are codified in the City's Municipal Code.

The Defined Benefit Plan (the Plan) covers all eligible employees of the City, the Port, and the Airport. All City employees working half-time or greater and full-time employees of the Port and the Airport, are eligible for membership and are required to join SDCERS. The Port and Airport are not component units of the City CAFR, however, and the information herein relates solely to the City's participation in SDCERS. City employment classes participating in the Plan are elected officers, general and safety (including police, fire and lifeguard members). These classes are represented by various unions depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees.

Plan Membership as of June 30, 2006

	General	Safety	Total by Classification
Active Members	6,409	2,478	8,887
Terminated Members	1,983	376	2,359
Retirees, Disabled and Beneficiaries	3,800	2,601	6,401
Total Members, as of June 30, 2006	12,192	5,455	17,647

Source: SDCERS-City of San Diego Actuarial Valuation as of June 30, 2006

As a defined benefit plan, retirement benefits are determined primarily by a member's class, age at retirement, number of years of creditable service, and the member's final compensation based on the highest salary earned over a consecutive one-year period. The Plan provides cost of living adjustments of 2% to retirees, which is factored into the actuarial assumptions. Increases in retirement benefits due to cost of living adjustments do not require voter approval. The Plan requires ten years of service at age 62, or 20 years of service at age 55 for general members (50 for safety members), which could include certain service purchased or service earned at a reciprocating government entity, to vest for a benefit. Typically, retirement benefits are awarded at a rate of 2.5% of the employee's one-year high annual salary per year of service at age 55 for general members, and 3% for Safety members starting at the age of 50. The actual percentage of final average salary per year served component of the calculation rises as the employee's retirement age increases and depends on the retirement option selected by the employee. General plan percentage of final average salary per year served is a maximum of 2.8% for general members and 3% for safety members.

Deferred Retirement Option Program (DROP)

The City also has a Deferred Retirement Option Program (DROP) where participants continue to work for the City and receive a regular paycheck. SDCERS' members electing to participate in DROP must agree to participate in the program for a specific period, up to a maximum of five years. A DROP participant must agree to end employment with the City on or before the end of the selected DROP participation period. A SDCERS member's decision to enter DROP is irrevocable.

Upon entering the program, the DROP participant stops making contributions to SDCERS and stops earning creditable service. Instead, amounts equivalent to the participant's retirement benefit plus 8% earnings and additional contributions are credited to an individual account held in the participant's name. The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. Participants select the form of the distribution of the DROP account when they leave employment and begin retirement. The distribution is made as a single lump sum or in 240 equal monthly payments, or as otherwise allowed by applicable provisions of the Internal Revenue Code. Outstanding liabilities for DROP are shown on the Statement of Fiduciary Net Assets in the basic financial statements. During the period of participation, the participant continues to receive most of the employer offered benefits available to regular employees.

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the DROP program due to the benefit changes negotiated with the July 1, 2005 Memoranda of Understanding (MOU). However, SDCERS has asserted that due to delays in codification of benefit changes into the Municipal Code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, the City Attorney and SDCERS legal counsel do not agree on this issue and the Municipal Code states July 1, 2005 as the effective date [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate in DROP when they are eligible for a service retirement.

Purchase of Service Credits

Article 4 Division 13 of the City's Municipal Code allows plan members to purchase years of Creditable Service for use in determining retirement allowances. To purchase Creditable Service, a Member must elect to pay and thereafter pay, in accordance with such election before retirement, into the Retirement Fund an amount, including interest, determined by the Board. No Member will receive Creditable Service under this Division for any service for which payment has not been completed pursuant to this Division before the effective date of the Member's retirement. The City Attorney has opined that in the past, the Purchase of Service Credits were under priced by the Board of Administration. After review of the purchase of service program, SDCERS' actuary concluded that the service credit pricing structure that was in place prior to November 2003 did not reflect the full cost in the price then charged to SDCERS members. The pricing shortfall of approximately \$146,000, which is included in the UAAL, is reported in the RSI of these financial statements. The service credit pricing structure used after November 2003, however, does cover the full projected cost to the System when members purchased the service credits (this is discussed in Note 18: Contingencies).

SDCERS' members who were hired on or after July 1, 2005 are ineligible to participate in the Purchase of Service Credit program due to the benefit changes negotiated with the July 1, 2005 Memoranda of Understanding (MOU). However, SDCERS has asserted that due to delays in codification of benefit changes into the municipal code, the effective cut off date would instead be February 16, 2007, which is when the Ordinance O-19567 was officially codified in the Municipal Code. As of the issuance of this report, the City Attorney and SDCERS legal counsel do not agree on this issue and the Municipal Code states July 1, 2005 as the effective date [refer to Note 18 for additional information]. Notwithstanding amendments to the municipal code, SDCERS' members who were hired prior to July 1, 2005 are eligible to participate the Purchase of Service Credit Program.

Corbett Settlement Benefits and Retirement Factors

In 1998, a lawsuit was filed by retired employees who alleged that the City's definition of compensation subject to the computation of retirement benefits improperly excluded the value of certain earnings. The City and SDCERS settled in May of 2000, which is known as the Corbett Settlement. This settlement provided for a flat increase of

7% in benefits payable to eligible members who retired prior to July 1, 2000, payable annually. The settlement also provided a 10% benefit increase and allows for two options in calculating the service retirement allowance for employees active at the time of the settlement and who joined the Retirement System before July 1, 2000 and who retired after July 1, 2000.

The options for calculating the service retirement allowance are outlined in the San Diego Municipal Code sections 24.0402 and 24.0403 which can be obtained at City of San Diego City Clerks Office 202 C Street, San Diego, CA 92101 or online at www.sandiego.gov.

On July 1, 2002 the City Council increased the retirement factors used for calculating retirement allowances; this action was related to MP-2 (as discussed later in this note). As a result of the Corbett Settlement and other benefit actions taken by the City Council, the service retirement factors for general members (non-safety and non-legislative) range from 2.0% at age 55 to 2.8% at age 65. The service retirement factors for Safety Members (Fire, Police and Lifeguard) range from 2.2% at age 50 to 3.0% at age 50 depending on the Corbett Settlement option selected. Finally, the City also maintains an Elected Officer's Retirement Plan where members are eligible to receive 3.5% of their final average salary per year of creditable service. Depending on the number of years serviced, participants of the Elected Officer's Retirement plan can retire earlier than the age of 55, however, their retirement allowance is reduced by 2.0% for each year under the age of 55.

Preservation of Benefit Plan

On March 19, 2001, the City Council adopted Ordinance O-18930, adding SDMC sections 24.1601 through 24.1608, establishing the Preservation of Benefit Plan (POB Plan). The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Internal Revenue Code (IRC) section 415(m), which was created by Congress to allow the payment of promised pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). As provided, in SDMC section 24.1606, and required by federal tax law, the POB Plan is unfunded within the meaning of the federal tax laws. The City may not pre-fund the POB Plan to cover future liabilities beyond the current year as it can with an IRC section 401(a) pension plan. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis. Currently, SDCERS is participating in a Voluntary Correction Program with the IRS concerning the POB plan (refer to Note 18: Contingencies for additional information). As of issuance of this report, actuarial liabilities related to retired member benefits that exceeded §415 limits are included in the RSI for the City's core pension plan for valuation years up to and including fiscal year 2005. In the fiscal year 2006 actuarial valuation, the estimated actuarial accrued liability related to excess benefits for eligible active members of the system, amounting to approximately \$22,800, was removed from the plan's Actuarial Liabilities (this liability is estimated to be approximately \$30,400 in the fiscal year 2007 actuarial valuation). Additionally, the liability for retired members of the POB Plan, amounting to approximately \$6,400, has been excluded from the fiscal year 2007 actuarial valuation. Estimates related to the actuarial liability for benefits that exceed IRS §415 limits were calculated using actuarial assumptions consistent with those used to perform actuarial valuations for the City's core pension plan and also pursuant to the Compliance Statement, dated December 20, 2007, and Tax Determination Letter provided by the IRS during Voluntary Correction Program discussions.

The most current estimates related to the Preservation of Benefit plan are that approximately 58 beneficiaries have received benefits of approximately \$2,900 in excess of IRC §415 limits through June 30, 2006; an additional approximate \$900 in benefits were paid in the fiscal year ending June 30, 2007 for an estimated cumulative overpayment of \$3,800. No additional plan payments or repayments are required as a result of the Compliance Statement. The number of plan participants, in any given year, for the Preservation of Benefit Plan is determined by the number of plan participants who exceed the current year's IRS §415(b) limitations as calculated by SDCERS' actuary. The maximum limit for the calendar year 2006 was \$175 (calendar year 2008 limit is \$185) and is adjusted downward depending on the age of the participant when benefits began.

Charter Amendment

On November 7, 2006, the citizens approved an amendment to Article 9, Section 143 of the City's Charter, requiring voter approval of certain increases in retirement system benefits for public employees. Specifically, this amendment requires a majority approval of any ordinance that amends the City's retirement system by increasing the benefits of any employee.

Additional details of retirement benefits can be obtained from SDCERS. SDCERS is considered part of the City of San Diego's financial reporting entity and is reported as a pension trust fund. SDCERS issues stand-alone financial statements which are available at its office located at 401 West A Street, Suite 400, San Diego, California 92101.

b. **Summary of Significant Accounting Policies – Pension**

Basis of Accounting - The pension trust fund uses the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions in the period in which the contributions are due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Plan.

Method Used to Value Investments - SDCERS investments are stated at fair value. The SDCERS custodial agent provides market values of invested assets with the exception of the fair value of directly owned real estate assets which are provided by the responsible investment manager and independent third party appraisal firms. Investment income is recognized in accordance with GASB 25 and is stated net of investment management fees and related expenses.

c. **Contributions and Reserves - Disclosure Related to Long - Term Contracts and Other Agreements**

Funding Contracts: MP-1 and MP-2

The City employer contributions for fiscal years 1996 - 2003 were not based on the full actuarial rates. Instead, employer contributions were less than the full actuarial rates in accordance with an agreement between the City and SDCERS, commonly referred to as Manager's Proposal 1 (MP-1). MP-1 provided that the City would make annual payments according to a contractually fixed formula of increasing percentages of total payroll instead of annual payments based on the annually required contribution (ARC) rates determined by the actuary. This agreement was subject to an actuarially determined funding ratio ("the trigger") of 82.3%. In the event the trigger was reached, the City would be required to make a lump sum payment to return the system to the funding ratio of 82.3%. The funding provision established by MP-1 was to be effective until fiscal year 2007, at which time, the City's contribution would return to the full ARC rate determined by the actuary. In the opinion of Kroll (a professional consulting firm engaged by the City to act in the capacity of an Audit Committee) and the City Attorney, the funding mechanism of MP-1 was illegal in violation of the City Charter and the State Constitution.

In 2002, a second agreement between the City and SDCERS was ratified; this agreement subsequently became known as Manager's Proposal 2 (MP-2). MP-2 modified MP-1 principally by allowing the City to avoid a balloon payment if the trigger was reached. Instead, MP-2 allowed the City to increase its funding until the full ARC was reached. This provision of MP-2 required that funding be increased over a five year period. In the opinion of Kroll and the City Attorney, the funding mechanism of MP-2 was illegal in violation of the City Charter and the State Constitution.

The actuarial valuation as of June 30, 2002, received in January 2003, which applies to contributions made in fiscal year 2004, reported the funded ratio to be 77.3%, thus the trigger had been breached. As a result, the City paid the increased contribution rates (which were less than the full actuarial rates) as required by MP-2 in the next fiscal year (fiscal year ended June 30, 2004). MP-1 and MP -2 are no longer in effect due to the Gleason settlement (see the section titled "Funding Commitments Related to Legal Settlements" in this Note).

A discussion of funding levels can be found in the Funding Policy and Annual Pension Cost section of this note.

Funding Contracts: Union Agreements

The City has historically picked up a portion of the employee's retirement contributions. The fiscal year 2006 MOUs and the changes to current and future employee benefits therein were introduced to Council in November 2006, and the changes in benefit eligibility were approved by Council Resolution 300600.

The agreement in the MOUs (agreements with the police union were not reached) was to reduce the amount of individual employees' pension contributions which are paid for by the City, effective fiscal year 2006. The agreements with labor unions resulted in the reduction of City "pick-up" of the employee pension contribution by 3% for the Municipal Employees' Association (MEA), the International Association of Fire Fighters Local 145, and the Deputy City Attorney Association (DCAA) and a unilaterally imposed reduction of 3.2% for the San Diego Police Officers Association (POA). In addition, the American Federation of State and County Municipal Employees (AFSCME) Local 127 negotiated a 1.9% salary reduction in lieu of a City "pick up" contribution reduction and a benefit freeze.

The agreements with the bargaining units explicitly indicate that savings to the City must be used to help address its Unfunded Actuarial Accrued Liability (UAAL) within the timeframe of the respective contracts. The labor contract with Local 127 states that "By June 30, 2008, if the City has not dedicated a total of \$600,000 or more to the UAAL reduction, including the amount received by leveraging employee salary reduction and pension contribution monies, the AFSCME salary reduction monies with interest will revert to SDCERS Employee Contribution Rate Reserve for benefit of Local 127 unit members to defray employee pension contributions." The City will be excused from meeting the above obligation if the funded ratio reaches 100% by June 30, 2008.

In June 2006, the City leveraged a portion of the employee pick up savings by contributing \$90,800 from securitization of future tobacco settlement revenues, \$9,200 of current tobacco settlement revenues, and \$8,300 from the remaining balance in the employee "pick-up" amount as part of meeting its negotiated commitment. The \$100,000 payment in excess of the ARC from tobacco settlement revenues is 100% backed by general fund revenues, and therefore, was directly allocated to reduce the NPO of the general fund only. The additional contribution of \$8,300 in excess of the ARC, however, was allocated Citywide as a reduction to the NPO. In June 2007, the City contributed approximately \$7,000 in addition to the ARC, from the savings of the employee "pick-up" reduction. (These agreements are also discussed in the Subsequent Events Note 22). A financing option to generate additional funding is currently being pursued. As of issuance of this report, it appears the City will not be able to meet the outstanding commitment by June 30, 2008 in its entirety. As such, the salary reduction monies, with interest, will likely revert to the employee contribution rate reserve as stated in the MOU with the Local 127 bargaining unit.

Funding Commitments Related to Legal Settlements

Subsequent to the adoption of MP-2, the City settled a class action lawsuit regarding alleged breaches of fiduciary duty and law regarding the City's underfunding of the pension system resulting from the adoption of MP-1 and MP-2. The Gleason Settlement Agreement addressed the issues raised regarding the City's underfunding of the pension system by imposing the following requirements on the City for fiscal years 2005 through 2008:

1. Contribute \$130,000 in fiscal year 2005. *
2. Pay its full ARC beginning fiscal year 2006.
3. Repeal Municipal Code Sections that legitimized the City's contribution obligations related to MP-2.
4. Provide a total of \$375,000 of real property as collateral for payments required via the Gleason Settlement Agreement.

* The City's Gleason Settlement required contribution of \$130,000 in fiscal year 2005 was paid prior to the execution of the agreement on July 7, 2005, and therefore, was omitted from the final agreement.

The Gleason Settlement also stipulated that certain actuarial assumptions be fixed, notably, that the amortization period was reset to a 29-year closed commencing with the June 30, 2004 Annual Actuarial Valuation. These assumptions were to remain in place for the duration of the settlement. On July 1, 2004, the City made the Gleason Settlement required contribution of \$130,000 for fiscal year 2005 in addition to providing real property totaling \$375,000 as collateral to be returned in annual installments of \$125,000. On July 1, 2005, the City made the annually required contribution of \$163,000 for fiscal year 2006. Additionally, the City made a contribution in excess of the ARC in the amount of \$108,300 on June 30, 2006. On July 3, 2006 the City made its full annually required contribution of \$162,000 as well as an additional \$7,000 contribution in excess of the ARC for fiscal year 2007 and on July 1, 2007, the City made its full annually required contribution of \$137,700 as well as an additional \$27,300 contribution in excess of the ARC for fiscal year 2008. The final installment of \$125,000 of real property

collateral was returned to the City on November 9, 2007.

The annual required contributions for fiscal years 2005, 2006, and 2007 did not include the effects of the Corbett settlement because the SDCERS' Board viewed those benefits as contingent (see section a. for a description of the Corbett Settlement). Subsequent to those payments, the City determined that the Corbett Settlement liabilities are not contingent. As a result, the ARC for financial reporting was restated from the original ARC calculated by SDCERS' actuary to include Corbett Settlement liabilities. As a result, the City's NPO includes the effects of the Corbett Settlement.

In September 2006, the City entered into a settlement of McGuigan v. City of San Diego (the "McGuigan Settlement") related to the underfunding by the City of the pension system. This agreement stipulated that the City pay \$173,000 plus interest on amounts outstanding to SDCERS over a period of 5 years. An additional requirement of the McGuigan Settlement is that the City provides SDCERS real property collateral totaling \$100,000 (Non-Depreciable Capital Assets – Land). These amounts are in addition to those required by the Gleason Settlement and are to be returned upon the full payment of the settlement.

As of the issuance of this report, the City has provided the real property collateral in addition to approximately \$115,400 of additional payments to SDCERS, in an attempt to meet the terms of the McGuigan Settlement. The McGuigan Settlement was partially funded through the securitization of future tobacco revenue, transfers of actual tobacco revenue receipts, and additional employee "pick up" savings. This contribution is further discussed in the Funding Contracts: Union Agreements section above.

In January, 2006, the City reached a settlement on a separate civil action captioned: Newsome v. City of San Diego Retirement System, City of San Diego (the "Newsome Settlement"). As part of this settlement, the plaintiff has agreed to dismiss the lawsuit if the City provides an additional \$100,000 in funding over five years to SDCERS or, the funding ratio of the City's retirement plan returns to 82.3%. The amounts stipulated in the Newsome settlement are in addition to the amount stipulated in the settlement of the McGuigan Settlement. Under the Newsome Settlement, if the City does not provide the additional funding, the plaintiff then has the right to re-file the lawsuit after giving the City 60 days notice.

d. **Funding Policy and Contribution Rates**

City Charter Article IX Section 143 requires employees and employers to contribute to the retirement plan. The Charter section, which was amended in fiscal year 2005, stipulates that funding obligations of the City shall be determined by the Board of SDCERS and are not subject to modification by the City. The section also stipulates that under no circumstances, may the City and Board enter into any multi-year funding agreements that delay full funding of the retirement plan. The Charter requires that employer contributions be substantially equal to employee contributions (SDCERS' legal counsel has opined that this requirement applies to the normal cost contribution only). Pursuant to the Charter, City employer contribution rates, adjusted for payment at the beginning of the year, are actuarially determined rates and are expressed as a fixed annual required contribution as well as percentages of annual covered payroll. The entire expense of SDCERS' administration is charged against the earnings and plan assets of SDCERS.

The following table shows the City's contribution rates for fiscal year 2006, based on the valuation ending June 30, 2004, expressed as percentages of active payroll:

	Employer Contribution Rates	
	General Members	Safety Members
Normal Cost*	10.74%	19.21%
Amortization Payment*	10.39%	21.76%
Normal Cost Adjusted for Amortization Payment*	21.13%	40.97%
City Contribution Rates Adjusted for Payment at the Beginning of the Year	20.33%	39.42%

* Rates assume that contributions are made uniformly during the Plan year.

Normal Cost = The actuarial present value of pension plan benefits allocated to the current year by the actuarial cost method.

Amortization Payment = That portion of the pension plan contribution which is designed to pay interest on and to amortize the unfunded actuarial accrued liability.

Members are required to contribute a percentage of their annual salary to the Plan on a biweekly basis. Rates vary according to entry age. For fiscal year 2006, the City employee contribution rates as a percentage of annual covered payroll, averaged 10.57% for general members and 12.88% for safety members. A portion of the employee's share, depending on the employee's member class, is paid by the City. The amount paid by the City ranges from 4.61% to 7.61% of covered payroll for general members. Of this, 1.6% came from the retirement fund employee rate reserve, and the remainder of the pick up was paid by the City. The rate for safety plan members ranges from 7.47% to 7.71%. Of this, 2.7% came from the retirement fund employee rate reserve and the remainder of the pick up was paid by the City. On June 30, 2006, the employee rate reserve was depleted, after which employees began to pay for the difference. All future employee contributions paid by the City will be made from the City's operating budget. The amount paid on behalf of the employees has been renegotiated through the meet and confer process and reduced the amount of the employee contribution paid for by the City. In accordance with agreements with the labor unions, any and all savings realized by these agreements must be set aside and ultimately leveraged to reduce the pension system's UAAL.

Under SDMC Sections 24.1501 and 24.1502, an annual calculation is required to determine the Annual Realized Investment Earnings ("Realized Earnings") of SDCERS' pension assets. In accordance with these SDMC sections, an annual distribution of these Realized Earnings, in priority order, takes place. The Realized Earnings are distributed to various SDCERS system reserves, SDCERS budget, and contingent benefits. The order of distribution and a more detailed discussion of each distribution follows: First, realized earnings are used to credit interest, at a rate determined by the SDCERS Board, which is currently 8%, to the Employer and Employee Contribution Reserves (these reserves increase Plan assets to fund the Plan liabilities for defined benefits), and Deferred Retirement Option Plan ("DROP") member accounts as well as funding the SDCERS Annual Budget (DROP and Budget disbursements decrease Plan assets). If earnings still remain, they are distributed for supplemental or contingent payments or transfers to reserves. These items include in a priority order: 1) Annual Supplement Benefit Payment ("13th Check") paid to retirees generally equal to approximately \$30 (whole dollars) times the number of years of employment and paid only when there are sufficient annual Realized Earnings. 2) Corbett Settlement Payment paid to retirees who terminated employment prior to July 1, 2000 (In spite of costs being included in the ARC for the Actuarial Valuation dated June 30, 2006), Corbett Settlement payments not paid in any one year accrue to the next year and remain an obligation of SDCERS until paid). 3) Crediting interest to the Reserve for Supplemental Cost of Living Adjustment ("COLA"). After the above noted distribution, any remaining Realized Earnings are transferred to the Employer Contribution Reserve which increases system assets. Beginning in fiscal year 2006 actuarial valuation, the liabilities related to the 13th Check and Corbett Settlement Payments are included in the calculation of actuarial liabilities and are reflected in the ARC.

Paying supplemental or contingent payments out of Realized Earnings decreases system assets. This has the effect of increasing the UAAL and thereby decreasing the funded ratio. Another related impact is on the net return

on system assets which is negatively impacted when earnings are diverted from system assets. The City recognizes SDMC Section 24.1502's negative impact to the UAAL and funded ratio; however, in order to eliminate the use of surplus undistributed earnings as described above, changes to the municipal code are necessary. To date these changes have not been codified as the result of disagreements over the effect Municipal Code amendments proposed by the City Attorney will have on benefits and whether such amendments are compliant with previous legal settlements.

Beginning in fiscal year 2005 when the reserve fund for healthcare benefits was depleted, the City funded the remaining retiree health benefits expense for fiscal year 2005 and the expenses for fiscal years 2006 and 2007 by transferring from the general and non-general funds into the retiree healthcare trust fund (discussed further in Note 13).

In November 2004, voters changed the City Charter and the mix of Board members requiring that a majority of the Board be independent of the City. Also, the Charter now requires that a 15-year amortization period be used for the UAAL beginning in fiscal year 2009; however, the SDCERS Board, in conjunction with the actuary, is currently using a 20-year amortization period with no negative amortization and has taken the position that it is legally responsible for establishing the valuation parameters, including the amortization period. Given the size of the City's current Unfunded Actuarially Accrued Liability, a change to a 15-year amortization schedule could have a significant impact on future annually required contributions. In the fiscal year 2006 valuation, the use of a 15-year amortization assumption would have increased the ARC by approximately 21%.

e. **Annual Pension Cost and Net Pension Obligation**

Annual Pension Costs

The normal cost (i.e. the actuarial present value of pension plan benefits allocated to the current year) and the UAAL amortization cost (i.e. the portion of the pension plan payment designed to amortize the UAAL) were determined using the Projected Unit Credit (PUC) actuarial funding method. The following are the principal actuarial assumptions used for the 2004 valuation (additional assumptions were used regarding a variety of other factors):

- (a) An 8.0% investment rate of return, net of administrative expenses.**
- (b) Projected salary increases of at least 4.75% per year.**
- (c) An assumed annual cost-of-living adjustment that is generally 2% per annum and compounded. In addition, there is a closed group of special safety officers whose annual adjustment is equal to inflation (4.25% per year).

**Both (a) and (b) included an inflation rate of 4.25%.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. In fiscal year 2007, the SDCERS Board approved the decision to begin the implementation of the actuary's recommendation to adopt a different asset smoothing method by marking the actuarial value of assets to market value in the fiscal year 2006 actuarial valuation. The method used by the actuary in fiscal year 2005 was not a commonly used method. The expected asset value asset smoothing method will commence with the fiscal year 2007 valuation. The UAAL for funding purposes, pursuant to the Gleason Settlement, is being amortized over a fixed 30-year period for the fiscal years 2006, 2007, and 2008. As of June 30, 2004, the valuation year used to compute the fiscal year 2006 annually required contribution, there were 29 years remaining in the amortization period. For valuations effective June 30 2008, SDCERS' Board of Administration decided to use a 20-year amortization schedule. Beginning with the valuation dated June 30, 2007, the normal cost and UAAL amortization cost will be determined using the Entry Age Normal actuarial method, the result of which will cause the UAAL to increase by \$252,200 in fiscal year 2009.

The following table shows the City's annual pension cost ("APC") and the percentage of APC contributed for the fiscal year ended June 30, 2006 and two preceding years (in thousands):

Fiscal Year Ended June 30	APC	Percentage Contributed	Net Pension Obligation
2004	\$ 138,488	49.83%	\$ 232,536
2005	179,743	67.92%	290,190
2006	175,879	154.28%	194,720

Net Pension Obligation

Net Pension Obligation (NPO) is the cumulative difference, since the effective date of GASB 27 (fiscal year 1998), between the annual pension cost and the employer's contributions to the Plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt. As of June 30, 2006, the City's NPO is approximately \$194,700 and is reported in accordance with GASB 27. See table above.

The change to NPO is derived by first calculating the City's Annual Required Contribution ("ARC"). The ARC is calculated by actuarially determining the cost of pension benefits accrued during the year (normal cost) and adding to that the annual amount needed to amortize the UAAL (amortization cost) as reported by the actuary, in accordance with the amortization period and method selected. The ARC is then increased by interest accruing on any outstanding NPO (NPO Interest) and then reduced by the amortization of the UAAL that is related to the NPO (ARC Adjustment).

The following shows the calculation for NPO based on the actuarial information provided to the City (in thousands):

ARC [Fiscal Year 2006]	\$ 170,072
Contributions [Fiscal Year 2006]	(271,349)
Interest on NPO	23,228
ARC Adjustment	(17,421)
Change in NPO	(95,470)
NPO Beginning of Year [Fiscal Year 2005]	290,190
NPO End of Year [Fiscal Year 2006]	<u>\$ 194,720</u>

NPO Components related to Retiree Health

The City's annual contribution to SDCERS pension trust fund, for the fiscal years ended June 30, 2005, 2004, and 2003, included amounts that were contributed to the 401(h) Fund for healthcare benefits and are reported net of this contribution. Annual realized earnings, as determined by the SDMC Sections 24.1501 and 24.1502, in the pension trust fund were withdrawn and used to offset the portion of the City's contribution that went to healthcare benefits instead of being retained in the pension trust fund. This funding mechanism is a violation of the Internal Revenue Code (IRC) Section 401(a). SDCERS hired counsel to make a filing to the IRS to correct this operational failure and potential IRC violation. (See Contingencies Note 18 for additional disclosures). The amounts paid from the pension trust fund for healthcare benefits were approximately \$7,900 in fiscal year 2005, \$12,800 in fiscal year 2004, and \$11,500 in fiscal year 2003. These payments have been removed from the City contribution amounts and resulted in an increase to the City's NPO. The cumulative impact to the City's NPO related to the diversion of assets to fund retiree health is approximately \$77,100. The City's contribution related to retiree health for the fiscal year 2006 was placed in a Retiree Health Trust Fund which is paid from the City's operating funds. (See Other Post Employment Benefits Note 13 for further details.)

NPO Components related to Employee Offset Liabilities

In fiscal year 1998, the City set aside \$37,800 in funds from the pension trust fund's undistributed earnings to fund the Employee Contribution Rate Reserve, and in accordance with SDMC §24.1502, annually added 8% interest

earnings to this reserve. This employee contribution reserve was to pay for the City's share (pick up) of the employee's retirement contribution. The amount of NPO related to the employee offset as of June 30, 2006 is \$34,900. This reserve was depleted in fiscal year 2006. As noted in the Funding Contracts: Union Agreements section above, the agreements with labor unions resulted in the reduction of City "pick-up" of the employee pension contribution, followed by employees paying for the contribution upon depletion of the reserve.

NPO Components related to Corbett Settlement and Subsequent Benefit Increases

The City is amortizing the unfunded liability incurred as a result of the benefit increases pursuant to the Corbett Settlement. The City interprets GASB 27 to require that the amortization methods used in calculating funding for the Plan to be consistent with the method used to calculate Plan expense. Thus, the previous amortization method of 40 years open for expensing plan costs was found to be incorrect. The impact on the NPO related to Corbett as of June 30, 2006 is approximately \$27,600.

NPO Components related to the Under Funding of Plan Contributions

As a result of the MP-1 and MP-2 funding contracts, the City's contributions for fiscal years 1996-2003 were less than the annual required contribution as determined by the actuary. The impact on the NPO related to the under funding of plan contributions as of June 30, 2006 is approximately \$55,120.

f. Actions taken on behalf of the City to address Pension Liability and Net Pension Obligation

As part of the agreements with the labor unions, several benefits were altered or eliminated for all employees hired on or after July 1, 2005, including the Deferred Retirement Option Plan (DROP), the 13th Check, the option to purchase years of service credits ("air-time"), and retiree healthcare benefits; however, the retirement formula generally remains 2.5% at 55 for general members and 3.0% at 50 for safety members. Also for employees hired on or after July 1, 2005, it was agreed to establish a trust vehicle for a defined contribution plan to fund and determine retiree medical benefits. As of the issuance of this report, the employer/employee contributions for such a plan have not been determined. The City has consolidated health care options to help manage the cost of health care for both current and retired employees, and as part of the agreements with the labor unions, the new definition of "health-eligible retiree" states that employees must have 10 years of service with the City to receive 100% of the retiree health benefit and five years of service to receive 50% of the retiree health benefit.

In June 2006, the amount from labor concessions that was committed to address the pension's unfunded liability was \$17,500 (general fund and non-general fund). The City has contributed \$115,300 through the securitization of future tobacco revenue, transfers of actual tobacco revenue receipts, and additional employee "pick up" savings. This contribution is the same as that discussed in the Funding Contracts: Union Agreements section discussed previously. The contribution has created a reduction in the NPO in fiscal year 2006. The City is also exploring other financing options as a means to eliminate its NPO and UAAL.

DEFINED CONTRIBUTION PLANS

a. Supplemental Pension Savings Plan - City

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City established the Supplemental Pension Savings Plan ("SPSP"). Pursuant to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan-Medicare ("SPSP-M"). The SPSP and SPSP-M Plans were merged into a single plan ("SPSP") on November 12, 2004 for administrative simplification, without a change in benefits. Pursuant to the requirements of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90") requiring employee coverage under a retirement system in lieu of coverage under the Federal Insurance Contributions Act ("FICA") effective July 1, 1991, the City established the Supplemental Pension Savings Plan-Hourly ("SPSP-H"). These supplemental plans are defined contribution plans administered by Wachovia Corporation to provide pension benefits for eligible employees. There are no plan members who belong to an entity other than the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings, less investment losses. The City's general retirement members and lifeguard members

of the City's safety retirement members participate in the plan. Eligible employees may participate from the date of employment.

The following table details plan participation as of June 30, 2006:

<u>Plan</u>	<u>Participants</u>
SPSP	8,672
SPSP - H	4,173

The SPSP Plan requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each pay period. Participants in the Plan hired before July 1, 1986 may voluntarily contribute up to an additional 4.5% and participants hired on or after July 1, 1986 may voluntarily contribute up to an additional 3.05% of total salary, with the City matching each. Hourly employees contribute 3.75% on a mandatory basis which is also matched by City contributions.

Under the SPSP Plan, the City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service at a rate of 20% for each year of service. Hourly employees are immediately 100% vested. The unvested portion of City contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's cost.

In fiscal year 2006, the City and the covered employees contributed approximately \$24,622 and \$25,528, respectively. As of June 30, 2006, the fair value of plan assets totaled approximately \$478,984. SPSP is considered part of the City of San Diego's financial reporting entity and is reported as a pension and employee savings trust fund.

b. **401(k) Plan - City**

The City established a 401(k) Plan effective July 1, 1985. The 401(k) Plan is a defined contribution plan administered by Wachovia Corporation to provide pension benefits for eligible employees. Employees are eligible to participate from date of employment. Employees make contributions to their 401(k) Plan accounts through payroll deductions, and may also elect to contribute to their 401(k) account through the City's Employees' Flexible Benefits Program.

The employees' 401(k) contributions are based on IRS calendar year limits. Employees contributed approximately \$26,870 during the fiscal year ended June 30, 2006. There is no City contribution towards the 401(k) Plan.

As of June 30, 2006, the fair value of plan assets totaled approximately \$196,385. The 401(k) Plan is considered part of the City's financial reporting entity and is reported as a pension and employee savings trust fund.

c. **Pension Plan - Centre City Development Corporation (CCDC)**

CCDC has a Money Purchase Pension Plan covering all full-time permanent employees (the "CCDC Plan"). The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each year, CCDC contributes semi-monthly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service. CCDC's total payroll in fiscal year 2006 was approximately \$3,647. CCDC contributions were calculated using the base salary amount of approximately \$3,262. CCDC made the required 8% contribution amounting to approximately \$261 (net of forfeitures) for fiscal year 2006.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous eligible employees. The CCDC Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan by the employer and the employees, plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 16% of the total semi-monthly compensation for eligible employees. This amount

includes a 3% increase from the prior year as approved by the Board of Directors on August 13, 2003. CCDC's contributions for each employee are fully vested at time of contribution. The Tax Deferred Annuity Plan includes amounts deposited by employees prior to CCDC becoming a contributor to the CCDC Plan. CCDC made the required 16% contribution amounting to approximately \$516 for fiscal year 2006.

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected. The City does not hold these assets in a trustee or agency capacity for CCDC; therefore, these assets are not reported within the City's basic financial statements.

d. **Pension Plan - San Diego Convention Center Corporation (SDCCC)**

SDCCC's Money Purchase Pension Plan (the "SDCCC Plan") became effective January 1, 1986. The SDCCC Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the SDCCC Plan plus investment earnings less allowable plan expenses. The SDCCC Plan covers employees not otherwise entitled to a retirement/pension plan provided through a collective bargaining unit agreement. Employees are eligible at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on the hire date (or any subsequent Plan year) during which they complete 1,000 hours of service.

A plan year is defined as a calendar year. SDCCC's balance for each eligible employee is vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and SDCCC Plan expenses are allocated in accordance with Plan provisions. A trustee bank holds the SDCCC Plan assets. The City does not act in a trustee or agency capacity for the SDCCC plan; therefore, these assets are not reported within the City's basic financial statements.

For the year ended June 30, 2006, pension expenditures for the SDCCC Plan amounted to \$1,223. SDCCC records pension expenditures during the fiscal year based upon estimated covered compensation.

e. **Pension Plan - San Diego Data Processing Corporation (SDDPC)**

SDDPC has accrued and set aside funds in a money market account to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan. As of June 30, 2006, the balance in the account was \$133.

The balance at June 30, 2006 consisted of the total estimated liability plus interest earned on the account since its establishment in fiscal year 1991.

In addition, SDDPC has in effect a Money Purchase Pension Plan (the "SDDPC Plan") covering substantially all employees. The SDDPC Plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC contributions for each employee are fully vested after four years of continuing service. The City does not act in a trustee or agency capacity for the SDDPC Plan; therefore, these assets are not reported within the City's basic financial statements. SDDPC's total payroll in fiscal year 2006 was approximately \$17,686. As all employees are substantially covered, SDDPC contributions were calculated using this base salary amount. SDDPC made the required 20% contribution, amounting to approximately \$3,527.

f. **Pension Plan - San Diego Housing Commission (SDHC)**

SDHC provides pension benefits for all its full-time employees through a defined contribution plan (the "SDHC Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of their employment. SDHC's contributions for each employee (and interest allocated to the employee's account) are fully vested after four years of continuous service. SDHC's contributions for, and interest forfeited by, employees who leave employment before four years of service are used to reduce the SDHC's current-period contribution requirement. SDHC's covered payroll in

fiscal year 2006 was approximately \$11,062. SDHC made the required 14% contribution, amounting to approximately \$1,549 for fiscal year 2006. The City does not act in a trustee or agency capacity for the SDHC Plan; therefore, these assets are not reported within the City's basic financial statements.

g. **Pension Plan - Southeastern Development Corporation (SEDC)**

SEDC has an optional Simplified Employee Pension Plan covering all full-time permanent employees (the "SEDC Plan"). The SEDC Plan is a defined contribution plan administered by Morgan Stanley Dean Witter. Under section 212 of the SEDC Employee Handbook, employees are eligible to participate six months after their date of employment, and SEDC contributes a monthly amount equal to 12% of the employees' base salary, or 15% of management employees' base salary. Such contributions are fully vested upon contribution. SEDC's total payroll in fiscal year 2006 was approximately \$1,034. SEDC contributions were calculated using the base salary amount of approximately \$945. SEDC made the required contribution, amounting to approximately \$126 for fiscal year 2006. SEDC Plan members contributed an additional \$7.5.

13. OTHER POST EMPLOYMENT BENEFITS (In Thousands)**a. Plan Description**

The City provides certain healthcare benefits to a variety of retired employees through SDCERS, as provided for in San Diego Municipal Code (SDMC) SDMC Sections 24.1201 through 24.1204. Currently, the benefits are primarily for health-eligible retirees who were actively employed on or after October 5, 1980 and were otherwise entitled to retirement allowances. Health eligible retirees can obtain health insurance coverage with the plan of their choice, including any City-sponsored, union-sponsored, or privately-secured health plan. In fiscal year 2006, health eligible retirees who are also eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$6.8 per year, in addition to reimbursement/payment for Medicare Part B premiums, limited to approximately \$1.0 per year. Health eligible retirees who are not eligible for Medicare are entitled to receive reimbursement/payment of healthcare premiums, limited to approximately \$7.2 per year. Non-health-eligible employees who retired or terminated prior to October 6, 1980 or employees who were hired after July 1, 2005, and who are otherwise eligible for retirement allowances, are also eligible for reimbursement/payment of healthcare benefits, limited to a total of \$1.2 per year.

b. Contributions

Expenses for post-employment healthcare benefits were paid for on a pay-as-you-go basis through fiscal year 2007. In fiscal year 2006, approximately 4,100 retirees received either City paid insurance or were reimbursed for other health insurance costs incurred amounting to approximately \$24,100. Approximately \$17,400 was paid by the City and approximately \$6,400 was paid by retirees for beneficiary health benefits. Remaining retiree healthcare expenditures of approximately \$300 were accrued by the City and paid for in fiscal year 2007. These contributions were placed into a trust fund called the Retiree Health Trust Fund, and all retiree healthcare expenses are paid directly from this fund by SDCERS. The City is currently implementing a plan to ensure that sufficient resources are available in the Retiree Health Trust Fund to pay for retiree healthcare expenses in future periods.

In July 2004, GASB issued GASB 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (OPEB), which establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial statements. The City will implement GASB 45 in the financial statements for the fiscal year ending June 30, 2008. In preparation to meet the requirements of GASB 45, the City entered into an agreement on January 18, 2008 to pre-fund expenses related to post-employment healthcare benefits. The plan, administered by CalPERS, requires the City to pre-fund the plan in an amount not less than \$5,000; however, the City intends to pay an amount not less than 50% of the Annual Required Contribution, as calculated by an actuary of the City's choice. Post-employment healthcare actuarial accrued liability and any unfunded actuarial accrued liability will be reported in the required supplemental information in a manner similar to pension obligations.

19. **THIRD PARTY DEBT (In Thousands)**

The City has authorized the issuance of certain conduit revenue private activity bonds, in its name, to provide tax exempt status because it believes a substantial public benefit will be achieved through the use of the proceeds. Aside from the fact that these bonds have been issued in the City's name, the City has no legal obligation to make payment on these bonds and has not pledged any City assets as a guarantee to the bondholders. The following describes the various types of such third party debt:

Mortgage and Revenue Bonds

Single family mortgage revenue bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-family housing revenue bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low income.

Industrial Development Revenue Bonds

Industrial Development Revenue bonds have been issued to provide financial assistance for the acquisition, construction, and installation of privately-owned facilities for industrial, commercial or business purposes to mutually benefit the citizens of the City of San Diego.

1911 Act Special Assessment Bonds

1911 Act Special Assessment Bonds have been issued to provide funds for the construction or acquisition of public improvements, and/or the acquisition of property for public purposes, for the benefit of particular property holders within the City. Each bond is secured by a lien on a specific piece of property. The final payment on all outstanding 1911 Act Special Assessment Bonds occurred on December 27, 2005, accordingly, there was no balance outstanding as of June 30, 2006.

As of June 30, 2006, the status of all third party bonds issued is as follows (in thousands):

	Original Amount	Balance June 30, 2006
Mortgage Revenue	\$ 132,390	\$ 33,320
Industrial Development Revenue	345,805	161,240
1911 Act Special Assessment	236	-
Total	<u>\$ 478,431</u>	<u>\$ 194,560</u>

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans, certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In reliance upon the opinion of bond counsel, City officials have determined that these bonds are not payable from any revenues or assets of the City, and neither the full faith nor credit for the taxing authority of the City, the state, or any political subdivision thereof is obligated to the payment of principal or interest on the bonds. In essence, the City is acting as a conduit for the private property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's government-wide statement of net assets.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

a. Long-Term Liabilities

Governmental activities long-term debt consists of revenue bonds, tax allocation bonds, contracts payable, notes payable, and loans payable. A summary of these obligations as recorded in the government-wide Statement of Net Assets as of June 30, 2005, is as follows:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2005
<u>Revenue Bonds:</u>				
Centre City Parking Revenue Bonds, Series 1999 A	4.5-6.49% **	2026	\$ 12,105,000	\$ 11,095,000
Centre City Parking Revenue Bonds, Series 2003 B	3.0-5.3**	2027	20,515,000	19,960,000
Total Revenue Bonds				31,055,000
<u>Tax Allocation Bonds:</u>				
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8-9.75**	2014	1,400,000	880,000
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4-6.0**	2020	1,200,000	920,000
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9-8.2**	2021	3,955,000	3,305,000
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75-6.592**	2020	3,750,000	2,560,000
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8-6.0**	2016	12,970,000	9,005,000
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3-7.0**	2007	9,830,000	795,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 A	3.0-5.125**	2019	25,680,000	25,355,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 B	6.25**	2014	11,360,000	11,360,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 1999 C	3.1-4.75**	2025	13,610,000	12,625,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 A	4.5-5.8**	2029	5,690,000	5,575,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 1999 B	5.75-6.4***	2029	10,140,523	9,977,698
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45-6.69**	2031	3,395,000	3,210,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0-5.6**	2025	6,100,000	5,510,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95-5.35**	2025	21,390,000	20,125,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25-5.875**	2022	15,025,000	14,555,000

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25-5.875**	2031	13,000,000	12,135,000
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1-5.9**	2031	7,000,000	6,540,000
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45-6.5**	2026	1,860,000	1,715,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2001 A	4.93-5.55****	2027	58,425,100	57,605,100
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0**	2027	3,055,000	3,055,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5-5.0**	2029	31,000,000	24,855,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875-6.5**	2034	4,955,000	4,955,000
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5-4.25**	2014	865,000	695,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65-5.1**	2022	6,325,000	6,325,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25-5.45**	2022	4,530,000	4,530,000
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49-7.74**	2022	8,000,000	7,735,000
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5-6.125**	2028	7,145,000	6,790,000
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75-5.0**	2034	5,360,000	5,360,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 A	3.5-5.25**	2030	101,180,000	101,180,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 B	2.26-4.58**	2011	9,855,000	9,855,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 C	2.26-6.18**	2030	27,785,000	27,785,000
Centre City Redevelopment Project Tax Allocation Bonds, Series 2004 D	2.26-6.28**	2030	8,905,000	8,905,000
Total Tax Allocation Bonds				415,777,798
Total Bonds Payable				446,832,798
<u>Contracts Payable:</u>				
Contract Payable to SDSU Foundation dated December 1991	Variable*	-	1,597,744	1,597,744
Amendment to Contract Payable to SDSU Foundation dated January 1995	Variable*	-	117,123	117,123
Total Contracts Payable				1,714,867
<u>Notes Payable:</u>				
Note Payable to Wal-Mart, dated June 1998	10.0	2017	1,308,000	746,062
Note Payable to San Diego Revitalization, dated April 2001	5.0	2032	5,115,000	5,077,578
Note Payable to San Diego Revitalization, dated May 2005	8.0	2025	2,100,000	2,100,000
Note Payable to the City of San Diego dated April 2002	8.0	-	8,300,000	8,300,000
Total Notes Payable				16,223,640

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)Loans Payable:

International Gateway Associates, LLC dated October 2001	10.0	2032	1,876,000	1,852,050
Loan Payable to North Park LLC, dated December 2004	Variable*	-	3,335,000	3,335,000
Loans Payable to the City of San Diego dated various dates	Variable*	-	115,017,744	115,017,744
Total Loans Payable				120,204,794
<u>Accrued Interest Payable:</u>				
Accrued Interest Payable on City Note	8.0	-	-	2,295,018
Accrued Interest Payable on City Loans	Variable*	-	-	113,841,722
Total Accrued Interest Payable				116,136,740
Total Governmental Activities				\$ 701,112,839

* Additional information on the variable rate contracts payable with the SDSU Foundation, loans payable with North Park Theatre, LLC, notes and loans payable to the City are discussed further.

** Interest rates are fixed, and reflect the range of rates for various maturities from date of issuance to maturity.

***The City Heights Tax Allocation Bonds, Series 1999B, are capital appreciation bonds, which mature from fiscal year 2011 through 2029. The balance outstanding at June 30, 2005 does not include accreted interest of \$4,517,751.

**** The Centre City Tax Allocation Bonds, Series 2001 A, partially include capital appreciation bonds, which mature from fiscal year 2015 through 2027. The balance outstanding at June 30, 2005 does not include accreted interest of \$2,945,218.

San Diego State University Foundation executed an Agreement for Processing a Redevelopment Plan and Land Use Entitlements with the Redevelopment Agency of the City of San Diego which allows for reimbursement of expenses incurred by the Foundation, in assisting in the preparation and processing of the Redevelopment Plan and Land Use Entitlements in the College Area. The agreement is a variable rate obligation of the Agency. The unpaid principal bears interest at the prime rate and is fixed on a quarterly basis, using the prime rate established on the first banking day of each calendar quarter. Interest calculations are made on the quarterly weighted average of the principal balance and are made at the end of the quarter based upon the rate fixed for that quarter. The interest rate is not to exceed 12 percent per annum on funds advanced to the Agency. The effective interest rate as of June 30, 2005 is 5.75 percent.

The Redevelopment Agency of The City of San Diego and North Park Theatre, LLC entered into a Disposition and Development Agreement dated April 23, 2002, a Second Implementation Agreement dated, April 28, 2004 and a Third Implementation Agreement dated December 9, 2004, which were executed for the purposes of effectuating the Redevelopment Plan for the North Park Redevelopment Project by providing for the disposition of certain real property and a loan to the Agency from the Developer to fund the Agency's subsidy of the rehabilitation of the North Park Theatre building by the Developer. The Third Implementation Agreement converted the loan from a fixed rate to a variable rate obligation of the Agency. The interest on the loan is based on the Prime Rate plus 2 percent for the first two years, then will increase by a 1/2 percent per year for the remainder of the term of the loan. The interest rate shall not exceed the lesser of the Prime Rate plus four percent or the maximum interest rate allowed by law. The interest rate shall be reset annually, on August 1st, based on the Prime Rate on the reset date. The effective interest rate as of June 30, 2005 is 6.75 percent.

The City of San Diego has loaned funds to the Redevelopment Agency to carry out and implement redevelopment activities which will generate future tax increment revenues. The basis for computation of interest on these loans is based on the Prime Rate as printed in the Wall Street Journal on the first Monday following January 1 of the calendar year in which the fiscal year begins plus 2 percent on the outstanding principal loan balance only. The Prime Rate as of January 1, 2005 is 4.0 percent.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

b. Amortization Requirements

The debt service for revenue bonds and tax allocation bonds is paid from tax increment revenues received by the Agency. Revenue bonds are secured by a pledge of revenues generated by certain public parking facilities operated by the City pursuant to a Parking Structure Operating Agreement between the City and the Agency.

The annual requirements to amortize the Agency's long-term debt outstanding as of June 30, 2005, including interest payments to maturity, are as follows:

Year Ending June 30.	Tax Allocation Bonds			Revenue Bonds	
	Principal	Unaccrued Appreciation	Interest	Principal	Interest
2006	\$ 10,917,320	\$ 1,821,776	\$ 19,871,503	\$ 855,000	\$ 1,609,897
2007	12,040,601	1,909,945	19,482,478	890,000	1,577,212
2008	12,631,256	1,996,099	19,038,620	920,000	1,542,684
2009	13,136,153	2,080,696	18,550,839	960,000	1,504,981
2010	13,683,678	2,162,985	17,965,301	995,000	1,463,452
2011 - 2015	79,587,006	11,861,444	78,495,098	5,710,000	6,553,504
2016 - 2020	97,878,825	11,730,367	56,195,771	7,355,000	4,853,475
2021 - 2025	100,173,624	7,694,198	31,122,949	9,655,000	2,465,193
2026 - 2030	68,569,335	1,136,439	9,117,923	3,715,000	178,323
2031 - 2035	7,160,000	-	702,046	-	-
Total	\$ 415,777,798	\$ 42,393,949	\$ 270,542,528	\$ 31,055,000	\$ 21,748,721

Add:

Accrued appreciation
through June 30, 2005

7,462,968

Total

\$ 423,240,766 \$ 42,393,949 \$ 270,542,528 \$ 31,055,000 \$ 21,748,721

Year Ending June 30.	Contracts Payable		Notes Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ -	\$ -	\$ -	\$ -	\$ 13,800	\$ 185,205
2007	-	-	-	-	15,180	183,825
2008	-	-	-	-	16,698	182,307
2009	-	-	-	-	18,367	180,637
2010	-	-	-	-	20,204	178,801
2011 - 2015	-	-	-	-	135,683	859,341
2016 - 2020	-	-	-	-	218,518	776,506
2021 - 2025	-	-	-	-	351,926	643,098
2026 - 2030	-	-	-	-	566,780	428,244
2031 - 2035	-	-	-	-	494,894	102,119
Unscheduled*	1,714,867	1,540,223	16,223,640	7,147,758	118,352,744	113,878,425
Total	\$ 1,714,867	\$ 1,540,223	\$ 16,223,640	\$ 7,147,758	\$ 120,204,794	\$ 117,598,508

*The contract payable to San Diego State University Foundation in the amount of \$1,714,867, notes payable to the San Diego Revitalization Corporation in the amount of \$7,177,578, notes payable to Wal-Mart in the amount of \$746,062, note payable to the City in the amount of \$8,300,000, loan payable to North Park LLC in the amount of \$3,335,000, loans payable to the City in the amount of \$115,017,744 and accrued interest associated with Contracts, Notes and Loans of \$122,566,406 do not have annual repayment schedules. Annual payments to the San Diego Revitalization and Wal-Mart debt are based on available tax increment.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

c. Changes In Long-Term Liabilities

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2005:

	Balance, July 1, 2004	Additions	Reductions	Balance, June 30, 2005	Due Within One Year
Revenue Bonds	\$ 31,880,000	\$ -	\$ (825,000)	\$ 31,055,000	\$ 855,000
Less deferred amounts:					
For Issuance Discounts	(113,979)	-	5,181	(108,798)	-
Net Revenue Bonds	31,766,021	-	(819,819)	30,946,202	855,000
Tax Allocation Bonds	308,576,332	147,725,000	(40,523,534)	415,777,798	10,983,423
Accretion	5,756,739	1,732,329	(26,100)	7,462,968	-
Net with Accretion	314,333,071	149,457,329	(40,549,634)	423,240,766	10,983,423
Less/Plus deferred amounts:					
For Issuance Premiums/Discounts	580,256	4,329,814	(205,676)	4,704,394	-
On Refunding	(548,139)	(1,236,303)	295,034	(1,489,408)	-
Net Tax Allocation Bonds	314,365,188	152,550,840	(40,460,276)	426,455,752	10,983,423
Contracts Payable	1,714,867	-	-	1,714,867	-
Notes Payable	16,729,411	2,100,000	(2,605,771)	16,223,640	-
Loans Payable	120,451,556	10,812,554	(11,059,316)	120,204,794	13,800
Interest Accrued on City Loans and Notes	111,542,797	7,799,040	(3,205,097)	116,136,740	-
Total	\$ 596,569,840	\$ 173,262,434	\$ (58,150,279)	\$ 711,681,995	\$ 11,852,223

In the current fiscal year, the Agency issued Tax Allocation Bonds in the amount of \$147,725,000 for the Centre City Project Area. Of the total, \$111,035,000 in bond proceeds will be used to finance various redevelopment activities in the area and \$36,690,000 will be used to increase the availability of housing for persons and families of low and moderate income housing in the City of San Diego.

In the current fiscal year, loans payable to the City increased by a total of \$7,477,554. Of the total, \$5,045,854 represents the amount borrowed by the Agency from the City to fund current year expenses and \$2,431,700 represents obligations recorded as notes payable in prior years that were recharacterized as loans in the current year. These obligations were originally recorded as notes payable to account for the liability incurred by the Agency for properties received from the City in prior years. The notes were recharacterized because they are substantially the same type of obligation as other City loans. The approval process and payment terms for these obligations are the same, they are subject to the same interest rate on the outstanding balance and the maturity date is uncheduled. Furthermore, there is no formal note documenting the obligation, rather, the liability is documented by a City Resolution as is the case of other City loans (see Note 9).

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)**d. Defeasance of Debt**

The Agency issued Centre City Subordinate Refunding Tax Allocation Bonds, Series 2004 A in the amount of \$101,180,000 and Series B in the amount of \$9,855,000. The bond proceeds were used to advance refund the remaining outstanding Centre City Tax Allocation Bonds Series 1993 A and B. The refunded bonds are defeased and the corresponding liability has been removed from the Statement of Net Assets. The refunded transaction resulted in a total economic gain of approximately \$2,220,000. In addition, the refunding resulted in a cash flow savings of approximately \$2,992,000. The refunded bonds were redeemed at a call date prior to the end of the fiscal year and, accordingly, there was no balance outstanding as of June 30, 2005.

As of June 30, 2005, principal amounts payable from escrow (irrevocable trust) funds established for defeased bonds are as follows:

Defeased Bonds	Amount Outstanding as of June 30, 2005
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	\$ 6,640,000

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances are the result of loans between funds that are expected to be repaid during the next fiscal year. Interfund receivable/payable balances at June 30, 2005 are as follows:

Contributing Fund (Receivable)	Benefiting Fund (Payable)			Total Governmental Funds
	Special Revenue		Other Governmental Funds	
	Other Centre City	Other Horton Plaza		
Centre City Debt Service	\$ 1,762,176	\$ -	\$ -	\$ 1,762,176
Centre City Capital Projects	63,591,471	-	-	63,591,471
Other Governmental Funds	-	9,498,974	6,657,672	16,156,646
Total Governmental Funds	\$ 65,353,647	\$ 9,498,974	\$ 6,657,672	\$ 81,510,293

000183

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER
(FOR AUDITOR'S USE ONLY)

TO: CITY ATTORNEY
2. FROM (ORIGINATING DEPARTMENT): Debt Management
3. DATE: September 29, 2008

4. SUBJECT: City of San Diego Debt Policy, November 2008

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.): Elizabeth Kelly, 236-6932, MS 7B
6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.): Jennifer Carroll, 236-6946, MS 7B
7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND					9. ADDITIONAL INFORMATION / ESTIMATED COST: None specific to this action.
DEPT.					
ORGANIZATION					
OBJECT ACCOUNT					
JOB ORDER					
C.I.P. NUMBER					
AMOUNT					

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>[Signature]</i>	9/29/08	8			
2	LIAISON OFFICE	<i>[Signature]</i>	10/1/08	9			
3	CFO/DEPUTY CHIEF	<i>[Signature]</i>	10/6/08	10			
4	COO			11			
5	CITY ATTORNEY	<i>[Signature]</i>	10/7/08				
6	ORIGINATING DEPARTMENT	<i>[Signature]</i>	10/9/08				
7							

DOCKET COORD: *[Signature]* COUNCIL LIAISON: *[Signature]*
 COUNCIL PRESIDENT SPOB CONSENT ADOPTION
 COUNCIL DATE: 10/21/08

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

Review and adopt the updated City of San Diego Debt Policy, November 2008.

11A. STAFF RECOMMENDATIONS:
Approve the requested action.

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): Citywide
COMMUNITY AREA(S): Citywide
ENVIRONMENTAL IMPACT: This activity is not a project as defined in State CEQA Guidelines, Section 15378, and is therefore exempt per State CEQA Guideline Section 15060(b)(3).
HOUSING IMPACT: None
OTHER ISSUES: None

DATE REPORT ISSUED:
REPORT NO:
ATTENTION: Council President and City Council
ORIGINATING DEPARTMENT: Department of Finance - Debt Management
SUBJECT: City of San Diego Debt Policy, 2008
COUNCIL DISTRICT(S): Citywide
STAFF CONTACT: Elizabeth Kelly (619-236-6932)/Jennifer Carroll (619-236-6946)

REQUESTED ACTION:

Review and adopt the updated City of San Diego Debt Policy, 2008.

STAFF RECOMMENDATION:

Approve the requested action.

EXECUTIVE SUMMARY (ALSO SEE FULL STAFF REPORT):

In November 2007, the City Council approved the City of San Diego Debt Policy ("Debt Policy"). Consistent with the Government Finance Officers Association ("GFOA") recommended practices and with examples of debt policies of other comparable municipalities and rating agency guidelines, this formal policy established guidelines for the City pertaining to debt instruments/securities issued by the City in public or private bond markets.

The Debt Policy addresses the following: purpose and need for financing; creditworthiness objectives; types of debt; affordability targets; structure and term of city indebtedness; method of issuance and sale; financing team role and selection process; refunding considerations; and post issuance administration.

Pursuant to Resolution R-303153, passed by City Council on November 6, 2007, Debt Management was directed to return to City Council on an annual basis for a review of the Debt Policy. Recommended substantive changes are notated in the attached copy of the Debt Policy on pages 11, 14, 17, 20, 21, 29 and 37. Minor changes, such as clarifying or grammatical changes, are not notated as they do not change the context or concepts set forth in the document.

In the motion approving the Debt Policy, City Council requested that a redevelopment debt policy, a CIP prioritization policy, and a variable rate and derivatives policy all be developed and presented to the Budget and Financing Committee ("Committee") by the end of Fiscal Year 2008. At this time, the Redevelopment Agency is developing the redevelopment debt policy, and anticipates it will present the policy to City Council by the end of Fiscal Year 2009. Revised Council Policy 800-14, "Prioritizing CIP Projects" was approved by City Council on May 30, 2008 and is included in the updated Debt Policy. Based on the City Council discussion at the January 28, 2008 meeting and training regarding the use of variable rates and derivatives, Debt Management has removed any references to these types of instruments in the Debt Policy.

Pursuant to Resolution R-303153, it was also recommended that the existing San Diego Housing Commission ("Housing Commission") Multifamily Mortgage Revenue Bond Program be reviewed and updated, as appropriate, by the end of Fiscal Year 2008. The updated Housing Commission's Multifamily Mortgage Revenue Bond Program Policy was brought to the City Council by the Housing Commission where it was reviewed, noted and filed by the City Council on September 23, 2008, and is included in the updated Debt Policy.

Concurrent with the annual Debt Policy review, and pursuant to Resolution R-303153, Debt Management was asked to provide an informational report and include the following: a discussion of developments in the financial markets; the City's projected forward calendar for financings; schedules showing all outstanding debt of the City and related entities that are subject to the Debt Policy, and all long term liabilities of the City, including pension and retiree healthcare costs that are not subject to the Debt Policy. This information has been compiled and is provided in the full staff report.

III. FISCAL CONSIDERATIONS:

None specific to this action.

IV. PREVIOUS COUNCIL and/or COMMITTEE ACTION:

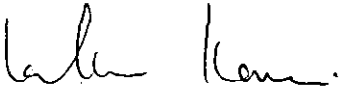
The initial Debt Policy was presented to the Budget and Finance Committee (the "Committee") on June 6, 2007, July 25, 2007 and September 26, 2007. On September 26, 2007, the Committee adopted and recommended the Debt Policy to the City Council with certain changes and additions. On November 6, 2007, the City Council approved the Debt Policy.

V. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

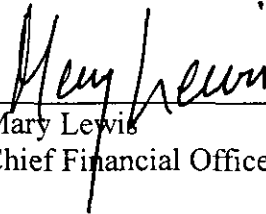
There were no community participation or outreach efforts.

VI. KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

None.



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

RESOLUTION NUMBER R-_____

ADOPTED ON _____

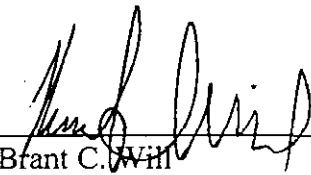
A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN
DIEGO ACCEPTING THE UPDATES REFLECTED IN THE
CITY OF SAN DIEGO DEBT POLICY, 2008.

WHEREAS, on November 6, 2007, the City Council passed Resolution no. R-303153 approving the City's Debt Policy [Policy], requesting certain additions and revisions to the Policy and directing that the Policy be brought back to the Council annually for review accompanied by a discussion of developments in the financial markets, the City's anticipated financing calendar and a debt profile of the City and its related entities; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego that the updates reflected in the City of San Diego Debt Policy, 2008, on file with the City Clerk as document no. RR-_____, are hereby accepted.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By



Brent C. Will
Deputy City Attorney

BCW:jdf
10/07/2008
10/15/2008.COR.Copy
Or.Dept:Debt Management
R-2009-443

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

ELIZABETH S. MALAND
City Clerk

By _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor